HIGH ARCTIC ENERGY SERVICES INC.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED
September 30, 2020 and 2019

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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**"). This MD&A is based on information available to November 12, 2020 and should be read in conjunction with the unaudited condensed interim consolidated financial statements and notes for the three and nine months ended September 30, 2020 and 2019 (the "**Financial Statements**") and the audited consolidated financial statements and notes for the years ended December 31, 2019 and 2018. Additional information relating to the Corporation including the Corporation's Annual Information Form ("**AIF**") for the year ended December 31, 2019, is available under the Corporation's profile on SEDAR at www.sedar.com. All amounts are expressed in millions of Canadian dollars ("**CAD**"), 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 "Forward-Looking Statements" section of this MD&A for the Corporation's discussion on forward looking information including risk factors that could cause actual results to differ materially and the assumptions used underlying the forward-looking information. Definitions of certain non-IFRS financial measures are included on page 20 under the "Non-IFRS Measures" section.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Canada, the United States ("**US**") and Papua New Guinea ("**PNG**"). High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO".

High Arctic conducts its business operations in three separate operating segments: Drilling Services; Production Services; and Ancillary Services, supported corporately.

Drilling Services

The Drilling Services segment consists of High Arctic's drilling services in PNG including the provision of personnel to assist our customer's drilling related operations. High Arctic has operated in PNG since 2007 and controls the largest fleet of tier-1 heli-portable drilling rigs in the country, with two owned rigs and two rigs managed under operating and maintenance contracts for one of the Corporation's customers. The Corporation also provides additional equipment and associated services in PNG as requested by its 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. The revenue, expenses and assets related to the Q2-2019 acquisition of a snubbing business have been reported within the Production Services segment.

Ancillary Services

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

In the following discussion, the three months ended September 30, 2020 may be referred to as the "**Quarter**" or "**Q3-2020**", and similarly the nine months ended September 30, 2020 may be referred to as "**YTD-2020**". The comparative three months ended September 30, 2019 may be referred to as "**Q3-2019"** and similarly the nine months ended September 30, 2019 may be referred to as "**YTD-2019**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

Highlights

The following highlights the Corporation's results for Q3-2020 and YTD-2020:

- Revenue of $18.5 million and $74.2 million for the three and nine months ended September 30, 2020 (2019 - $49.6 million and $142.7 million, respectively) and adjusted EBITDA of $3.4 million and $7.3 million (2019 - $6.3 million and $15.8 million) for the Quarter and YTD, respectively. This included Canadian Emergency Wage Subsidy ("CEWS") benefits, which provided $4.9 million on a YTD basis (Q3-2020 - $2.8 million) to retain a well-positioned and skilled workforce.
- Achieved several quality and safety milestones:
  - PNG operations reached four years of continuous work Total Recordable Incident Free on August 24, 2020,
  - Canadian operations reached two years Lost Time Injury Free on September 29, 2020,
  - 7.5 years Total Recordable Incident Free in October 2020 at our Cold Lake operations with our largest and longest standing Canadian customer, and
  - High Arctic was once again recognized by the IADC-AC with the 2019 Australasian Safety Statistics Award, the fourth such award in the past five years.
- Focus on working capital management to preserve our cash balances and maintain a strong balance sheet during the current global coronavirus ("**COVID-19**") crisis has demonstrated High Arctic's resilience and positioning for recovery in step with customer opportunities:
  - Strong working capital position of $40.6 million at September 30, 2020, and includes a cash balance of $33.2 million,
  - Subsequent to Q3-2020, renewed our revolving bank loan facility and extended the term 2 years through to August 31, 2023. The maximum availability remains at $45.0 million, of which $10.0 million has been drawn, with similar covenants, margin requirements and conditions.
- The Corporation resumed purchasing shares under its' Normal Course Issuer Bid ("**NCIB**") late in the Quarter.

As demonstrated through 2020 results, the Corporation continues to execute on its 2020 strategic priorities, including:

- Safety excellence and a focus on quality service delivery through consistent global standards, including safeguarding our people against COVID-19.
- Reinforcement of existing core markets evidenced by top-tier customer market share in Canada and PNG.
- Cost control focused on operating cash flow while balancing strategic priorities, to emerge from the current conditions ready to reactivate and grow, and
- Capital stewardship characterized by disciplined working capital management and capital allocation to maintain value for shareholders including common share buybacks, where appropriate.

Outlook

For High Arctic, the year 2020 has been an exercise in thoughtful management, amidst the global instability created by COVID-19. This included preparing for a serious disruption in economic growth and oil demand destruction, resulting in necessary personnel redundancies, management restructuring, commitment to strict cost control, and actively managing key relationships with our lender, customers and vendors. On the whole, the ability for the Corporation to continue operating and remain focused on strategic solutions has ensured that a solid footing has remained in-tact.

The outlook for the global energy industry continues to be challenging. Commodity price increases have continued through Q3-2020, albeit at a slower rate, and signal the expectation of an increase in energy demand, particularly coming into the northern hemisphere winter season.

Notwithstanding these developments, with continued rapid growth in COVID-19 cases in the US and subsequent waves becoming a reality in various communities around the world, it continues to be possible that the appreciation of commodity prices and improvement in price stability may be compromised before a vaccine or other solutions are realized.

Resilience, adaptability, and seizing strategic opportunities will continue to be essential in the coming months and quarters. The reality is that COVID-19 is not a short-term situation and an unsettled political environment in the places where we operate create substantive immediate and mid-term uncertainty.

High Arctic's near-term outlook will continue to be impacted until such time as the COVID-19 pandemic stabilizes including the reduction of rebound shut-downs, world economies are able to heat back up, and when travel restrictions are removed. In addition, the impact of potential impairment charges, the increased risk of collectability of accounts receivable and measurement uncertainty associated with these considerations will continue to be relevant in future periods if conditions persist or worsen. The Corporation's operating plan provides options to prudently manage operations and prioritize financial flexibility.

We continue to consider this an environment to prudently conserve capital. We are focused on strategies that led to cost efficiency, building upon our decision to combine management teams and generate positive cash flow in a depressed market. During the third quarter, we idled our operations in Colorado and North Dakota, and in early November we implemented a further streamlined global management and support structure, eliminating a further $1.0 million in annual indirect costs, while not compromising on front-line worker compensation, training, supervision or field QHSE support. High Arctic has maintained readiness of fleet and our investment in personnel is aimed at being front positioned for an increase in activity.

In Papua New Guinea, the Corporation's Drilling Services remain suspended, however, we continue to provide some skilled personnel and rental services to assist our customers to maintain production while travel is still restricted. We maintain ongoing dialogue with major customers towards planning an effective return to work amid ongoing constraints, leveraging off our demonstrated recent and long-term capacity as a PNG specialist contractor.

In Canada, we have continued working with our core high value customers in a cost constrained operating environment where we have maintained the utilization levels gained in Q2, amid substantive competition. We have advanced our investigation of technology to deliver on our customers needs for reliable, low cost well work solutions that reduce environmental impact while creating job opportunities for oilfield workers. We have established the Seh' Chene Partnership with the Saa Dene Group, led by internationally respected business leader and philanthropist, Mr. Jim Boucher, who was the Fort McKay First Nation's Chief for over 30 years. It is Seh' Chene's mission to execute dependable high-quality energy services, focused on environmental stewardship, while creating opportunity for local Indigenous communities and individuals. High Arctic remains confident of increasing work both through the new Seh' Chene Partnership and in our core business, driven in the near term by customer restoration of shut-in production, the well abandonment stimulus programs and our customers growing realization of the opportunity to deliver on Environmental, Social and Governance ("ESG") obligations while reducing end of life well abandonment cost liabilities.

