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High Arctic Reports 2016 First Quarter Results

Calgary Alberta, May 13, 2016 – High Arctic Energy Services Inc. (TSX: HWO) – “High Arctic” or the “Corporation” is pleased to announce its 2016 first quarter results with growth in revenue of 22% to \$57.7 million and 110% growth in Adjusted EBITDA to \$21.8 million.

Tim Braun, High Arctic’s Chief Executive Officer, stated: “Our first quarter results were largely generated through the addition of new rigs in our Papua New Guinea business operations. As a management team, we are proud of these results and believe it reflects the continued positive contributions from our employees and our focus on exceptional performance. Global industry activity levels as a whole continue to remain weak. However, we view this as an opportunity to strengthen our business operations through operational efficiencies and by delivering better value to our customers.”

Highlights

The doubling of High Arctic’s heli-portable drilling rig operations in PNG combined with strong operational performance, ongoing cost management and a favorable U.S. dollar exchange rate positively contributed to High Arctic’s financial results during the quarter:

- Revenue increased 22% to \$54.7 million from \$44.7 million in the first quarter of 2015. Revenue contribution from the two new owned heli-portable drilling rigs offset the impact of rate reductions introduced in June 2015 for the other two rigs operated by High Arctic as well as lower Canadian revenues, which were negatively impacted by lower industry activity levels.
- Contribution from the new owned heli-portable drilling rigs and aggressive cost management initiatives resulted in a 110% increase in adjusted EBITDA to \$21.8 million from \$10.4 million in the first quarter of 2015.
- The Corporation renewed its normal course issuer bid on January 12, 2016 and repurchased a total of 734,600 shares during the quarter for \$2.4 million. These buybacks, combined with High Arctic’s \$0.0165 per share monthly dividend resulted in \$5.0 million being returned to shareholders during the quarter.

Consistent with the growth in revenue and EBITDA in the quarter, net earnings increased to \$11.2 million (\$0.21 per share) for the quarter ended March 31, 2016 from \$4.8 million (\$0.09 per share) in first quarter of 2015.

The Corporation continues to maintain a strong balance sheet with a positive net cash position of \$20.5 million and a positive working capital balance of \$44.1 million as at March 31, 2016. Funds provided from operations were \$18.9 million during the quarter representing a 130% increase over the \$8.2 million recorded in the first quarter of 2015.

High Arctic’s strong financial position allowed the Corporation to enhance its Canadian snubbing fleet during the quarter through the addition of two new high capacity snubbing units ideally suited for the industry’s current focus on high pressure, long-reach horizontal wells. High Arctic continues to seek opportunities to enhance and grow its operations during the current downturn.

Corporate Profile

High Arctic operates in two geographic areas within one operating segment which provides oilfield services to exploration and production companies operating in Canada and Papua New Guinea. High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol "HWO".

Papua New Guinea ("PNG")

The Corporation's largest operation is located in PNG where it 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 operated rigs under operating and management contracts for one of the Corporation's customers. In addition to the Corporation's drilling operations, High Arctic also provides work-over services with its heli-portable work-over rig and also provides rental support equipment, including matting, camps and various pieces of rolling stock.

Canada

The Corporation's Canadian operation is Western Canada's market leader in providing snubbing services to energy producers. With 18 units available, High Arctic is uniquely positioned to service the increasing number of high pressure, longer depth horizontal wells being drilled in the Western Canadian Sedimentary Basin. The Corporation also provides nitrogen services as well as select rental equipment to producers.

Financial Highlights

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

\$ millions (except per share amounts)	Three months ended March 31		
	2016	2015	% Change
Revenue	54.7	44.7	22%
EBITDA⁽¹⁾	21.3	9.5	124%
Adjusted EBITDA⁽¹⁾	21.8	10.4	110%
Adjusted EBITDA % of revenue	40%	23%	74%
Operating earnings	15.7	6.9	128%
Net earnings	11.2	4.8	133%
per share (basic and diluted) ⁽²⁾	0.21	0.09	133%
Funds provided from operations⁽¹⁾	18.9	8.2	130%
per share (basic and diluted) ⁽²⁾	0.35	0.15	133%
Dividends	2.6	2.7	(4%)
per share ⁽²⁾	0.05	0.05	-
Capital expenditures	5.1	21.1	(76%)

	As At		
	March 31, 2016	December 31, 2015	% Change
Working Capital⁽¹⁾	44.1	43.2	2%
Total assets	236.6	244.1	(3%)
Total non-current financial liabilities	1.9	6.6	(71%)
Net cash, end of period⁽¹⁾	20.5	11.5	78%
Shareholders' Equity	199.6	201.2	(1%)
Shares outstanding⁽²⁾	53.7	54.4	(1%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Funds provided from operations, net cash and working capital do not have standardized meanings prescribed by IFRS – see "non IFRS Measures" on page 9.

