HIGH ARCTIC ENERGY SERVICES

Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015

This Management's Discussion and Analysis ("MD&A") is a review of the results of operations, liquidity and capital resources of High Arctic Energy Services Inc. ("High Arctic" or the "Corporation"). The MD&A is dated March 21, 2017 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015. Additional information relating to the Corporation including the Corporation's Annual Information Form ("AIF") for the year ended December 31, 2016, is available under the Corporation's profile on SEDAR at www.sedar.com. All amounts are expressed in millions of Canadian dollars, unless otherwise noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned that this MD&A contains certain forward-looking information. Please refer to the end of this MD&A for the Corporation's disclaimer on forward-looking information and statements. The definitions of certain non-IFRS financial measures are included on page 19 under the "non-IFRS Measures" section.

Select Comparative Financial Information

The following is a summary of select financial information of the Corporation.

	Three Months Ended December 31			Years Ended December 31		
$ millions (except per share amounts)	2016	2015	% Change	2016	2015	2014
Revenue	**62.3**	58.0	7%	**208.0**	209.9	171.8
EBITDA(1)	**18.2**	20.0	(9%)	**80.7**	61.0	47.2
Adjusted EBITDA(1)(3)	**18.3**	20.8	(12%)	**70.8**	64.0	49.3
Adjusted EBITDA % of Revenue	**29%**	36%	(18%)	**34%**	30%	29%
Operating earnings	**10.9**	14.5	(25%)	**45.3**	45.5	35.3
Net earnings	**7.5**	9.7	(23%)	**45.1**	31.9	28.2
per share (basic)(2)	0.14	0.18	(22%)	0.85	0.58	0.54
per share (diluted)(2)	0.14	0.17	(18%)	0.84	0.57	0.53
Adjusted net earnings(1)(3)	**8.4**	9.7	(13%)	**34.7**	31.9	28.2
per share (basic)(2)	0.16	0.18	(17%)	0.65	0.58	0.54
per share (diluted)(2)	0.16	0.17	(6%)	0.65	0.57	0.53
Funds provided from operations(1)	**15.9**	19.8	(20%)	**59.8**	52.8	42.9
per share (basic)(2)	0.30	0.36	(17%)	1.13	0.96	0.82
per share (diluted)(2)	0.30	0.35	(14%)	1.12	0.94	0.80
Dividends	**2.6**	2.7	(4%)	**10.5**	10.9	9.4
per share(2)	0.05	0.05	-	0.20	0.20	0.18
Capital expenditures	**2.1**	0.6	200%	**52.4**	40.0	55.7

	As at December 31		
	2016	2015	2014
Working Capital(1)	**28.6**	43.2	41.6
Total assets	**305.1**	244.1	188.7
Total non-current financial liabilities	**4.2**	6.6	0.4
Net (debt) cash, end of period (1)	**3.3**	11.5	37.2
Shareholders' Equity	**230.2**	201.2	165.6
Shares outstanding – end of period(2)	**53.2**	54.4	55.8

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, net (debt) cash and working capital do not have standardized meanings prescribed by IFRS – see "non IFRS Measures" on page 19 for calculations of these measures.
(2) The restricted shares held by a trustee under the Executive and Director Incentive Share Plan are included in the shares outstanding. The number of shares used in calculating the net earnings per share amounts is determined differently as explained in the Financial Statements.
(3) Adjusted EBITDA and Adjusted net earnings exclude the impact of the $12.7 million gain on acquisition related to the Tervita Acquisition – see "Acquisition Costs and Gain on Acquisition" on page 8 for further details.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Canada and Papua New Guinea ("PNG"). High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO". As a result of the expansion of the Corporation's service offering following the Tervita Acquisition, High Arctic has organized its business into three business segments: Contract Drilling Services; Production Services; and Ancillary Services.

Contract Drilling
The Contract Drilling segment consists of High Arctic's drilling services in PNG where the Corporation has operated since 2007. High Arctic currently operates the largest fleet of tier-1 heli-portable drilling rigs in PNG, with two owned rigs and two rigs managed under operating and maintenance contracts for one of the Corporation's customers.

Production Services
The Production Services segment consists of High Arctic's well servicing and snubbing operations. These operations are primarily conducted in the Western Canadian Sedimentary Basin ("WCSB") through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. In addition, High Arctic also provides work-over services in PNG with its heli-portable work-over rig.

Ancillary Services
The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG as well as its Canadian nitrogen and abandonment and compliance consulting services.

Highlights

2016 marked a year of transition for High Arctic as the Corporation utilized the strength of its PNG business to expand the Corporation's business operations during an extended period of weakness in the global oilfield services sector and was able to add additional geographic and product line diversification through the completion of the acquisition of Tervita's Production Services division (the "Tervita Acquisition") in the third quarter of 2016.

Fourth Quarter 2016:

- Revenue in the fourth quarter increased 7% to $62.3 million from $58.0 million in the fourth quarter of 2015. Contribution from the Tervita Acquisition offset lower quarter over quarter contribution from the Corporation's Drilling Services segment which benefited from high activity levels in the fourth quarter of 2015 versus the fourth quarter of 2016.
- Integration of the Tervita's Production Services Division was largely completed during the quarter, with focus now transitioning to the achieving of operating and business synergies.
- Due to reduced activity from the Corporation's Drilling Services segment in the quarter versus the fourth quarter of 2015, Adjusted EBITDA declined 12% to $18.3 million from $20.8 million in the fourth quarter of 2015. Rigs 103 and 115 were active throughout the quarter, with Rig 104 commencing drilling operations in November. Rig 116 remained on standby in the quarter. In comparison, the fourth quarter of 2015 saw EBITDA contribution from all four rigs throughout the quarter.
- Subsequent to quarter end, the Corporation received an interim extension of its drilling and related services contract for PNG Rig 103 and 104 until July 31, 2017 and remains in discussions with its customer for long-term renewals of its contracts for Rigs 103 and 104.

Consistent with the reduced Adjusted EBITDA during the quarter, as well as increased depreciation expense associated with capital investments made in 2015 on the Corporation's drilling rigs as well as assets acquired in the Tervita Acquisition, Adjusted net earnings declined to $8.4 million ($0.15 per share (basic)) in the quarter versus $9.7 million ($0.18 per share (basic)) in the fourth quarter of 2015. On a net earnings basis, the Corporation generated $7.5 million in net earnings in the quarter versus $9.7 million in the fourth quarter of 2015. During the quarter, the Corporation incurred an additional $0.9 million in onetime costs related to the Tervita Acquisition, resulting in net earnings of $7.5 million ($0.14 per share (basic)) versus $9.7 million ($0.18 per share (basic)) generated in the comparative quarter.

Full Year 2016:

- Revenue declined 1% to $208.0 million during the year from $209.9 million in 2015. The four months of revenue contribution from the Tervita Acquisition largely offset lower drilling activity in PNG as well as softer activity and pricing for the Corporation's Canadian snubbing and nitrogen operations during the year.
- Additional margin contribution from the Corporation's owned PNG based drilling rigs, combined with proactive cost management allowed Adjusted EBITDA to increase 11% to $70.8 million in 2016 from $64.0 million in 2015.
- High Arctic distributed a total of $17.0 million to shareholders year to date via $10.5 million in dividends, representing 18% of funds provided from operations during the year, and $6.5 million in share buybacks under the Corporation's NCIB.