High Arctic believes we are positioned to manage through these challenging times given our decisive actions, our continued focus on pruning unprofitable operations, chasing cost efficiencies, maintaining adequate readiness and delivering quality services in a socially responsible manner. Our people continue to focus on quality as measured by safety performance excellence and long-term customer relationships. The health of our balance sheet, our strong working capital position, the renewed and extended $45.0 million credit facility, and the skill of our management team provide us the ability to weather the economic slowdown.

Consolidation among exploration and production companies is well underway and opportunities for consolidation in the energy services sector persist. Business combinations and acquisitions will be reviewed to the extent they strengthen our service base and enhance shareholder value, but are not our primary focus.

Select Comparative Financial Information

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

	For the three months ended September 30		For the Nine months ended September 30	
($ millions, except per share amounts)	**2020**	2019	**2020**	2019
Revenue	**18.5**	49.6	**74.2**	142.7
EBITDA [(1)]	**2.8**	6.9	**9.7**	17.7
Adjusted EBITDA [(1)] [(3)]	**3.4**	6.3	**7.3**	15.8
Adjusted EBITDA as % of revenue	**18%**	13%	**10%**	11%
Operating loss	**(5.0)**	(0.8)	**(15.9)**	(5.5)
Net loss	**(6.2)**	(1.1)	**(14.4)**	(6.1)
Per share (basic and diluted) [(2)]	**(0.12)**	(0.02)	**(0.29)**	(0.12)
Funds provided from operations [(1)]	**2.2**	5.3	**5.1**	12.2
Per share (basic and diluted) [(2)]	**0.05**	0.11	**0.10**	0.24
Dividends	**-**	2.4	**1.6**	7.4
Per share (basic and diluted) [(2)]	**-**	0.05	**0.03**	0.15
Capital expenditures	**0.6**	3.0	**3.8**	9.9
Capital expenditures – acquisitions	-	-	-	8.3

(1) Readers are cautioned that EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, and Funds provided from operations do not have standardized meanings prescribed by IFRS – see “Non IFRS Measures” on page 20 for calculations of these measures.
(2) The number of common shares used in calculating net loss per share, funds provided from operations per share, and dividends per share is determined as explained in Note 7 of the Financial Statements.
(3) Adjusted EBITDA includes the impact of wage subsidies (CEWS) recorded.

	As at and for Nine months/ year ended	
($ millions, except share amounts)	**September 30 2020**	December 31 2019
Working capital [(1)]	**40.6**	35.8
Cash, end of period	**33.2**	9.3
Total assets	**232.8**	251.8
Total long-term financial liabilities	**8.3**	9.1
Shareholders’ equity	**192.9**	205.6
YTD/share (basic and diluted)[(2)]	**3.89**	4.11
Common shares outstanding, millions	**49.8**	49.6

(1) Readers are cautioned that working capital does not have standardized meanings prescribed by IFRS – see “Non IFRS Measures” on page 20 for calculations of these measures.
(2) The number of common shares used in calculating shareholders’ equity per share is determined as explained in Note 7 of the Financial Statements.

Responding to Recent Global Developments

The impact of supressed oil prices and COVID-19 has been very challenging. At the outset, and during Q3-2020, COVID-19 continued to impact the global economy, with governments around the world attempting to balance the implementation of measures to contain the virus against the need to open up economies. As economies successfully open up, the demand for energy including crude oil along with other products and services will also increase, however the timing of these events continues to be uncertain.

Market pressures, movement increase and the actions by the Organization of Petroleum Exporting Countries (“**OPEC**”) and non-OPEC members, maintained some stability of the overall global supply of oil during Q3-2020, though the end of the North American summer driving season in September brought with it a drop in consumer demand. The emergence of China and other Asian nations from COVID-19 restrictions also resulted in a net increase in LNG imports, which coupled with an increase in energy use in developed nations improved natural gas demand. Notwithstanding the late quarter commodity price instability, closing benchmark crude oil prices at September 30, 2020 have increased slightly by 3% over June 30, 2020.

As customers continue to decrease their capital and other spending re-forecasts to manage through this crisis event, the market for our services will remain under pressure, with an uncertain end date.

High Arctic's quick adjustment to the severe financial impact of COVID-19 together with commodity price pressure implications, has resulted in measures to reduce certain cash outflows over prior-year 2019 levels including:

- A 62% reduction in capital expenditures, where YTD-2020 capital spending of $3.8 million compares to YTD-2019 capital spending of $9.9 million.
- The suspension of monthly shareholder dividends in March 2020 has decreased cash outflows by $2.4 million in Q3-2020 compared to Q3-2019, and has resulted in a YTD reduction in cash outflows of $5.8 million.
- The Company completed necessary downsizing of its workforce, where a total reduction of approximately 40% at executive, management and support personnel levels was made.
- Acceleration of changes to globalize processes and reduce fixed infrastructure costs, and
- Board Executive Committee oversight as the Corporation operates through the COVID-19 crisis and beyond.

High Arctic's focus remains on being well positioned to navigate through the uncertainty with capacity ready for deployment as markets recover and activity levels increase, and includes:

- Sustained emphasis on the safety and well being of our people through mature health, safety and environment policies.
- Renewal and extension of contracts at modest rate reductions with a core customer base in Canada.
- Continued support services to our major customers in PNG.
- Continued use of wage subsidy programs to maintain regional workforce strength.
- Carefully controlling recertification and maintenance expenditures enabling High Arctic to have equipment poised for quick activation from all our regional bases, and
- Strong liquidity position, with cash of $33.2 million combined with up to $35.0 million of remaining Bank Facility borrowing capacity.

High Arctic continues to maintain close working relations with its customers and focus on high quality customer service differentiation as an absolute imperative. These attributes have been, and continue to be, key principles for High Arctic throughout the energy industry economic cycle.

The Corporation remains acutely aware that the impact to our customers' spending and their ability to pay for work completed on a timely basis could have a significant impact on High Arctic's financial and operating results and we continue to work closely with our customers to ensure credit and operating risks are minimized.

The Canadian federal government's $1.7 billion well abandonment and site reclamation stimulus plan announced in April 2020 continues to slowly ramp up. Responsibility for fund distribution is assigned to the British Columbia, Alberta and Saskatchewan provincial governments. High Arctic has directly applied for hundreds of wells across the first tranches of the Alberta and Saskatchewan controlled programs, receiving a modest number of approvals with work commencing during the Quarter. With tens of thousands of inactive oil and gas wells across western Canada, we would expect that over the stimulus period, there will be meaningful opportunity for High Arctic to participate in the resulting work programs through our Production Services segment, as the focus shifts to securing, isolating and capping wellbores of increasing cost and complexity.

Third Quarter 2020:

- High Arctic reported revenue of $18.5 million, incurred a net loss of $6.2 million and realized Adjusted EBITDA of $3.4 million during Q3-2020. This compares to Q3-2019, with revenue of $49.6 million, a net loss of $1.1 million and Adjusted EBITDA of $6.3 million. Changes were mainly due to $31.1 million of reduced revenue, attributable predominantly to lack of drilling in PNG and reduced levels of production services activity in Canada, offset by reduced operating and administrative costs of $28.2 million compared to Q3-2019.
- CEWS provided $2.8 million in wage subsidy relief, of which $2.4 million related to Oilfield services expenses and $0.4 million to General and administrative expenses.
- Utilization for High Arctic's 50 registered Concord Well Servicing rigs was 39% in the Quarter versus industry utilization of 20% (source: Canadian Association of Oilwell Drilling Contractors "**CAODC**").
- There were no dividends declared or paid in Q3-2020, compared to $2.4 million in Q3-2019 ($0.05 per share).
- Cash decreased by $0.3 million during Q3-2020 as compared to a decrease of $2.6 million in Q3-2019.
- No further amounts were drawn on the Corporation's loan facility remaining of up to $35.0 million, and as disclosed on October 15, 2020, the Corporation renegotiated its' facility agreement, extending it to August 31, 2023, and

- High Arctic repurchased and cancelled 145,500 common shares under the existing NCIB during the Quarter. Further, 943,600 common shares were repurchased at a cost of $0.7 million and cancelled subsequent to September 30, 2020 under this same NCIB up to November 12, 2020.