(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.

Revenue

(\$ millions)	Three Months Ended March 31			
	2016	2015	Change	%
Revenue				
PNG	48.2	35.2	13.0	37%
Canada	6.5	9.5	(3.0)	(32%)
Total	54.7	44.7	10.0	22%

Consolidated revenue increased 22% to \$54.7 million in the quarter from \$44.7 million in the first quarter of 2015. This increase was driven by the revenue contribution from two new drilling rigs added to High Arctic's PNG fleet in 2015, combined with a 10% increase in the average U.S. dollar to Canadian dollar exchange rate, which accounted for approximately \$3.6 million of the quarter over quarter revenue increase. The increased revenue contribution from PNG was partially offset by a 32% decline in Canadian revenues due to lower industry activity levels in Canada.

Operations in PNG

High Arctic continued to benefit in the quarter from the growth undertaken in its PNG drilling operations in 2015. The Corporation currently owns two heli-portable drilling rigs (Rigs 115 and 116) which commenced earning revenue in March 2015 and August 2015. 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.

Utilization of Rig 115 has been steady since it spudded its first well in June 2015 and during the quarter the rig was active drilling Antelope 6 in the Elk/Antelope field. This well was completed during the quarter and the rig was released from location in early April. Rig 116 remains on standby in Port Moresby awaiting to be mobilized to its first well location. This rig will continue to generate standby revenue until it spuds its first well, which is currently not anticipated to be until late 2016 or early 2017.

Rig 103 completed drilling Antelope 3 during the quarter and began mobilizing to a well in the Western Province for a new customer. Activities in the quarter for Rig 104 were focused on preparing the rig for a high elevation drilling location in Muruk. The three year operations management contracts for Rigs 103 and 104 are due for renewal at the end of June 2016. Management continues to progress discussions with the customer regarding the renewal of these contracts.

The addition of the new rigs, combined with a strong U.S. dollar exchange rate in the quarter, offset reduced revenues from pre-spud drilling equipment utilized for rigs 103 and 104 and lower operations support revenue associated with cost reduction initiatives implemented in June 2015 to assist High Arctic's customer in reducing its field operating costs. The growth in the Corporation's drilling operation resulted in a 40% increase in PNG drilling revenue to \$41.1 million in the quarter versus \$29.2 million in comparative quarter in 2015.

High Arctic's PNG rental operations contributed \$7.1 million in revenue during the quarter which was an 18% increase over the \$6.0 million recorded in the first quarter of 2015. The Corporation's rental fleet includes approximately 10,000 Dura-Base® mats, of which an average of 6,450 mats were under contract during the quarter, exiting the quarter with 4,400 under contract. Additional rental revenues are also generated from heli-portable camps and various trucks, cranes and other oilfield equipment. Similar to the impact seen on the drilling operations, the strong U.S. dollar exchange rate positively impacted rental revenue in the quarter, which offset lower equipment utilization levels due to some equipment coming off contract as well as certain equipment now being included in the drilling contract rates which were previously included in rental revenue during the first quarter of 2015. The Corporation also benefitted from \$1.0 million in non-recurring income for damaged and lost mats upon a contract expiry.

The increase in the PNG drilling and rental revenues resulted in a 37% increase in total PNG revenue in the quarter to \$48.2 million from the \$35.2 million generated in the first quarter of 2015.

Operations in Canada

Lower industry activity levels continued to hamper the Corporation's Canadian operations in the quarter. Industry drilling rig activity declined 48% in the first quarter of 2016 in comparison to the first quarter of 2015 (source: CAODC). While High Arctic's Canadian operations are not directly tied to the industry's drilling activity, the decline in activity provides an indication of the extent of the slowdown being experienced in the industry. Drilling activity levels are currently the lowest experienced by the industry in the Western Canadian Sedimentary Basin since 1992.

As a result of the industry slowdown, the Corporation has reduced its fleet of marketed snubbing units to 9 units from its total fleet of 19 units. In conjunction with the decreased number of marketed units, the Corporation also reduced its operating support structure to reflect the lower operating capacity. The remaining un-marketed units have been parked and will be reactivated as industry activity improves. Utilization for High Arctic's snubbing units was 22% (44% on marketed units) during the quarter versus 31% (55% on marketed units) in the first quarter of 2015. Equipment utilization is determined by dividing total operating hours generated in the period over the total available hours based on a ten hour day.