Consistent with the year to date increase in Adjusted EBITDA, Adjusted net earnings increased by 9% to $34.7 million ($0.65 per share (basic)) from $31.9 million ($0.58 per share (basic)) for the year ended 2015. Full year net earnings benefited from the recognition of a gain of $12.7 million related to the Tervita Acquisition. This gain represents the difference in appraised value of the net assets acquired in the transaction versus the $42.8 million paid to acquire them. This gain as well as transaction costs associated with the acquisition has been excluded from the Corporation's Adjusted net earnings as these costs are not representative of the earnings associated with the Corporation's ongoing business operations.

Funds provided from operations of $59.8 million during the year (2015 - $52.8 million) combined with $9.0 million generated from the sale of short term investments offset $52.4 million invested in capital assets and the Tervita Acquisition as well as $17.0 million distributed to investors, allowing the Corporation to exit 2016 with no net debt. Through the strength of its balance sheet, High Arctic continues to seek growth opportunities in order to further diversify its business operations and position itself for a future increase in industry activity levels.

Tervita Acquisition

On August 31, 2016, High Arctic acquired Tervita's Production Services Division for $42.8 million, payable in cash. Through this acquisition, High Arctic added a fleet of 85 service rigs and related support equipment, a surface equipment rentals division and an engineering services division which provides solutions to assist in the management of abandonment and compliance programs. In addition, the Tervita Acquisition provided High Arctic with seven new operational bases located in key operating areas in Alberta, five of which are owned. Subsequent to the closing of the transaction, High Arctic rebranded the well servicing operations as Concord Well Servicing, returning to the former operating name of this division which has built a strong reputation over its 37 year operating history.

The Tervita Acquisition provides growth to High Arctic's Canadian operations and increased diversification to the Corporation's global operations. Integration activities were largely completed in the fourth quarter to combine the Tervita and High Arctic operations, which includes items such as the transition of systems and processes, integration of health and safety practices, customer contract assignments, and rebranding.

In accordance with IFRS 3 (Business Combinations), the acquired assets were recorded based on an independent fair market appraisal value of $64.0 million, less deferred tax and lease obligations, resulting in a $12.7 million net gain over the $42.8 million paid in cash for the assets. This gain was included in net income during the third quarter, and has been excluded from Adjusted EBITDA and Adjusted net earnings – see "non IFRS measures" on page 19.

Operating Segments

Drilling Services

($ millions)	Three Months Ended December 31 2016	2015	Change	%	Year Ended December 31 2016	2015	Change	%
Revenue	**36.8**	43.2	(6.4)	(15%)	**144.6**	151.8	(7.2)	(5%)
Oilfield services expense (1)	**23.3**	26.8	(3.5)	(13%)	**89.9**	107.0	(17.1)	(16%)
Oilfield services operating margin (1)	**13.5**	**16.4**	**(2.9)**	**(18%)**	**54.7**	**44.8**	**9.9**	**22%**
Operating margin (%)	**37%**	38%	(1%)	(3%)	**38%**	30%	8%	27%

(1) See 'non-IFRS Measures' on page 19

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which commenced earning revenue in March 2015 and August 2015, respectively. These rigs are in addition to Rigs 103 and 104 which High Arctic operates on behalf of a major oil and gas exploration company in PNG.

Fourth Quarter:

Rigs 103 and 115 were active on drilling assignments throughout the quarter, with Rig 104 commencing drilling operations in November. Rig 116 remained on standby during the quarter generating its contract standby rate. As a result of the period of standby for Rig 104 combined with rate concessions provided under a contract assignment, Drilling Services revenue declined 15% in the quarter to $36.8 million from $43.2 million in the fourth quarter of 2015. The fourth quarter of 2015 benefited from full revenue contribution from three rigs drilling throughout the quarter, which did not occur in the current quarter. In addition, initiatives undertaken by the Corporation and its customer during the year to reduce field support services to lower the customer's drilling costs resulted in reduced revenue in the quarter relative to the fourth quarter of 2015.

In conjunction with the reduced field support services being provided to its customer, High Arctic was able to proportionately reduce its field operating costs resulting in operating margin as a percentage of revenue remaining in line with the comparative quarter at 37% versus 38% in the fourth quarter of 2015. Consistent with the decline in revenue during the quarter, operating margin declined to $13.5 million in the quarter from $16.4 million in the fourth quarter of 2015.

Fiscal 2016:

For fiscal 2016, the Drilling Services segment benefited from the full annual contribution of Rigs 115 and 116. The full year revenue contribution from these rigs was partially offset by reduced revenue contribution from Rigs 103 and 104 which had additional drilling services revenue in 2015 which did not continue in 2016. Drilling schedules for these rigs also resulted in an increased amount of lower rate standby days to be incurred in 2016 versus 2015.

Operating margins benefited in 2016 from the increased contribution of Rigs 115 and 116 which are owned by High Arctic and therefore do not incur the rig lease charges incurred on Rigs 103 and 104. In addition, Rig 116 generated standby revenue throughout 2016 with minimal operating costs, which inflates operating margins for the Drilling Services segment. These factors allowed operating margin as a percentage of revenue to increase to 38% in the year versus 30% in 2015. This increased margin contribution offset the reduction in revenue resulting in operating margin to increase to $54.7 million for 2016 in comparison to $44.8 million in 2015.

Production Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2016**	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Revenue	**17.7**	5.2	12.5	240%	**34.1**	22.5	11.6	52%
Oilfield services expense (1)	**14.9**	3.6	11.3	314%	**26.8**	15.1	11.7	77%
Oilfield services operating margin (1)	**2.8**	**1.6**	**1.2**	**75%**	**7.3**	**7.4**	**(0.1)**	**(1%)**
Operating margin (%)	**16%**	31%	(15%)	(48%)	**21%**	33%	(12%)	(36%)
Operating Statistics:								
Service rigs								
Average Fleet (2)	63	-	-	-	65	-	-	-
Utilization (3)	39%	-	-	-	39%	-	-	-
Operating hours	22,886	-	-	-	30,709	-	-	-
Revenue per hour	601	-	-	-	602	-	-	-
Snubbing rigs								
Average Fleet (4)	8	9	(1)	(11%)	8	9	(1)	(11%)
Utilization (3)	42%	45%	(3%)	(7%)	39%	47%	(8%)	(17%)
Operating hours	3,250	3,704	(454)	(12%)	11,820	15,979	(4,159)	(26%)

(1) See 'non-IFRS Measures' on page 19
(2) Average service rig fleet represents the average number of rigs registered with the CAODC from September 1, 2016.
(3) Utilization is calculated on a 10 hour day.
(4) Average snubbing fleet represents the average number of rigs marketed

High Arctic's well servicing and snubbing operations are provided through its Production Services segment. These operations are primarily conducted in the WCSB through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. The Concord Well Servicing operations were added to the Production Services segment through the Tervita Acquisition, which closed on August 31, 2016. The Production Services segment also provides heli-portable workover services in PNG, however, no workover services were provided in PNG during fiscal 2015 or 2016.