Year to date 2020:

- High Arctic reported revenue of $74.2 million, incurred a net loss of $14.4 million and realized Adjusted EBITDA of $7.3 million YTD-2020. This compares to YTD-2019, which had revenue of $142.7 million, a net loss of $6.1 million and Adjusted EBITDA of $15.8 million. Changes were mainly attributable to reduced activity which decreased revenue by $68.5 million, offset by decreases in operating and administrative costs of $60.0 million. YTD-2020 results included $0.9 million in restructuring costs, and additional bad debt provision of $0.6 million over YTD-2019.
- Although dividends amounting to approximately $0.8 million per month were suspended in March 2020, YTD-2020 dividends amounted to $1.6 million ($0.03 per share), compared to $7.4 million in YTD-2019 ($0.15 per share).
- YTD-2020, High Arctic repurchased and cancelled 145,500 common shares through the existing NCIB. Further, 943,600 common shares were repurchased at a cost of $0.7 million and cancelled subsequent to September 30, 2020 under this same NCIB up to November 12, 2020.

Operating Segments and Results

($ millions, unless otherwise noted)	**Three months ended September 30 2020**	Three months ended September 30 2019	**Nine months ended September 30 2020**	Nine months ended September 30 2019
Revenue:				
Drilling Services	**$ 4.7**	$ 18.7	**$ 23.8**	$ 58.0
Production Services	**12.6**	24.3	**44.0**	68.1
Ancillary Services	**1.6**	7.4	**7.7**	19.0
Inter-segment eliminations	**(0.4)**	(0.8)	**(1.3)**	(2.4)
	$ 18.5	$ 49.6	**$ 74.2**	$ 142.7
Oilfield Service Operating Margin [(1)]				
Drilling Services	**$ 1.6**	$ 3.8	**$ 6.2**	$ 12.3
Production Services	**3.5**	2.8	**7.4**	4.9
Ancillary Services	**0.7**	4.0	**3.8**	10.7
	$ 5.8	$ 10.6	**$ 17.4**	$ 27.9
Oilfield Service Operating Margin Percentage [(1)]				
Drilling Services	**34%**	20%	**26%**	21%
Production Services	**28%**	12%	**17%**	7%
Ancillary Services	**44%**	54%	**49%**	56%
	31%	21%	**23%**	20%

(1) See "Non-IFRS Measures" on page 20

Third Quarter 2020

- Despite the difficult operating environment, operating margin percentages increased from 21% to 31% comparing Q3-2020 to Q3-2019, as a result of strict cost control measures, in combination with CEWS cost recoveries. The margins in absolute dollar terms decreased from $10.6 million to $5.8 million, with production services margins up by $0.7 million, offset by $2.2 million and $3.3 million in drilling services and ancillary services declines, respectively.

Year to date 2020

- Operating margin percentages YTD-2020 increased from 20% YTD-2019 to 23% YTD-2020. Revenues decreased by $68.5 million compared to YTD-2019, with the impact of the continued global upheaval caused by the COVID-19 pandemic and oil price volatility playing a major role in this reduction.
- YTD-2020 operating margins have been charged with $0.4 million of restructuring costs, with $0.3 million recorded in Q1-2020 and $0.1 million recorded in Q2-2020.

Drilling Services Segment

($ millions, unless otherwise noted)	**Three months ended September 30 2020**	2019	**Nine months ended September 30 2020**	2019
Revenue	**$ 4.7**	$ 18.7	**$ 23.8**	$ 58.0
Oilfield services expense	**3.1**	14.9	**17.6**	45.7
Oilfield services operating margin [1]	**$ 1.6**	$ 3.8	**$ 6.2**	$ 12.3
Operating margin (%)	**34%**	20%	**26%**	21%

(1) See "Non-IFRS Measures" on page 20

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and has an agreement to operate an additional two rigs (Rigs 103 and 104) on behalf of a major oil and gas exploration company in PNG.

During Q3-2020, Drilling Services revenue decreased 75% to $4.7 million from $18.7 million in Q3-2019 due to the continued cessation of drilling activity. Revenues generated included the provision of manpower and services to support essential customer operations impacted by travel restrictions on foreign workers and contractors due to COVID-19. During the Quarter, Rigs 103, 104, 115 and 116 were all cold stacked, whereas during Q3-2019, Rig 103 was operating, and Rig 104 was partially operational.

YTD-2020, drilling services revenue decreased 59% to $23.8 million from $58.0 million for the same period in 2019. During YTD-2020, the Corporation operated Rig 103 for part of the first quarter, whereas during 2019 Rig 103 operated throughout the period and Rig 104 operated throughout most of the period. Rigs 103 and 104 are currently stacked and ready for redeployment upon customer notification, subject to COVID-19 restrictions.

Production Services Segment

($ millions, unless otherwise noted)	**Three months ended September 30 2020**	2019	**Nine months ended September 30 2020**	2019
Revenue	**$ 12.6**	$ 24.3	**$ 44.0**	$ 68.1
Oilfield services expense	**9.1**	21.5	**36.6**	63.2
Oilfield services operating margin [1]	**$ 3.5**	$ 2.8	**$ 7.4**	$ 4.9
Operating margin (%)	**28%**	12%	**17%**	7%

(1) See "Non-IFRS Measures" on page 20

Operating Statistics – Canada	**Three months ended September 30 2020**	2019	**Nine months ended September 30 2020**	2019
Service rigs:				
Average fleet [2]	**50**	57	**50**	57
Utilization [3]	**39%**	51%	**43%**	53%
Operating hours	**17,956**	26,481	**59,613**	81,780
Revenue per hour ($)	**564**	586	**589**	606
Snubbing rigs:				
Average fleet [4]	**8**	18	**8**	17
Utilization [3]	**17%**	17%	**19%**	16%
Operating hours	**1,228**	2,810	**4,358**	7,300

Operating Statistics – US	Three months ended September 30 **2020**	2019	Nine months ended September 30 **2020**	2019
Service rigs:				
Average fleet [(2)]	**2**	2	**2**	2
Utilization [(3)]	**37%**	112%	**30%**	62%
Operating hours	**690**	2,069	**1,903**	3,357
Revenue per hour ($)	**846**	1,030	**883**	1,043
Snubbing rigs:				
Average fleet [(4)]	**6**	6	**6**	6
Utilization [(3)]	**2%**	34%	**7%**	23%
Operating hours	**134**	1,867	**1,138**	3,825

(2) Average service rig fleet represents the average number of rigs registered with the CAODC during the period.
(3) Utilization is calculated on a 10-hour day using the number of rigs registered with the CAODC during the period.
(4) Average snubbing fleet represents the average number of rigs marketed during the period.

High Arctic's well servicing and snubbing operations are provided through its Production Services segment. These operations are primarily conducted in Canada in the WCSB and in the US 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.

Service rigs

During Q3-2020, overall service rig operating hours of 18,646 decreased by 35% compared to Q3-2019 at 28,550. Pricing continues to remain competitive, with average revenue per hour for the Concord service rigs in Canada decreasing by 4% to $564 per hour in the Quarter from $586 per hour in Q3-2019. Service rig hours in Canada decreased from 26,481 in Q3-2019 to 17,956 in Q3-2020, due to the shortened workdays from 12 hour days to 10 hour days for one of our customers, together with the continued overall slowdown impact of COVID-19. Notwithstanding the competitive market and consistent with prior quarters, the Concord rigs achieved well above Canadian industry utilization at 39% versus the 20% utilization generated by the industry's registered well servicing rigs in the Quarter (source: CAODC).

Service rig hours of 690 in the US decreased by 1,379 hours compared to Q3-2019 as activity declined sharply with the continued impact of lower oil prices and COVID-19. The erosion of pricing and customer well site activity contributed to the Corporation's decision to idle US operations during Q3-2020. Service rig revenue per hour in the US decreased from $1,030/hour in Q3-2019 to $846/hr in Q3-2020.

YTD-2020, Service rig hours in Canada decreased from 81,780 to 59,613 hours, with decreased revenue per hour going from $606/hr to $589/hr YTD-2020. In the US, service rig hours were down 1,454 hours from 3,357 to 1,903, and revenue per hour moved from $1,043/hr to $883/hr.

Snubbing rigs

Activity for the Corporation's snubbing operations continues to be hampered over recent quarters due to curtailed natural gas well drilling and resultant reduction in well completions by the Corporation's customers. Canadian and US snubbing well service operating hours decreased in Q3-2020 by 56% and 93%, respectively, as customers deferred discretionary spending on well completions and technically complex well workovers. Similarly, YTD operating hours in Canada and the US decreased by 40% and 70%, respectively.

Overall

Operating margin percentage for the Quarter increased from 12% to 28% compared to Q3-2019. YTD margins increased from 7% YTD-2019 to 17% YTD-2020. This is due to the continued effort in 2020 to control and manage costs during the current economic environment, coupled with the impact of wage subsidies recorded. In addition, Q3-2019 margins were lower as a result of incremental and planned equipment maintenance that increased costs and lowered margins.

Ancillary Services Segment

($ millions, unless otherwise noted)	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Revenue	**$ 1.6**	$ 7.4	**$ 7.7**	$ 19.0
Oilfield services expense	**0.9**	3.4	**3.9**	8.3
Oilfield services operating margin [(1)]	**0.7**	$ 4.0	**$ 3.8**	$ 10.7
Operating margin (%)	**44%**	54%	**49%**	56%

(1) See "Non-IFRS Measures" on page 20

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG, as well as its Canadian nitrogen operations.

During Q3-2020, the lack of significant well site work activity continued the down-turn in well site associated rentals in PNG and furthered the contraction in the worksite matting market, reducing overall revenue and curtailing operating margins. YTD-2020, results follow that which was explained for the Quarter.

General and Administrative ("G&A")

($ millions, unless otherwise noted)	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
G&A	**$ 2.4**	$ 4.3	**$ 10.1**	$ 12.1
% of revenue	**13%**	9%	**14%**	8%

G&A costs during Q3-2020 decreased by $1.9 million as compared to Q3-2019, largely due to reduced compensation costs as a result of restructuring, as well as $0.4 million received through CEWS. As a percentage of revenue, G&A costs were 13% compared to 9% in Q3-2019, largely impacted by the reduction in revenues.

YTD-2020, G&A costs decreased by $2.0 million, which includes personnel and general cost reductions of $2.6 million, CEWS wage support of $0.7 million, offset by increased restructuring costs associated with severance during Q1-2020 of $0.5 million, increased bad debt expense of $0.6 million and $0.2 million in legal costs that were incurred in pursuit of business development and general corporate matters, as compared to YTD-2019. YTD-2020 G&A costs as a percentage of revenue were 14% compared to 8% YTD-2019, impacted heavily by the reduction in revenues.

High Arctic remains committed to ensuring that G&A costs are managed and balanced within the overall strategic plan for the Corporation.

Depreciation

Depreciation expense on property and equipment and right-of-use assets totaled $8.2 million in Q3-2020, and $23.0 million YTD-2020, compared to $7.2 million and $21.0 million for Q3-2019 and YTD-2019, respectively. Increases are mainly due to specific assets identified that were determined to be nearing the end of their commercial service and therefore depreciation rates were adjusted.

Share-based Compensation

Share-based compensation expense is the result of the charge to income over the service period relating to option or unit plans which generally contemplate the issuance of common shares upon vesting. The methodology used typically front end loads the expense in the early portion of the expense realization. Share-based compensation amounted to $0.2 million for both Q3-2020 and YTD-2020, (Q3-2019 and YTD-2019 - $0.1 million recovery and $0.3 million expense, respectively).

During Q3-2020 and YTD-2020, nil and 892,499 Performance share units were granted (Q3-2019 and YTD-2019 – nil). In addition, during Q3-2020 and YTD-2020, nil and 195,689 Deferred share units were granted (Q3-2019 and YTD-2019 – nil).

Foreign Exchange Transactions

The Corporation has exposure to US dollar ("**USD**") fluctuations and other currencies such as the PNG Kina ("**PGK"** or **"Kina**") through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign currency denominated transactions, which is recorded in profit and loss, as well as the conversion of the Corporation's subsidiaries with functional currencies other than CAD, into CAD for financial reporting presentation purposes, which is recorded as part of other comprehensive income (loss), within equity.

Foreign currency denominated transactions are translated into CAD using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the entity's functional currency are translated at period-end exchange rates, with foreign exchange gains or losses recorded in the consolidated statements of earnings (loss).

Conversion of High Arctic's net investment in foreign subsidiaries also creates foreign currency fluctuations. The value of these net investments will increase or decrease based on fluctuations in the USD relative to CAD. These gains and losses are unrealized until such time that High Arctic divests its investment in the foreign subsidiary and are recorded in other comprehensive income (loss) as a foreign currency translation gains or losses.

The average CAD to USD exchange rate for the Quarter was $1.33 vs $1.32 during Q3-2019. As at September 30, 2020, the CAD to USD exchange rate was $1.33 vs $1.36 at June 30, 2020 and $1.30 as at December 31, 2019.

The impact of exchange rates for the Quarter resulted collectively in a $0.2 million foreign exchange loss (Q3-2019 – foreign exchange gain - $0.1 million) being recorded in the statements of earnings (loss) on various foreign currency denominated transactions and on the translation of foreign denominated monetary assets and liabilities. Similarly, YTD-2020, $nil in foreign exchange gains/losses were recorded (YTD-2019 - $0.3 million gain).

The fluctuation of USD vs CAD also resulted in a translation loss of $1.7 million for the Quarter (Q3-2019 – $1.5 million gain) associated with the translation of subsidiaries with functional currencies that are not CAD. These translation amounts are recorded in other comprehensive income (loss). Similarly, YTD-2020, $2.9 million was recorded as a translation gain (YTD-2019 - $3.5 million translation loss).

The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2020**	2019	**2020**	2019
Interest including standby fee – bank loan	**$ 0.1**	$ -	**$ 0.3**	$ -
Finance expense – lease liabilities	**0.1**	0.3	**0.3**	0.4
Other interest/finance expense (income)	**-**	-	**0.2**	0.3
Total	**$ 0.2**	$ 0.3	**$ 0.8**	$ 0.7

During the Quarter, $0.1 million of interest expense was incurred on the bank loan, which remained constant at $10.0 million. No bank loan interest was recorded in 2019, as no long-term debt was outstanding during that time.