Fourth Quarter:

The addition of the Concord Well Servicing operations in the third quarter of 2016, allowed revenue for the Production Services segment to increase 240% to $17.7 million in the quarter from $5.2 million in the fourth quarter of 2015. High Arctic had a CAODC registered fleet of 63 service rigs out of a total fleet of 85 service rigs. The 22,886 operating hours generated in the quarter equated to a 39% utilization of the segment's registered service rig fleet, which compares favorably to the 30% utilization generated by the industry's registered well servicing rigs in the WCSB as reported by the CAODC. The strength of High Arctic's operating performance and customer base has allowed these rigs to exceed average industry activity levels.

During the quarter, the Corporation commenced activities to expand the Concord Well Servicing operations to Grande Prairie which will allow the Corporation to better serve the increasing activity in the Duvernay and Montney resource plays. Minimal revenue contribution was generated from this expansion in the fourth quarter as activity was directed towards the mobilization of personnel and equipment during the quarter in preparation to meeting first quarter customer demand.

Activity levels for the segment's snubbing rig fleet began to increase in the quarter, however, adverse weather conditions curtailed some field activity. Overall operating hours were 12% lower in the quarter versus the fourth quarter of 2015, resulting in a 42% utilization of the segment's eight marketed snubbing rigs out of a total fleet of 18 rigs.

Lower average pricing and increased operating costs partially offset the increased revenue in the quarter resulting in operating margin increasing 75% to $2.8 million from $1.6 million in the fourth quarter of 2015. Pricing remains competitive in the industry resulting in approximately a 15% decline in average pricing for the Corporation's snubbing operations quarter over quarter. In addition, higher costs were incurred in the quarter in conjunction with start up costs for the expansion of the Concord Well Servicing operations into Grande Prairie during the quarter as well as the preparation of additional service rigs to meet anticipated customer demand in the first quarter of 2017. Reduced margins were also incurred for the segment's snubbing operations as lower field activity contributed less towards fixed operating costs. These factors combined to reduce operating margin as a percentage of revenue to 16% in the quarter from 31% in the comparative quarter.

Due to the sustained lower industry activity levels in 2016, High Arctic has reduced its available well servicing and snubbing rig fleets from its total fleet of 85 and 18 rigs, respectively. In January 2017, the Corporation further reduced its registered well servicing rig fleet to 54 rigs due to lower slant rig demand in the current commodity price environment. Rigs will be reactivated as required to meet customer demand and as crews become available.

Fiscal 2016:

With the closing of the Tervita Acquisition on August 31, 2016, the Concord Well Servicing operations contributed four months of operations during the year resulting in a 52% increase in revenue for the Production Services segment to $34.1 million from the $22.5 million generated in 2015. In the four months of ownership, the Concord Well Servicing rigs generated at total of 30,709 operating hours for an average utilization of 39% on 65 CAODC registered rigs. The contribution from the Concord Well Servicing operations offset the impact in decline of activity levels and pricing for the snubbing operations which saw operating hours decline 26% to 11,820 hours from 15,979 hours in fiscal 2015.

While revenue increased 52% year over year, lower pricing combined with lower economies of scale as a result of the decline in activity levels in the year caused operating margin as a percentage of revenue to decline to 21% for 2016 from 33% in 2015. This decline in operating margin as a percentage of revenue offset the increased revenue generated in the year resulting in operating margin remaining consistent year over year at $7.3 million in 2016 versus $7.4 million in 2015.

Ancillary Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2016**	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Revenue (1)	**8.6**	9.6	(1.0)	(10%)	**30.7**	35.6	(4.9)	(14%)
Oilfield services expense (2)	**2.3**	2.5	(0.2)	(12%)	**7.1**	9.0	(1.9)	(21%)
Oilfield services operating margin (2)	**6.3**	**7.1**	**(0.8)**	**(10%)**	**23.6**	**26.6**	**(3.0)**	**(11%)**
Operating margin (%)	**73%**	74%	(1%)	(1%)	**77%**	75%	2%	3%

(1) Revenue includes inter-segment revenue charged to Production Services from Ancillary Services division of $0.6 million for the quarter and $1.2 million for fiscal 2016. No inter-segment revenue was charged in comparative periods in 2015.
(2) See 'non-IFRS Measures' on page 19

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG as well as its Canadian nitrogen and abandonment and compliance consulting services, acquired in the Tervita Acquisition.

Fourth Quarter:

Lower equipment rental activity in PNG combined with a lower average US dollar exchange rate quarter over quarter was the major contributor of decline in revenue for the Ancillary Services segment of 10% to $8.6 million in the quarter from $9.6 million in the fourth quarter of 2015. The decline in PNG rentals revenue was due to the completion of a matting rental contract at the end of 2015 as well lower demand for rental equipment utilized for drilling projects during the year. An average of 4,600 Dura-Base® mats were utilized in the quarter out of the Corporation's 10,000 available mats. The Corporation continues to pursue alternative markets to utilize its non-contracted mat inventory.

Partially offsetting the decline in PNG rentals was the additional contribution from increased Canadian equipment rental as well as the addition of abandonment and compliance consulting services added through the Tervita Acquisition. Revenue from nitrogen services was relatively flat quarter over quarter, which saw an increase in activity in the quarter over the first three quarters of the year as well completion activity began to increase.

Consistent with the decrease in revenue in the quarter, operating margin decreased to $6.3 million from $7.1 million in the fourth quarter of 2015, with operating margin as a percentage of revenue remaining consistent quarter over quarter. Operating margins for the Ancillary Services segment benefits from lower operating costs incurred on the segment's mat and equipment rentals. In addition, operating costs do not include high depreciation costs associated with the rental equipment.

Fiscal 2016:

Consistent with the fourth quarter discussion, lower drilling activity as well as the completion of a matting contract contributed to a decline in equipment rental activity in PNG. In addition, lower well completions activity in the first three quarters of 2016 resulted in a 36% decline in nitrogen services revenue in 2016 versus fiscal 2015. While additional Canadian rentals and consulting services revenue was contributed through the Tervita Acquisition, this additional revenue was not sufficient to offset the declines experienced in PNG equipment rentals and Canadian nitrogen services.

Operating margin as a percentage of revenue increased slightly to 77% in the year from 75% in fiscal 2015. This increase was due to a combination of reduced contribution from lower margin nitrogen services as well as steps taken to reduce field operating costs.

General and Administration

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2016	2015	Change	%	2016	2015	Change	%
General and administration	**4.3**	4.3	-	-	**14.8**	14.8	-	**-**
Percent of revenue	**7%**	7%	-	-	**7%**	7%	-	**-**

General and administrative costs remained consistent period over period at $4.3 million and $14.8 million in the fourth quarter and year, respectively. Overall general and administrative costs remained constant at 7% of revenue. General and administrative costs increased in Canada as a result of the Tervita Acquisition, however, these cost increases were offset by reduced general and administrative expenses in PNG due to cost reduction measures in response to decreased activity.