Finance expense on lease liabilities associated with the time value of money of $0.1 million was recorded during the Quarter (Q3-2019 – $0.3 million). Similarly, YTD-2020, $0.3 million was recorded as finance expense on lease liabilities (YTD-2019 - $0.4 million).

Other interest expense amounted to $nil for the Quarter and $0.2 million YTD-2020 (Q3-2019 - $nil, YTD-2019 - $0.3 million).

Other Comprehensive Income (Loss)

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $1.7 million foreign currency translation loss associated with subsidiaries with functional currencies other than CAD in other comprehensive income for the Quarter (Q3-2019 - $1.5 million gain). Similarly, YTD-2020, the Corporation recorded a $2.9 million foreign currency translation gain (YTD-2019 - $3.5 million loss).

For the Quarter, this occurred due to the strengthening of the CAD to the USD between Q2-2020 and Q3-2020. YTD-2020, the CAD weakened compared to the USD at September 30, 2020 relative to December 31, 2019, and this resulted in a net gain on the net assets held in the subsidiaries with USD as their functional currency.

Liquidity and Capital Resources

($ millions)	Three months ended September 30 **2020**	2019	Nine months ended September 30 **2020**	2019
Cash provided by (used in):				
Operating activities	**$ 1.2**	$ 2.6	**$ 17.6**	$ 11.5
Investing activities	**(0.6)**	(2.7)	**(0.2)**	(16.4)
Financing activities	**(0.7)**	(3.3)	**6.0**	(13.9)
Effect of exchange rate changes on cash	**(0.2)**	0.8	**0.5**	(0.6)
Increase (decrease) in cash	**$ (0.3)**	$ (2.6)	**$ 23.9**	$ (19.4)

($ millions, unless otherwise noted)	As at September 30 **2020**	December 31 2019
Working capital [1]	**$ 40.6**	$ 35.8
Working capital ratio [1]	**2.8 : 1**	2.3 : 1
Net cash [1]	**33.2**	9.3
Undrawn availability under debt facilities	**35.0**	45.0

(1) See “Non-IFRS Measures” on page 20

The Bank of PNG continues to encourage the use of the local market currency, Kina. Due to High Arctic’s requirement to transact with international suppliers and customers, High Arctic has received approval from the Bank of PNG to maintain its USD account within the conditions of the Bank of PNG currency regulations. The Corporation continues to use PGK for local transactions when practical. Included in the Bank of PNG’s conditions is for PNG drilling contracts to be settled in PGK, unless otherwise approved by the Bank of PNG for the contracts to be settled in USD. The Corporation has received such approval for its existing contracts with its key customers in PNG. The Corporation will continue to seek Bank of PNG approval for future customer contracts to be settled in USD on a contract by contract basis, however, there is no assurance the Bank of PNG will continue to grant these approvals.

If such approvals are not received in future, the Corporation’s PNG drilling contracts will be settled in PGK which would expose the Corporation to exchange rate fluctuations related to the PGK. In addition, this may delay the Corporation’s ability to receive USD which may impact the Corporation’s ability to settle USD denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation also requires the approval from the PNG Internal Revenue Commission (“**IRC**”) to repatriate funds from PNG and make payments to non-resident PNG suppliers and service providers. While delays can be experienced for the IRC approvals, such approvals have been received in the past.

Operating Activities

Cash provided from operations of $1.2 million for the Quarter (Q3-2019 - $2.6 million) resulted from $2.2 million of funds provided from operations (Q3-2019 - $5.3 million), offset by $1.0 million due to working capital changes (Q3-2019 – offset of $2.7 million), predominantly the payment of accounts payable offset by the collection of accounts receivable during the Quarter.

YTD-2020, cash provided from operations amounted to $17.6 million (YTD-2019 - $11.5 million), with funds provided from operations amounting to $5.1 million (YTD-2019 - $12.2 million), and working capital changes amounting to $12.5 million resulted from the net impact of the collection of accounts receivable of $25.1 million, which exceeded various liability payments.

Investing Activities

During the Quarter, the Corporation’s cash used in investing activities amounted to $0.6 million (Q3-2019 – use of $2.7 million). Capital expenditures during the Quarter of $0.6 million (Q3-2019 - $3.0 million) accounted for the majority of this activity.

YTD-2020, cash used in investing activities totalled $0.2 million (YTD-2019 – use of $16.4 million). YTD-2020 capital expenditures amounted to $3.8 million (YTD-2019 - $9.9 million), proceeds of disposal were $5.0 million (YTD-2019 - $1.6 million), with working capital changes representing the balance of the change. In addition, YTD-2019 included a business acquisition amounting to $8.3 million associated with the acquisition of a snubbing business.

Financing Activities

During the Quarter, the Corporation did not draw further on its available long-term debt facility, and the balance was reclassified to current liabilities as the original facility due date was August 31, 2021. Subsequent to September 30, 2020, the facility has been renewed, with a revised maturity date of August 31, 2023. YTD-2020, $10.0 million of the maximum $45.0 million long-term debt facility has been drawn. No long-term debt existed at September 30, 2019.

High Arctic suspended dividends in March 2020, and as such no dividends were paid during Q3-2020. YTD-2020, $1.6 million in dividends were paid to shareholders, down $5.8 million from $7.4 million YTD-2019.

During the Quarter and YTD-2020, $0.1 million was paid to repurchase and cancel common shares under the existing NCIB, compared to $0.4 million and $5.1 million paid to repurchase and cancel common shares in Q3-2019 and YTD-2019, respectively, under NCIBs in place at that time.

Credit Facility

As at September 30, 2020, the Corporation had drawn $10.0 million (December 31, 2019 - $nil) of its' $45.0 million revolving loan facility, which was set to mature on August 31, 2021 and is therefore recorded as a current liability ("Original facility").

Subsequent to September 30, 2020, the Original facility was renewed with the lender's consent, and the maturity date extended to August 31, 2023, as a three year committed revolving facility ("Renewed facility"). The Renewed facility, like the Original facility, is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets. The Renewed facility additionally provides for a $5.0 million overdraft for the duration of the term, and is inclusive of the $45.0 million available to the Corporation. This overdraft is not subject to covenant restrictions, however is dependent upon North American asset net book values remaining above $50.0 million.

The Renewed facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for bank facility defined investment grade receivables), plus 90% of insured receivables, less priority payables, less receivables that have been sold or factored, whether to the lender or another third party as defined in the loan agreement ("Margin Requirement").

Interest on the Renewed facility, which is independent of standby fees, is charged monthly at prime plus an applicable margin which fluctuates based on the Funded Debt to Covenant EBITDA ratio (defined below), where the applicable margin can range between 0.75% – 1.75% of the outstanding balance. Standby fees also fluctuate based on the Funded Debt to Covenant EBITDA ratio and range between 0.40% and 0.60% of the undrawn balance.

The Original and Renewed facility are subject to two financial covenants which are reported to the lender on a quarterly basis. As at September 30, 2020, the Corporation was in compliance with the two financial covenants under the credit facility. The first covenant requires the Funded Debt to Covenant EBITDA ratio to be under 3.0 to 1 and the second covenant requires Covenant EBITDA to Interest Expense ratio to be a minimum of 3.0 to 1. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis.

The covenant calculations at September 30, 2020 are:

Covenant	Required	**As at September 30, 2020**
Funded debt to Covenant EBITDA (1)(2)	3.0 : 1 Maximum	**0.94 : 1**
Covenant EBITDA to Interest expense (2)	3.0 : 1 Minimum	**18.03 : 1**

(1) Funded debt to Covenant EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded debt is the amount of debt provided and outstanding at the date of the covenant calculation.

(2) EBITDA for the purposes of calculating the covenants, "Covenant EBITDA," is defined as net income plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share based compensation expense less gains from foreign exchange and sale or purchase of assets. Interest expense excludes an impact from IFRS 16.

The Original and Renewed facility contain additional covenants and conditions impacting availability and repayment of borrowings under the facility. Events of default, which include material adverse change conditions, at the reasonable discretion of the lender, may result in facility indebtedness being immediately due and payable.

Commitments and Contingencies

As part of the Corporation's contractual rig management and operations, the Corporation has been supplied an inventory of spare parts with a total value of $8.3 million (December 31, 2019 - $7.4 million) by a customer for the Corporation's operations in PNG. The inventory is owned by this party and has not been recorded on the books of High Arctic. At the end of the contract, the Corporation must make a payment to the customer equivalent to any inventory shortfall, and return the balance of inventory on hand.

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 and units under the Corporation's approved equity compensation plans.

	Nine months ended September 30, 2020		Year ended December 31, 2019	
Common shares issued and outstanding:	**Shares**	**Amount**	Shares	Amount
Balance, beginning of year	49,623,432	$ 173.1	51,009,011	$ 177.9
Issuance of performance share units (Note 8)	273,328	0.1	11,668	-
Normal course issuer bid	(145,500)	(0.5)	(1,397,247)	(4.8)
Balance, end of period	**49,751,260**	**$ 172.7**	**49,623,432**	**$ 173.1**

On November 28, 2019, the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,552,229 common shares, representing approximately 10 percent of the Corporation's public float, under a Normal Course Issuer Bid ("NCIB"). The NCIB is valid for one year. It commenced on December 2, 2019 and will terminate on December 1, 2020. During the three and nine-month period ended September 30, 2020, 145,500 common shares have been purchased and cancelled under this NCIB. Subsequent to September 30, 2020, 943,600 common shares have been purchased at a cost of $0.7 million and cancelled under this same NCIB up to November 12, 2020.

At September 30, 2020, 330,000 stock options were outstanding at an average exercise price of $3.73, as well as 860,195 units under the Corporation's Performance Share Unit Plan and 354,191 units under the Deferred Share Unit plan. To the date of this MD&A, no further stock options or units have been issued.

Quarterly Financial Review

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

	2020			**2019**				**2018**
($ millions, except per share)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2 [3]**	**Q1**	**Q4 [2]**
Revenue	18.5	16.1	39.6	42.8	49.6	46.6	46.5	47.8
Adjusted EBITDA [1] [4]	3.4	1.2	2.7	3.6	6.3	4.0	5.5	6.6
Net earnings (loss)	(6.2)	(6.0)	(2.2)	(2.7)	(1.1)	(4.0)	(1.0)	(2.3)
Per share - basic	(0.12)	(0.12)	(0.04)	(0.06)	(0.02)	(0.08)	(0.02)	(0.04)
Adjusted net earnings (loss)[1][2][3]	(6.2)	(6.0)	(2.2)	(2.7)	(1.5)	(4.0)	(1.0)	(2.3)
Per share - basic	(0.12)	(0.12)	(0.04)	(0.05)	(0.02)	(0.08)	(0.02)	(0.4)
Funds provided from operations [1]	2.2	0.9	2.0	3.1	5.3	2.1	4.8	2.0

(1) See "Non-IFRS Measures" on page 20
(2) Adjusted net earnings (loss) in Q4-2018 excludes $0.2 million of expenses incurred related to the closing of the Corporation's Blackfalds facility and transaction costs related to the Powerstroke Acquisition.
(3) Adjusted net earnings (loss) in Q2-2019 excludes the impact of $0.7 million of income recognized related to the write down of the contingent liability associated with the Powerstroke acquisition in 2018.
(4) Adjusted EBITDA includes the impact of wage subsidies (CEWS) recorded.

During Q3-2020, High Arctic revenues increased modestly by 15% compared to Q2-2020, yet decreased by 63% compared to Q3-2019, precipitated by the continued negative impact of the COVID-19 pandemic which began in late Q1-2020. During Q1-2020, the Corporation undertook restructuring in an effort to manage reduced revenue and operating cash flow. The Corporation's outlook has been significantly impacted by the global supply imbalance of oil and natural gas that has been created by both OPEC's decisions on supply and price and the unprecedented decrease in global energy demand resulting from measures taken by governments around the world to control the recent pandemic.

This situation is compounded by the continued Canadian oil and gas industry's inability to obtain global market access for its products, which has been a reality for the past number of years. The take-or-pay contract for Rig 116 expired on November 2, 2018 resulting in reduced revenue and EBITDA in 2019. The Corporation's results grew with the acquisitions of well service businesses which closed in 2018 and more recently the acquisition of a snubbing business in April 2019.

Seasonal conditions impact the Corporation's Canadian operations whereby frozen ground during the winter months tends to provide an optimal environment for drilling and many well servicing activities and consequently first quarter activity 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 operations and, therefore, the second quarter is generally the weakest quarter of the year for the Corporation's operations in Canada.

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 USD to CAD exchange rate.

	2020			2019				2018
($)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Oil and natural gas prices								
(Averages for the quarterly periods):								
Brent Crude Oil (USD $/bbl) [1]	43	33	51	63	62	63	64	68
Japan LNG (USD $/mmbtu) [2]	6.82	10.07	9.91	10.04	10.62	9.91	11.87	11.69
USD/CAD average exchange rate [1]	1.33	1.38	1.34	1.32	1.32	1.31	1.34	1.32

(1) Source: Sproule
(2) Source: YCharts

The Corporation's PNG activity has historically been based on longer term, USD denominated contracts and therefore is less affected over the short term by volatility in oil and gas prices. The USD/CAD exchange rate has remained strong over the last eight quarters which has benefited the Corporation's financial results.

Activity levels for the Corporation's major customers in PNG are less dependent on short term fluctuations in oil and gas prices and instead are 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 Japan 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.

	2020			2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Oil and natural gas prices								
($ Avg for the period):								
West Texas Intermediate ("WTI") (USD $/bbl) [1]	41	28	46	57	56	55	55	59
West Canada Select ("WCS") (CAD $/bbl)[1]	42	22	34	54	58	55	57	37
Canadian Light Sweet Oil ("CLS") (CAD $/bbl) [1]	49	31	52	67	69	64	67	48
AECO (CAD $/mmbtu) [1]	2.27	2.00	2.03	2.48	1.00	0.61	2.62	1.62
Other industry indicators:								
Total wells drilled in W. Canada[2]	361	746	1,179	1,175	1,407	778	1,546	1,380
Avg service rig utilization rates[2]	20%	9%	36%	33%	55%	35%	48%	37%
Avg drilling rig utilization rates [2,3]	9%	4%	35%	23%	23%	13%	29%	28%

(1) Source: Sproule
(2) Source: CAODC
(3) Note that prior 2020 quarter rates have been corrected from that previously disclosed.

In Q3-2020, WTI, WCS and CLS average prices improved relative to Q2-2020, but are still lower than historical averages as a result of the fall-out of the COVID-19 pandemic which began in Q1-2020, as well as the impact of over-supply, substantively full storage facilities, softening demand and as a result, downward pressure on pricing.

Pressure on oil and natural gas prices have had a material impact on drilling and well completion activities in Canada since 2015, given the lack of take away pipeline capacity prior to the COVID-19 pandemic, and continues to collectively curtail activity relative to historical industry activity levels. Q3-2020 average industry rig utilization rates were lower than Q3-2019, despite the further reduction in industry rig fleets due to decommissioning and/or cold stacking.