Significant progress was made during the quarter to integrate the systems and infrastructure for the Tervita Acquisition. Additional costs are expected to be incurred in the first quarter of 2017, however, the impact of these costs is anticipated to be offset by potential integration synergies.

Depreciation

Depreciation expense increased to $24.4 million for the year versus $16.7 million in 2015. The increase in depreciation expense is consistent with prior quarters in 2016 as it relates to the two new drilling rigs and rental equipment added to High Arctic's fleet in 2015 as well as the completion of the Tervita Acquisition during the third quarter of 2016. Depreciation expense for the fourth quarter of 2016 was $7.2 million (2015 - $5.9 million) which includes a full quarter of depreciation on the assets acquired in the Tervita Acquisition.

Share-based Compensation

Share-based compensation expense was $0.2 million in the quarter and $1.1 million for fiscal 2016 versus $0.4 million and $1.8 million in the comparative periods in 2015 which incurred higher amortization expense generated from option grants issued in 2014. In addition, increased costs from options and restricted share units granted during the year were largely offset by expense recoveries associated with options forfeited during the year.

Acquisition Costs and Gain on Acquisition

High Arctic incurred $2.3 million in costs directly related to the Tervita Acquisition. These costs primarily relate to advisory, legal, consulting, lease exit costs and transition support services provided under the Tervita transaction agreement.

In accordance with IFRS 3 (Business Combinations), High Arctic recorded the assets acquired and liabilities assumed in the Tervita Acquisition at their respective fair market value at August 31, 2016. This value was determined through a third-party appraisal which resulted in the assets being recorded at $64.0 million. This asset value was partially offset by the recognition of $3.8 million for an unfavourable lease provision on one of the properties and $4.7 million recorded for deferred income tax liabilities. The net asset value acquired of $55.5 million exceeded the $42.8 million in cash proceeds paid for the assets resulting in a net gain of $12.7 million recorded in the third quarter of 2016.

Foreign Exchange Transactions

The Corporation has exposure to the U.S. dollar and other currencies such as the PNG Kina through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign denominated transactions as well as the conversion of the Corporation's U.S. dollar based subsidiaries into Canadian dollars for financial reporting purposes.

Gains and losses recorded by the Canadian parent on its U.S. denominated cash accounts, receivables, payables and intercompany balances are recognised as a foreign exchange gain or loss in the statement of earnings.

High Arctic is further exposed to foreign currency fluctuations through its net investment in foreign subsidiaries. The value of these net investments will increase or decrease based on fluctuations in the U.S. dollar relative to the Canadian dollar. These gains and losses are unrealized until such time that High Arctic divests of its investment in a foreign subsidiary and are recorded in other comprehensive income as foreign currency translation gains or losses for foreign operations.

The U.S. dollar remained strong relative to the Canadian dollar, with an average exchange rate of 1.325 during 2016 (2015 – 1.279). This strong U.S. dollar benefited the Corporation as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at December 31, 2016, the U.S. dollar exchange rate was 1.3427 versus 1.3840 as at December 31, 2015. This decline in exchange rate has resulted in a translation loss of $4.3 million recorded in other comprehensive income for the year ended December 31, 2016 ($3.5 million gain for the three months ended December 31, 2016).

The fluctuation in exchange rates year to date also resulted in a $0.5 million foreign exchange gain recorded on various foreign exchange transactions (2015 – ($0.7) million). The Corporation did not enter into any foreign currency hedges during the year.

Interest and Finance Expense

High Arctic utilized $40.0 million of its debt facility to fund the closing of the Tervita Acquisition during the third quarter of 2016. The Corporation utilized a portion of its cash resources to repay $16.0 million of its debt resulting in $24.0 million outstanding as at December 31, 2016 and a cash balance of $27.3 million. As a result of this debt draw, the Corporation incurred $0.7 million in interest expense during the year (2015 - $0.4 million). Cash and debt resources are utilized as required to meet various operational and funding needs as required in the Corporation's international business operations, and therefore, cash resources will not always be immediately available to offset the Corporation's debt balances.

Income Taxes

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Net earnings before income taxes	**10.7**	14.0	(3.3)	**55.6**	43.9	11.7
Current income tax expense	**2.5**	3.1	(0.6)	**8.9**	10.8	(1.9)
Deferred income tax (recovery) expense	**0.7**	1.2	(0.5)	**1.6**	1.2	0.4
Total income tax expense	**3.2**	4.3	(1.1)	**10.5**	12.0	(1.5)
Percent of net earnings before income taxes	**30%**	31%		**19%**	27%	

As a result of the additional income projected from the Tervita Acquisition, the Corporation recorded $4.7 million in additional deferred tax assets through the recognition of $17.4 million in previously unrecognized tax pools associated with the Corporation's Canadian tax pools. The gain recorded from the Tervita Acquisition included in net income is considered non-taxable. The impact of these items resulted in the Corporation's effective tax rate reducing to 19%, compared to 27% for the same period in 2015. Excluding the impact of these items, the Corporation's effective tax rate would have been 27% for the year and 31% for the fourth quarter.

An additional $68.9 million in tax pools remain unrecognized as at December 31, 2016, including capital loss pools of $36.9 million. Additional deferred tax assets may be recognized as the Corporation's Canadian taxable income increases.

Other Comprehensive Income

The Canadian dollar at December 31, 2016 strengthened relative to December 31, 2015 resulting in the Corporation recognizing $4.3 million year to date foreign currency translation loss on its U.S. dollar denominated foreign operations.

During the year, the Corporation recognized a $3.2 million increase in the market value of strategic investments made in select publicly traded oilfield service companies over their December 31, 2015 value. Partially offsetting this gain was the recognition of a $0.9 million loss from the disposition of investments, which had an original cost of $9.9 million, for proceeds of $9.0 million.

Liquidity and Capital Resources

($ millions)	Three Months Ended December 31 2016	2015	Change	Year Ended December 31 2016	2015	Change
Cash provided by (used in):						
Operating activities	**3.9**	5.7	(1.8)	**51.9**	45.5	6.4
Investing activities	**5.8**	(0.6)	6.4	**(43.3)**	(59.4)	16.1
Financing activities	**(8.1)**	(9.6)	1.5	**3.8**	(12.0)	15.8
Effect of exchange rate changes	**0.9**	(1.5)	2.4	**(0.6)**	4.2	(4.8)
Increase (decrease) in cash and cash equivalents	**2.5**	(6.0)	8.5	**11.8**	(21.7)	33.5

	As At December 31, 2016	December 31, 2015	Change
Working capital[(1)]	28.6	43.2	(14.6)
Working capital ratio[(1)]	1.5:1	2.3:1	(0.8:1)
Net (debt) cash[(1)]	3.3	11.5	(8.2)
Undrawn availability under credit facilities	21.0	21.5	(0.5)

(1) See 'non-IFRS Measures' on page 19

As at December 31, 2016, the Corporation had $24.0 million outstanding on its debt facilities, and $27.3 million in cash. The debt drawings were utilized to fund the Tervita Acquisition, while the cash proceeds were primarily located in the Corporation's PNG business operations.