Financial Risk Management

Financial and other risks

The Corporation is exposed to financial risks arising from its financial assets and liabilities. This includes the risk associated with the recent development relating to COVID-19 and other such pandemics in the future. Outside of a pandemic risk, financial risks include market risk, interest rate risk, foreign currency risk, risks associated with foreign currency restrictions and operations, commodity price risk, credit risk and liquidity risk.

Market and other related 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, commodity prices and foreign currency exchange rates.

Pandemic and or endemic risk is the risk that operations and/or administration are forced to run at less than full capacity due to an absence or reduction of members of the workforce, either through forced closures by government both within countries and also across national borders, by internally imposed rotational schedules and/or quarantine or illness of the workforce. Further, cyber risks increase as employees work from home. Such restrictions could significantly impact the ability for the Corporation to operate, and therefore impact financial results.

Interest rate risk and available swaps

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 the long-term debt is a floating rate credit facility and fluctuates in response to changes in the prime interest rates.

The Corporation has available to it an Interest rate swap, which is included within its' existing facility agreement. The interest rate swap allows High Arctic to fix the rate of interest payable up to a maximum of $20.0 million of the loaned amount. No swaps have been undertaken by the Corporation at September 30, 2020. Subsequent to September 30, 2020 and with the renewal of the facility agreement, the swap amount was revised to a maximum of $2.0 million of the loaned amount.

Commodity price risk

Commodity price risk is the risk that the Corporation's future cash flows will fluctuate due to changes in demand for High Arctic's services, where many of the Corporation's customers are oil and gas producers. High Arctic's customer's activity and strategic decisions are impacted by the fluctuations of oil and gas pricing.

These prices are sensitive to not only the relationship between the Canadian and US dollar, but more importantly local, regional and world economic events, such as implications from declining oil demand and over supply, climate change driven transitions to lower emission energy sources, as well as the current COVID-19 pandemic which creates a scenario of both downward and fluctuating price pressure. The Corporation currently has no commodity price mitigation contracts in place.

Foreign currency risk and PNG foreign currency restrictions

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 effectively transacted in USD and the Corporation does not actively engage in foreign currency hedging. For the three and nine-month period ended September 30, 2020, a $0.10 change in the exchange rate of the Canadian dollar relative to the USD would have resulted in change in net earnings (loss) amounting to $0.2 million and $0.3 million as a result of changes in foreign exchange.

The Corporation's ability to repatriate funds from PNG is controlled by the PNG government through their central bank. There are currently a number of monetary and currency exchange control measures in PNG that can impact the ability to repatriate funds, as well as establish requirements to transact in the local PNG currency (Kina or PGK). As at September 30, 2020 USD $0.2 million was on deposit with a large international bank in PNG. The Bank of PNG ("**BPNG**") has provided approval for High Arctic to maintain a USD bank account in accordance with the BPNG currency regulations. The Corporation has received approval from the BPNG for its existing contracts with its key customers in PNG to be denominated and settled in USD.

However, if such approval is withdrawn in the future, these funds may be converted into PGK and the Corporation would be required to access the foreign currency market in PNG to meet its foreign currency obligations, thus exposing the Corporation to greater foreign exchange exposure for the PGK.

The BPNG currency regulations also limit the amount of foreign currency that companies can maintain in order to meet their forecasted three-month cash flow requirements, with excess funds required to be held in PGK. While no significant issues have been experienced to date, there is no guarantee such restrictions will not exist or will not impact the Corporation's ability to transact or repatriate funds.

The Corporation's financial instruments have the following foreign exchange exposure at September 30, 2020:

($ millions)	USD (1)	PGK (2)	Australian Dollars ("**AUD**") (3)
Cash	$ 10.5	$ 4.0	$ 0.3
Accounts receivable	0.9	8.2	-
Accounts payable and accrued liabilities	(3.3)	(1.7)	(0.2)
Total	$ 8.1	$ 10.5	$ 0.1

(1) As at September 30, 2020, one USD was equivalent to 1.33 CAD.
(2) As at September 30, 2020, one PGK was equivalent to 0.38 CAD.
(3) As at September 30, 2020, one AUD was equivalent to 0.95 CAD.

Credit risk, customers and economic dependence

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 is predominantly with customers who explore for and develop petroleum reserves and are subject to industry credit risk consistent with the industry. The Corporation assesses the credit worthiness of its customers on an ongoing basis and monitors the amount and age of balances outstanding.

The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Corporation uses the historical default rates within the industry between investment grade and non-investment grade customers, as well as forward looking information to determine the appropriate loss allowance provision.

The net carrying amount of accounts receivable represents the estimated maximum credit exposure on the accounts receivable 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 two large multinational/regional customers (Q3-2019 – two) which individually accounted for greater than 10% of its consolidated revenues during the three and nine-month period ended September 30, 2020. Sales to these two customers were approximately $4.7 million and $1.0 million for the three-month period ended September 30, 2020 (Q3-2019 - $22.5 million and $5.0 million), and $15.5 million and $18.6 million for the nine-month period ended September 30, 2020 (YTD-2019 - $68.6 million and $17.7 million).

As a result of the economic pressures currently faced by the oil and gas industry, together with the implications of the COVID-19 pandemic, a thorough assessment of accounts receivable continues to be undertaken to take this changing environment into consideration.

The aging of the Corporation's accounts receivable is as follows:

	As at	
($ millions)	**September 30 2020**	December 31 2019
Days outstanding:		
Less than 31 days	**10.8**	14.6
31 to 60 days	**2.7**	16.0
61 to 90 days	**0.9**	3.8
Greater than 90 days	**1.1**	5.6
Allowance for doubtful accounts	**(0.8)**	(0.2)
Total	**14.7**	39.8

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.

Liquidity risk is currently being impacted by uncertainty within capital markets given the COVID-19 pandemic on global economies, economic recession possibilities, contraction of available capital and reliance on continued fiscal stimulus by governments around the world.

The Corporation's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, working capital management, coordinating and authorizing project expenditures, authorization of contractual agreements, managing compliance to debt finance agreements, and remaining attentive to the relationship with High Arctic's lender. The Corporation seeks to manage its financing based on the results of these processes.

Further, the Corporation currently has up to $35.0 million in remaining availability under its' credit facility, subject to bank stipulated margin conditions, to enable execution on our strategic direction.

Critical Accounting Judgements and Estimates

Information on the Corporation's critical accounting estimates and judgements can be found in the notes to the annual audited consolidated financial statements for the year ended December 31, 2019.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant economic declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for energy, impacting High Arctic's customers and High Arctic's business. At and about the same time, crude oil prices were also severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC members, primarily Saudi Arabia and Russia.

While recent measures to reduce oil supply by OPEC and non-OPEC exporting countries have been constructive to reduce inventories, the accord carries a high degree of compliance and duration uncertainty.

The full extent of the impact of COVID-19 on the Corporation's operations and future financial performance will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, the restrictions imposed by governments in attempts to control its spread, the continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact.

The outbreak presents uncertainty and risk with respect to the Corporation, its performance, and estimates and assumptions used by Management in the preparation of financial results. A full list of the key sources of estimation uncertainty can be found in the Corporation's annual Consolidated Financial Statements for the year ended December 31, 2019. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the Consolidated Financial Statements, particularly related to:

i) Recoverable amounts of cash-generating units ("CGUs") as it relates to impairment testing on property and equipment;

ii) Estimated credit losses as it relates to accounts receivable from customers who operate in the energy sector and are impacted by these same COVID-19 issues; and

iii) Tax provisions where estimates are made of annual taxable income and also estimates regarding recoverability of deferred tax assets.

iv) Classification of long-term debt as a current liability based upon compliance with debt financing agreements including provisions such as material adverse change events, which at the reasonable discretion of the lender, may result in immediate repayment of amounts owed.