The Bank of PNG policy continues to encourage the local market in PNG Kina. In the fourth quarter, the Bank of PNG commenced a review of all foreign currency accounts in PNG to ensure they had a legitimate business purpose. Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic received approval to continue to maintain its U.S. dollar account within the conditions of the Bank of PNG currency regulations. The Corporation has taken steps to increase its use of PNG Kina for local transactions when practical. Included in the Bank of PNG's conditions is for future PNG drilling contracts to be settled in PNG Kina. However, the Corporation will continue to seek Bank of PNG approval for customer contracts to be settled in U.S. Dollars on a contract by contract basis. There is no assurance the Bank of PNG will continue to grant these approvals.

If such approvals are not received, the Corporation's PNG drilling contracts will be settled in PNG Kina which would expose the Corporation to exchange rate fluctuations related to the PNG Kina. In addition, this may delay the Corporation's ability to receive U.S. Dollars which may impact the Corporation's ability to settle U.S. Dollar denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation is evaluating various alternatives to help to mitigate its exposure to these currency controls.

During the Bank of PNG review of foreign currency accounts, transfers of U.S. Dollar currency funds from PNG were restricted. With the recent approval of the Corporation's U.S. Dollar account, the Corporation intends to repatriate excess funds from PNG consistent with past practices as approvals are received from the Bank of PNG and the Internal Revenue Commission.

Operating Activities

Consistent with the increase in Adjusted EBITDA for 2016, funds provided from operations increased 13% to $59.8 for 2016 from $52.8 million in 2015. After working capital adjustments, net cash generated from operating activities during 2016 was $51.9 million compared to $45.5 million for 2015. Funds provided from operations for the three months ended December 31, 2016 were $15.9 million (2015 - $19.8 million). After working capital adjustments, net cash generated from operating activities during the fourth quarter was $3.9 million compared to $5.7 million for 2015. The decrease in funds provided from operations for the quarter relates mainly to a $10.7 million decrease in income taxes payable due to income tax payments made in PNG for its 2015 tax assessment and 2016 instalments that was offset by decreases in accounts receivable in the quarter.

Investing Activities
High Arctic invested $52.4 million in the purchase of property and equipment during the year (2015 - $40.0 million). The majority of this related to the $42.8 million invested for the Tervita Acquisition. Year to date the Corporation has invested an additional $9.6 million in the purchase of rental and support equipment for its PNG and Canadian operations.

During the year, the Corporation generated $9.0 million in cash from the sale of a portion of its short-term investments.

Financing Activities
During the third quarter the Corporation drew down $40.0 million on its debt facilities to fund the Tervita Acquisition. Subsequent to the draw down, the Corporation repaid $16.0 million on its debt facilities as at December 31, 2016. Throughout 2016, the Corporation declared a monthly dividend of $0.0165 per share, resulting in year to date total dividends paid to shareholders of $10.5 million. As a result of the Corporation's use of capital resources in its investing activities, no common shares were acquired during the second half of 2016 under High Arctic's Normal Course Issuer Bid ("NCIB") program. The Corporation did not renew the NCIB that expired on January 11, 2017 and no further purchases were made subsequent to year end.

Credit Facility
As at December 31, 2016, High Arctic's credit facilities consisted of a $40.0 million revolving loan and a $5.0 million revolving operating loan which was scheduled to mature on August 31, 2017, resulting in the $24.0 million balance outstanding at December 31, 2016 being reported as a current liability. Subsequent to year end, the facilities were combined into a single $45.0 million revolving loan and extended to August 31, 2019. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the extended $45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis: Funded Debt to EBITDA; Fixed Charge Coverage Ratio; and Current Ratio. There have been no changes to these financial covenants subsequent to December 31, 2016 and the Corporation remains in compliance with the financial covenants under its credit facility as at December 31, 2016.

Contractual Obligations and Contingencies

High Arctic's contractual financial obligations as at December 31, 2016 are summarized as follows:

($ millions)	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Accounts payable	33.8	-	-	-	33.8
Dividends payable	0.9	-	-	-	0.9
Operating and financial lease commitments	1.9	2.2	1.6	9.5	15.2
Current portion of long-term debt	24.0	-	-	-	24.0
Total	**60.6**	**2.2**	**1.6**	**9.5**	**73.9**

Inventory
As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a value of $7.4 million by a customer in PNG. The inventory is owned by the customer and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must return an equivalent amount of inventory to the customer. In 2016, the Corporation has recorded a provision of $0.7 million against accrued liabilities to account for a potential shortfall in inventory, which may be cash settled with the customer.

Outstanding Share Data

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. Directors, officers and certain employees have been granted stock options and incentive shares under the Corporation's approved equity compensation plans. As at March 21, 2017, there were 53,180,969 issued and outstanding common shares, including 6,600 shares held in the Executive and Director Share Incentive Plan, and 1,846,200 options were outstanding at an average exercise price of $4.04.

On January 6, 2016, High Arctic renewed its NCIB until January 11, 2017. As approved by the Toronto Stock Exchange ("TSX"), the Corporation was authorized to purchase up to 2,772,136 common shares under the NCIB. As of December 31, 2016, 1,911,400 common shares had been purchased in under the NCIB, with no further purchases subsequent to December 31, 2016 and the Corporation did not renew the NCIB upon its expiry on January 11, 2017. All common shares acquired under the NCIB were cancelled.

Quarterly Financial Review

Selected Quarterly Consolidated Financial Information (Three Months Ended)

The following is a summary of selected financial information of the Corporation for the last eight completed quarters:

	2016				2015			
$ (millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4[(2)]	Q3[(2)]	Q2[(2)]	Q1[(2)]
Revenue	62.3	47.5	43.5	54.7	58.0	58.5	48.7	44.7
Adjusted EBITDA[(1)]	18.3	15.6	15.1	21.8	20.8	18.7	14.1	10.4
Adjusted net earnings[(1)]	8.4	8.8	6.3	11.2	9.7	10.2	7.2	4.8
per share (basic)	0.16	0.16	0.12	0.21	0.18	0.18	0.13	0.09
Net earnings	7.5	20.1	6.3	11.2	9.7	10.2	7.2	4.8
per share (basic)	0.14	0.38	0.12	0.21	0.18	0.18	0.13	0.09
Funds provided from operations[(1)]	15.9	11.6	13.4	18.9	19.8	14.3	10.5	8.2

(1) See 'non-IFRS Measures' on page 19
(2) Net earnings for 2015 have been restated to reflect the full retroactive adoption of IFRS 9 - see Note 4 to the accompanying Financial Statements.

Various factors have affected the quarterly profitability of the Corporation's operations. In response to customer demand in PNG, the Corporation added two new drilling rigs and additional rental equipment to its fleet in the first and third quarters of 2015. These rigs and rental equipment were contracted under take-or-pay contract arrangements which provided for a consistent revenue and earnings base which helped to mitigate the impact of lower activity levels in the second and third quarters of 2016 for the two rigs operated by High Arctic on behalf of one of its customers. In addition, the decline in oil prices has significantly decreased drilling and completion activities in Canada, resulting in lower Canadian revenues and decreased profit in 2015 and into 2016. With an anticipation of improving industry activity levels in Canada the Corporation completed the Tervita Acquisition, effective August 31, 2016, which contributed to the increased revenue in the fourth quarter of 2016.

In addition to the above business factors, changes in the value of the U.S. dollar as compared to the Canadian dollar have also contributed to fluctuations in revenues, earnings and funds provided from operations. The Corporation's Canadian operations are also impacted by seasonal conditions whereby frozen ground during the winter months tends to provide an optimal environment for drilling activities and consequently the first quarter is typically the strongest. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. This period is generally referred to as spring break-up. Road bans, which are generally imposed in the spring, restrict the transportation of heavy equipment onto customer locations which reduces demand for services in the Canadian operation and, therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada. The spring of 2016 began in early March, much earlier than normal, and resulted in lower than anticipated activity levels for the quarter. The spring of 2015 was unusually dry in Western Canada and the Corporation was able to generate higher than expected revenues.

Industry Indicators and Market Trends in PNG

The following table provides information for the last eight quarters to assist with the understanding of the PNG oilfield services industry and the effect that commodity prices have on industry activity levels. In addition, the Corporation's international financial results are impacted by fluctuations in the U.S. dollar to Canadian dollar exchange rate.

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices Average for the period:								
Brent Crude Oil (*U.S. $/bbl)*	$51	$47	$47	$35	$45	$51	$64	$55
Japan LNG (*U.S. $/mmbtu)*	$7.15	$6.51	$6.08	$7.70	$9.03	$9.23	$9.18	$14.26
U.S./Canadian dollar exchange rate	1.33	1.30	1.29	1.37	1.34	1.31	1.23	1.24

The Corporation's PNG activity is based on longer term, U.S. dollar denominated contracts and therefore is less affected over the short term by volatility in oil and gas prices. The U.S./Canadian dollar exchange rate has remained strong subsequent to the second quarter of 2015 which has benefited the Corporation's financial results in 2016 and 2015.

Activity levels for the Corporation's major customers in PNG is less dependent on short term fluctuations in oil and gas prices and instead is based on medium and long term decisions, particularly with their significant interest in large scale LNG projects both on-stream and in development. Pricing for oil and natural gas production in PNG is generally tied to world prices such as Brent Crude and Asian LNG.

Industry Indicators and Market Trends in Canada

The following table provides information for the last eight quarters to assist with the understanding of the Canadian oilfield services industry and the effect that commodity prices have on industry activity levels.

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Oil and natural gas prices Average for the period:								
West Texas Intermediate *(U.S. $ /bbl)*	$49	$45	$46	$33	$42	$46	$58	$49
Canadian Light Sweet Oil *(Cdn $/bbl)*	$61	$54	$55	$41	$53	$55	$69	$53
AECO *(Cdn $/Mmbtu)*	$3.11	$2.36	$1.42	$1.83	$2.48	$2.92	$2.67	$2.75
Other industry indicators								
Well completions in Western Canada(1)	824	754	1,055	801	1,165	1,398	654	2,075
Wells drilled in Western Canada(1)	114	218	261	334	420	300	185	577
Average service rig utilization rates(1)	30%	24%	18%	24%	31%	31%	25%	35%
Average drilling rig utilization rates(1)	26%	16%	7%	22%	22%	24%	13%	37%

(1) Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

Decreases in oil and natural gas prices have had a material impact on drilling and well completion activities in Canada during 2016 and 2015. This decline in commodity prices has resulted in lower industry activity in 2016 and 2015, which has resulted in lower demand for the Corporation's services in Canada.

Outlook

High Arctic continues to be in the fortunate position of having the benefit of strong cash flows both internationally and domestically, a strong balance sheet and an ongoing desire to expand the Corporation's asset base for the benefit of the Corporation's shareholders.

With the addition of the Concord Well Servicing business operations acquired through the Tervita Acquisition, High Arctic has been able to add additional geographic and product line diversification while substantially growing the Corporation's Production Services segment in Canada. The impact of this diversification is evident in the fourth quarter results which saw Canadian revenue contribution increase to 33% of the consolidated revenue in the quarter from 14% in fiscal 2015. Management believes this increased exposure to the Canadian market provides High Arctic with further revenue and profit growth opportunities as activity levels in the WCSB increase from the recent lows.

Early signs of a recovering market in the WCSB have begun to take hold with a 46% increase in industry drilling activity in the first two months of 2017 versus the comparative period in 2016 (source: CAODC). An increase in industry drilling activity is typically a precursor for increased activity for other services in the oilfield services sector in the WCSB, which is expected to benefit the Corporation's Production Services segment. This increase in industry activity, combined with the expansion of the Concord Well Servicing operations into Grande Prairie has positioned the Concord Well Servicing rigs to achieve a 20% to 30% growth in operating hours in the first quarter of 2017 over the fourth quarter of 2016.

The increase in industry activity is resulting in crew shortages which is beginning to impact the ability for oilfield service companies to meet increasing customer demand. In addition, the prolonged downturn in industry activity has limited the investment in maintenance capital in the industry which is required to maintain equipment. As a result, this may limit equipment availability in the industry. The investment of this previously deferred maintenance capital may be required in order to reactivate idle equipment which may delay the increase in industry capacity as oilfield service companies remain financially constrained following the extended industry downturn.

The above factors are compounding to limit overall supply capacity in the industry which is beginning to result in increased pricing for oilfield services. High Arctic is beginning to see opportunities for improved pricing, however, existing contract pricing arrangements may limit the Corporation's ability to immediately respond. If the current increase in industry activity levels are sustained, management believes meaningful pricing increases will begin to occur in the second half of 2017 and into 2018.

High Arctic continues to progress on the integration of the Tervita Acquisition with focus transitioning to the implementation of long-term operational and support synergies. This process is anticipated to result in operational efficiencies and reduced operating costs.

In PNG, Rigs 115 and 104 remain active on their drilling assignments on Antelope-7 and Muruk-1, respectively. Rig 115 is expected to complete drilling activity by the end of Q1 and commence demobilisation to Port Moresby where the Corporation anticipates, in the absence of advice from its customer, it will be stacked and remain on standby for the remaining duration of the primary contract term. Rig 103 completed demobilization from its drilling assignment in the Western Province in January and is currently stacked in Kiunga. Rig 116 remains on standby in Port Moresby.

The Corporation has received interim extensions on its existing operating contracts for Rigs 103 and 104 until July 31, 2017. High Arctic continues to progress discussions with its customer over long-term extensions for the contracts for Rigs 103 and 104. Rigs 115 and 116 continue to operate under their existing take-or-pay contracts. With the recent closing of the ExxonMobil acquisition of InterOil, the Corporation anticipates discussions to commence with ExxonMobil regarding future drilling programs for Rigs 115 and 116.

PNG's vast reserves of natural gas continue to be some of the most competitive globally, and High Arctic believes that ExxonMobil's expansion in PNG supports the continued long-term development of PNG's natural gas resources. However, the current low commodity price environment as well as the resulting economic challenges in PNG may curtail industry activity levels in PNG over the short term. Similar to the global oilfield service industry, these lower activity levels in PNG may result in lower pricing for contract renewals.