Disclosure Controls and Procedures ("DC&P") and Internal Controls over Financial Reporting ("ICFR")

As at September 30, 2020, an evaluation of the effectiveness of High Arctic's DC&P as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**"). Based on this evaluation, the CEO and CFO concluded that as at September 30, 2020, the design and operation of the Corporation's DC&P was effective.

ICFR is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate ICFR, which no matter how well designed, has inherent limitations and can provide only reasonably assurance with respect to the preparation and fair presentation of published financial statements. Under the supervision and with the participation of the CEO and CFO, management conducted an evaluation of the effectiveness of its ICFR as at September 30, 2020.

Based on this evaluation, the CEO and CFO concluded that as at September 30, 2020, High Arctic's ICFR was effective. The Internal Control – Integrated Framework (2013) as issued by the Committee of Sponsoring Organizations of the Treadway Commission was utilized for this purpose. As at September 30, 2020 there was no change in our ICFR that materially affected or is reasonably likely to materially affect our ICFR.

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 December 31, 2019 AIF, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, copies 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:

Earnings before interest, taxes, depreciation and amortization (“EBITDA”)

Management believes that, in addition to net earnings reported in the consolidated statement of loss and comprehensive loss, EBITDA 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. Note that EBITDA is inclusive of wage subsidies (CEWS) recorded.

Covenant EBITDA

Covenant EBITDA, as defined in High Arctic’s credit facility agreement, is used in determining the Corporation’s compliance with its covenants. Covenant EBITDA is defined as net income (loss) plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share based compensation expense less gains from foreign exchange and sale or purchase of assets. Interest expense excludes any impact of IFRS 16. Note that Covenant EBITDA is inclusive of wage subsidies (CEWS) recorded.

Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as defined above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, impairment charges, other costs related to consolidating facilities, excess of insurance proceeds over costs and foreign exchange gains or losses. Note that adjusted EBITDA is inclusive of wage subsidies (CEWS) recorded.

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 (loss) or other measures of financial performance calculated in accordance with IFRS.

The following table provides a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019:

($ millions)	Three months ended September 30 **2020**	2019	Nine months ended September 30 **2020**	2019
Net loss	**$ (6.2)**	$ (1.1)	**$ (14.4)**	$ (6.1)
Add (deduct):				
Interest and finance expense	**0.2**	0.3	**0.8**	0.7
Income taxes	**0.6**	0.5	**0.3**	2.1
Depreciation	**8.2**	7.2	**23.0**	21.0
EBITDA	**$ 2.8**	$ 6.9	**$ 9.7**	$ 17.7
Adjustments to EBITDA:				
Share-based compensation	**0.2**	(0.1)	**0.2**	0.3
Foreign exchange loss/(gain)	**0.2**	(0.1)	**-**	(0.3)
Loss (gain) on sale of property and equipment	**0.2**	-	**(2.6)**	(0.8)
Other income	**-**	(0.4)	**-**	(1.1)
Adjusted EBITDA	**$ 3.4**	**$ 6.3**	**$ 7.3**	$ 15.8

Adjusted net earnings (loss)

Adjusted net earnings (loss) is calculated based on net earnings (loss) prior to the effect of costs not incurred in the normal course of business, such as consolidating facilities, impairment, gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings (loss) to present a measure of financial performance that provides for better comparability. Adjusted net earnings (loss) as presented is not intended to represent net earnings (loss) or other measures of financial performance calculated in accordance with IFRS.

Adjusted net earnings (loss) per share and Adjusted net earnings (loss) per share – diluted are calculated as Adjusted net earnings (loss) divided by the number of weighted average basic and diluted shares outstanding, respectively.

The following provides the quantitative reconciliation of net loss to Adjusted net loss for the three and nine months ended September 30, 2020 and 2019:

($ millions)	Three months ended September 30 **2020**	2019	Nine months ended September 30 **2020**	2019
Net loss	**$ (6.2)**	$ (1.1)	**$ (14.4)**	$ (6.1)
Adjustments:				
Other income	**-**	(0.4)	**-**	(1.1)
Adjusted net loss	**$ (6.2)**	$ (1.5)	**$ (14.4)**	$ (7.2)

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 net earnings (loss) 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.

The following table provides a quantitative calculation of Oilfield Services Operating Margin and %:

($ millions, unless otherwise noted)	**Three months ended September 30** **2020**	2019	**Nine months ended September 30** **2020**	2019
Revenue	**$ 18.5**	$ 49.6	**$ 74.2**	$ 142.7
Less:				
Oilfield services expense	**12.7**	39.0	**56.8**	114.8
Oilfield services operating margin	**$ 5.8**	$ 10.6	**$ 17.4**	$ 27.9
Oilfield services operating margin %	**31%**	21%	**23%**	20%

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 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 and nine months ended September 30, 2020 and 2019:

($ millions)	**Three months ended September 30** **2020**	2019	**Nine months ended September 30** **2020**	2019
Net cash generated from operating activities	**$ 1.2**	$ 2.6	**$ 17.6**	$ 11.5
Less:				
Changes in operating non-cash working capital	**1.0**	2.7	**(12.5)**	0.7
Funds provided from operations	**$ 2.2**	$ 5.3	**$ 5.1**	$ 12.2

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:

($ millions)	**As at September 30** **2020**	December 31 2019
Current assets	**$ 62.8**	$ 62.7
Less:		
Current liabilities	**(22.2)**	(26.9)
Working capital	**$ 40.6**	$ 35.8

Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents (if applicable) 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 table provides a quantitative reconciliation of cash to net cash as follows:

($ millions)	As at September 30 2020	December 31 2019
Cash	**$ 33.2**	$ 9.3
Less:		
Long-term debt	**-**	-
Net cash	**$ 33.2**	$ 9.3

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", "prepare", "determine" 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; commodity prices and the impact that they have on industry activity; initiatives to reduce cash outlays over 2019 levels; elimination of annual indirect cost; continued safety performance excellence; realization of work from Site Rehabilitation Programs; oversight of working capital to maintain a strong balance sheet; estimated capital expenditure programs for fiscal 2020 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; the Corporation's ability to maintain a USD bank account and conduct its business in USD in PNG; the Corporation's ability to repatriate excess funds from PNG as approval is received from the Bank of PNG and the PNG Internal Revenue Commission; and the Corporation's ability to comply with debt facility loan agreement terms and conditions.

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 strategies and 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.

Abbreviations

The following is a summary of abbreviations used in this Management Discussion and Analysis:

AIF	- Annual information form
AUD	- Australian dollars
bbl	- Barrel
CAD	- Canadian dollars
CAODC	- Canadian Association of Oilwell Drilling Contractors
CEWS	- Canada Emergency Wage Subsidy
CLS	- Canadian Light Sweet
DCP	- Disclosure controls and procedures
EBITDA	- Earnings before interest, tax, depreciation and amortization
ESG	- Environmental, Social and Corporate Governance
ICFR	- Internal controls over financial reporting
IFRS	- International Financial Reporting Standards
IRC	- Internal Revenue Commission of PNG
LNG	- Liquified natural gas
MD&A	- Management discussion and analysis
mmbtu	- Million British thermal units
NCIB	- Normal course issuer bid
OPEC	- Organization of petroleum exporting countries
PGK	- Papua New Guinea Kina
PNG	- Papua New Guinea
US	- United States of America
USD	- United States dollars
WCS	- West Canada Select
WCSB	- Western Canadian sedimentary basin
WTI	- West Texas Intermediate