While PNG continues to be a strong contributor to High Arctic's financial performance, management continues to focus on its strategy to balance High Arctic's global business operations. As part of this strategy, management continues to seek opportunities to position the Corporation to benefit from an anticipated recovery in the North American oilfield services sector. Additional markets may also be considered in order to leverage off High Arctic's existing international presence and redeploy underutilized assets into new markets.

Financial Risk Management

Credit Risk

Credit risk is the risk of a financial loss occurring as a result of a default by a counter party on its obligation to the Corporation. The Corporation's financial instruments that are exposed to credit risk consist primarily of accounts receivable and cash balances held in banks. The Corporation mitigates credit risk by regularly monitoring its accounts receivable position and depositing cash in properly capitalized banks. The Corporation also institutes credit reviews prior to commencement of contractual arrangements.

The Corporation's accounts receivable are predominantly with customers who explore for and develop petroleum reserves and are subject to normal industry credit risks. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

The Corporation views the credit risks on these amounts as normal for the industry. The carrying amount of accounts receivable represents the maximum credit exposure on this balance. The Corporation has a wide range of customers comprised of small independent, intermediate and large multinational oil and gas producers. Notwithstanding its large customer base, the Corporation provides services to four large customers in PNG (2015 – three) which individually accounted for greater than 10% of its consolidated revenues during 2016. Sales to these four customers were approximately $66.3 million, $21.3 million, $32.4 million and $44.6 million respectively for the year ended December 31, 2016 (2015 - $63.5 million, $98.1 million, $7.5 million and $2.3 million). As at December 31, 2016, these four customers represented 16%, 16%, 22% and 19%, respectively, of outstanding accounts receivable (December 31, 2015 – three customers represented a total of 80%). Management has assessed the four customers as creditworthy and the Corporation has had no history of collection issues with these customers.

The Corporation's accounts receivable are aged as follows:

Days outstanding:	**2016**	**2015**
Less than 31 days	30.3	23.8
31 to 60 days	13.9	12.6
61 to 90 days	4.3	5.1
Greater than 90 days	0.7	1.6
Allowance for doubtful accounts	(0.1)	(0.7)
Total	**49.1**	**42.4**

All material accounts receivable greater than sixty days have been received subsequent to year end.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Corporation seeks to manage its financing based on the results of these processes.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial assets or liabilities will fluctuate due to movements in market rates of interest, foreign currency exchange rates, commodity prices and other prices.

Interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate risk as its long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates. As at December 31, 2016, the Corporation had drawn $24.0 million on its credit facilities.

Foreign exchange rate risk
Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Corporation's results. The majority of the Corporation's international revenue and expenses are transacted in U.S. dollars and the Corporation does not actively engage in foreign currency hedging. For the year ended December 31, 2016, a $0.10 change in the value of the Canadian dollar relative to the U.S. dollar would have resulted in a $2.7 million change in net earnings for the year as a result of changes in foreign exchange.

The Corporation's financial instruments have the following foreign exchange exposure at December 31, 2016:

(millions)	U.S. Dollar (1)	PNG Kina (2)	Australian Dollar (3)
Cash and cash equivalents	18.2	0.7	0.2
Trade and other receivables	26.2	7.0	0.1
Trade and other payables	(15.1)	(21.3)	(0.1)
Total	29.2	(13.7)	0.1

(1) As at December 31, 2016, one U.S. dollar was equivalent to 1.34270 Canadian dollars.
(2) As at December 31, 2016, one PNG Kina was equivalent to 0.3150 Canadian dollars.
(3) As at December 31, 2016, one Australian dollar was equivalent to 0.97070 Canadian dollars.

Commodity price risk
The Corporation is not directly exposed to commodity price risk as it does not have any contracts that are directly based on commodity prices. A change in commodity prices, specifically petroleum and natural gas prices could have an impact on oil and gas production levels and could therefore affect the demand for the Corporation's services. However, given that this is an indirect influence, the financial impact to the Corporation of changing petroleum and natural gas prices cannot be quantified.

Other price risk
Other price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments in the market or a market segment. Exposure to other price risk is primarily in short term investments where changes in quoted prices on investments in equity securities impact the underlying value of investment.

Critical Accounting Estimates and Judgments

Information on the Corporation's critical accounting policies and estimates can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2016.

Changes in Accounting Policies

On January 1, 2016, the Corporation adopted, retroactively, IFRS 9, "*Financial Instruments*" ("IFRS 9"). IFRS 9 replaces International Accounting Standard 39, "*Financial Instruments: Recognition and Measurement*." IFRS 9 is effective for years beginning on or after January 1, 2018, however, early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The early adoption of IFRS 9 did not result in a change in the carrying value of any of High Arctic's financial instruments on transition date. The main area of change is the accounting for equity securities previously classified as available for sale which are now recorded at fair value through other comprehensive income. The revised policy of accounting for short term investments resulted in a decrease in retained deficit on December 31, 2015 of $4.8 million with a corresponding decrease in accumulated other comprehensive income. Had the Company continued to apply IAS 39, a loss of $0.9 million would have been recognized in earnings upon the partial disposition of investments in 2016. Details of the effects of the adoption of IFRS 9 may be found in Note 4 of the Financial Statements.

Management believes the adoption of IFRS 9 better reflects the substance of High Arctic's short term investments as the gains and losses on these investments are not indicative of High Arctic's ongoing business operations and therefore, are more appropriately reflected in comprehensive income rather than net income.

Future Accounting Pronouncements

Leases
On January 13, 2016, the ISAB issued IFRS 16, *"Leases"* ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases with low-value assets are exempt from the requirements, and may continue to be treated as operating leases.

IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *"Revenue From Contracts With Customers"* has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 16 on the Financial Statements.

Revenue Recognition
In May 2014, the IASB published IFRS 15, *"Revenue From Contracts With Customers"* ("IFRS 15") replacing IAS 11, *"Construction Contracts"*, IAS 18, *"Revenue"* and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Financial Statements.

Liabilities Arising from Financing Activities
In January 2016, the IASB has published amendments to IAS 7 'Statement of Cash Flows'. The amendment requires an entity to provide additional disclosures related to the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendment is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. When an entity first applies the amendment, it is not required to provide comparative information in respect of preceding periods. The Corporation is currently evaluating the impact of adopting the amendments to IAS 7 on the Financial Statements.

Disclosure Controls and Procedure

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or have caused to be designed under their supervision, the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that material information required to be disclosed in its annual filings, interim filings or other reports filed by it under securities legislation is accurate and complete and filed within the time periods required and that information required to be disclosed is accumulated and communicated to the appropriate members of management to allow timely decisions regarding required disclosure.

The CEO and the CFO oversee this design and evaluation process and have concluded, based on their evaluation as at December 31, 2016, that the design and operation of the Corporation's DC&P, as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, were effective. The CEO and the CFO have individually signed certifications to this effect. High Arctic will continue to evaluate the DC&P and will make modifications when necessary. There were no changes in the Corporation's DC&P during the three months ended December 31, 2016 which have materially affected, or are reasonably likely to materially affect High Arctic's DC&P.

Internal Controls Over Financial Reporting

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Corporation's CEO and CFO are responsible for designing, or causing to be designed under their supervision, internal controls over financial reporting related to the Corporation, including its consolidated subsidiaries.

During the year, the Corporation's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework 2013. The assessment includes a risk-based evaluation, documentation and testing of key processes. All internal control systems, no matter how well designed, have inherent limitations.

Based on the evaluation of the design and operating effectiveness of the Corporation's ICFR, the CEO and CFO concluded that the Corporation's ICFR are effective as at December 31, 2016.

The design of internal controls must also take into account resource constraints. It should be noted that a control system, including the Corporation's DC&P and ICFR, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the Corporation's DC&P and ICFR will prevent all errors or fraud.

Business Risks and Uncertainties

In addition to the financial risks discussed above under "Financial Risk Management", below under "Forward Looking Statements" and elsewhere in this MD&A, High Arctic is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation. Readers of the Corporation's MD&A should carefully consider the risks described under the heading "Risk Factors" in the Corporation's recently filed Annual Information Form for the year ended December 31, 2016 (the "AIF"), which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, a copy of which can be obtained on request, without charge, from the Corporation.

Non-IFRS Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to the same or similar measures used by other companies. High Arctic uses these financial measures to assess performance and believes these measures provide useful supplemental information to shareholders and investors. These financial measures are computed on a consistent basis for each reporting period and include the following:

EBITDA
Management believes that, in addition to net earnings reported in the consolidated statement of earnings and comprehensive income, EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, excess of insurance proceeds over costs and foreign exchange gains or losses. Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three months and year ended December 31:

	Three Months Ended December 31		Year Ended December 31		
$ millions	**2016**	**2015**	**2016**	**2015**	**2014**
Net earnings for the period	**7.5**	9.7	**45.1**	31.9	28.2
Add:					
Interest and finance expense	**0.3**	0.1	**0.7**	0.4	0.4
Income taxes	**3.2**	4.3	**10.5**	12.0	5.8
Depreciation	**7.2**	5.9	**24.4**	16.7	12.8
EBITDA	**18.2**	20.0	**80.7**	61.0	47.2
Adjustments to EBITDA:					
Gain on acquisition	**-**	-	**(12.7)**	-	-
Acquisition costs expensed	**0.9**	-	**2.3**	-	-
Share-based compensation	**0.2**	0.4	**1.1**	1.8	1.4
Loss (gain) on sale of assets	**-**	-	**(0.1)**	0.5	(0.2)
Foreign exchange (gain) loss	**(1.0)**	0.4	**(0.5)**	0.7	0.9
Adjusted EBITDA	**18.3**	20.8	**70.8**	64.0	49.3

Adjusted Net Earnings

Adjusted net earnings is calculated based on net earnings prior to the effect of the gain on acquisition and transaction costs incurred for the Tervita Acquisition. Management utilizes Adjusted net earnings to present a measure of financial performance that is more comparable between periods. Adjusted net earnings as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings per share and Adjusted net earnings per share – diluted are calculated as Adjusted net earnings divided by the number of weighted average basic and diluted shares outstanding, respectively. The following tables provide a quantitative reconciliation of net earnings to Adjusted net earnings for the three months and year ended December 31:

	Three Months Ended December 31		Year Ended December 31		
$ millions	**2016**	**2015**	**2016**	**2015**	**2014**
Net earnings for the period	**7.5**	9.7	**45.1**	31.9	28.2
Adjustments to net earnings:					
Gain on acquisition	**-**	-	**(12.7)**	-	-
Acquisition costs expensed	**0.9**	-	**2.3**	-	-
Adjusted net earnings	**8.4**	9.7	**34.7**	31.9	28.2

Oilfield Services Operating Margin

Oilfield services operating margin is used by management to analyze overall operating performance. Oilfield services operating margin is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

Oilfield Services Operating Margin %

Oilfield services operating margin % is used by management to analyze overall operating performance. Oilfield services operating margin % is calculated as oilfield services operating margin divided by revenue.

	Three Months Ended December 31		Year Ended December 31		
$ millions	2016	2015	2016	2015	2014
Revenue	**62.3**	58.0	**208.0**	209.9	171.8
Less:					
Oilfield services expense	**39.7**	32.9	**122.4**	131.1	110.6
Oilfield Services Operating Margin	**22.6**	25.1	**85.6**	78.8	61.2
Oilfield Services Operating Margin (%)	**36%**	43%	**41%**	38%	36%

Percent of Revenue

Certain figures are stated as a percent of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

Funds Provided from Operations

Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash flow from operating activities before working capital adjustments (funds provided from operations) is a useful supplemental measure as it provides an indication of the funds generated by High Arctic's principal business activities prior to consideration of changes in items of working capital.

This measure is used by management to analyze funds provided from operating activities prior to the net effect of changes in items of non-cash working capital, and is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months and year ended December 31:

	Three Months Ended December 31		Year Ended December 31		
$ millions	2016	2015	2016	2015	2014
Net cash generated from operating activities	**3.9**	5.7	**51.9**	45.5	43.8
Less:					
Net changes in items of non-cash working capital	**12.0**	14.1	**7.9**	7.3	(0.9)
Funds provided from operations	**15.9**	19.8	**59.8**	52.8	42.9

Working capital

Working capital is used by management as another measure to analyze the operating liquidity available to the Corporation. It is defined as current assets less current liabilities and is calculated as follows:

	As at		
$ millions	December 31, 2016	December 31, 2015	December 31, 2014
Current assets	**90.7**	77.4	63.6
Less:			
Current liabilities	**(62.1)**	(34.2)	(22.0)
Working Capital	**28.6**	43.2	41.6

Net (debt) cash

Net (debt) cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of long-term debt and bank indebtedness or vice versa. The amount, if any, is calculated as cash and cash equivalents less total long-term debt. The following tables provide a quantitative reconciliation of cash and cash equivalents to net (debt) cash as follows:

	As at		
$ millions	December 31, 2016	December 31, 2015	December 31, 2014
Cash and cash equivalents	**27.3**	15.5	37.2
Less:			
Current portion of long-term debt	**(24.0)**	(4.0)	-
Net (debt) cash	**3.3**	11.5	37.2

Forward-Looking Statements

This MD&A contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this MD&A include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; the Corporation’s future discussions with its customer regarding long-term extensions for drilling and related services contracts for Rigs 103 and 104; future acquisitions and growth opportunities; the impact of the Tervita Acquisition on the Corporation’s financial and operational performance and growth activities; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2017 and subsequent periods; projections of market prices and costs; factors upon which the Corporation will decide whether or not to undertake a specific course of operational action or expansion; the Corporation’s ongoing relationship with major customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; and the Corporation’s ability to repatriate excess funds from PNG as approval is received from the Bank of PNG.

With respect to forward-looking statements contained in this MD&A, the Corporation has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; the general continuance of current or, where applicable assumed industry conditions; activity and pricing; assumptions regarding commodity prices, in particular oil and gas; the Corporation’s primary objectives, and the methods of achieving those objectives; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this MD&A, along with the risk factors set out in the most recent Annual Information Form filed on SEDAR at www.sedar.com.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. These statements are given only as of the date of this MD&A. The Corporation does not assume any obligation to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.