The reduced activity levels, combined with lower average pricing, generated a 34% decline in snubbing revenue to \$4.7 million in the quarter versus \$7.1 million in the comparative 2015 quarter.

Similar to the decline experienced in the snubbing division, revenues for the Corporation's nitrogen and equipment rental services declined 25% to \$1.8 million in the quarter from \$2.4 million in 2015. Nitrogen services are often supplied in conjunction with snubbing activities; however, High Arctic has also been pursuing opportunities to provide nitrogen services for industrial and pipeline maintenance activities.

The lower snubbing and nitrogen service revenues resulted in a 32% decline in Canadian revenues in the quarter to \$6.5 million from \$9.5 million in 2015.

While these lower activity levels and pricing pressures are anticipated to continue in 2016, the Corporation has experienced higher levels of activity with its deeper capacity snubbing units. The units are suited for the high pressure, deep long lateral horizontal wells that are currently being drilled in the industry. As a result of the demand for these units, the Corporation added two higher capacity, fully guided snubbing units to its fleet in the quarter. One of the units is a 285k high capacity four post snubbing rig which is ideally suited for drill-out operations. This unit is a new design that is being leased by High Arctic under a one year lease which will provide the Corporation with an opportunity to assess the technical capabilities of the rig and its market acceptance.

The second unit is a newly refurbished 170k standalone snubbing unit which was purchased from a competitor in exchange for \$0.8 million in cash and one of the Corporation's older lower capacity 120k standalone snubbing units, for a total consideration of \$1.1 million. This unit is similar to the highest utilized unit in High Arctic's fleet and commenced field operations in April 2016. The support equipment previously utilized for the Corporation's 120k unit will be utilized with the new 170k unit, thus reducing the capital expenditures required to add this unit to High Arctic's fleet.

Oilfield Services Expense and Operating Margin

(\$ millions)	Three Months Ended March 31			
	2016	% ⁽¹⁾	2015	% ⁽¹⁾
Oilfield services expenses				
Personnel costs	12.7	23%	13.2	30%
Drilling rig and other rental costs	8.9	16%	11.0	25%
Material and supplies cost	5.6	10%	4.4	10%
Equipment operating and maintenance costs	1.7	3%	1.9	4%
Other	0.3	0%	0.2	0%
Total oilfield services expenses	29.2	53%	30.7	69%
Oilfield services operating margin	25.5	47%	14.0	31%

⁽¹⁾ Operating costs as a % of total revenue.

Despite the increase in revenue in the quarter versus the first quarter of 2015, operating costs declined to \$29.2 million from \$30.7 million in the prior year quarter. This decline in operating costs positively impacted oilfield services margins which increased in 2016 to \$25.5 million (47% of revenue) from \$14.0 million (31% of revenue) in the first quarter of 2015.

The primary drivers for the decrease in oilfield service expense as a percentage of revenue were:

- Rig 116 was not operating and was earning standby revenue; therefore, revenue was being generated with minimal operating costs, thus skewing margins higher than they would otherwise be under normal operations.
- Economies of scale for fixed operating costs through the growth of the PNG operations. While fixed operating costs were required to support the growth of the PNG operations, the incremental cost added was smaller than the incremental contribution of the PNG revenue growth;
- In response to lower activity levels in Canada, management undertook a number of cost reduction initiatives which have resulted in lower operating costs in the Corporation's Canadian operations. These cost reductions commenced in the first quarter of 2015 and continued throughout 2015. High Arctic maintains a scalable cost infrastructure wherever possible which adjusts to changing activity and provides substantial operating leverage when activity changes;
- A reduction in drilling rig rental costs as a percentage of revenue as High Arctic has full ownership of the two new heli-portable drilling rigs added in PNG. Partially offsetting this lower cost was an increase in material and supplies costs associated with operating these owned rigs. Maintenance costs will also be expected to increase; however, because the rigs are new, there was minimal impact to maintenance costs associated with these rigs in 2016;

General and Administration

(\$ millions)	Three Months Ended March 31			
	2016	2015	Change	%
General and administration	3.7	3.6	0.1	3%
Percent of revenue	7%	8%	(1%)	(13%)

Increased general and administrative costs in the Corporation's PNG operations were partially offset by reduced costs in Canada and Corporate. The increase in the PNG costs was driven by the growth of the PNG business as well as the impact of the stronger U.S. dollar. In addition, certain management support costs are now being captured by High Arctic which were

previously being covered under the Corporation's drilling rig operating contracts. As a percentage of revenue, general and administrative costs have reduced to 7% from 8% in the comparative quarter.

Amortization

Amortization cost increased to \$5.8 million in the quarter from \$2.9 million in first quarter of 2015. The increase in amortization cost is associated with the two new drilling rigs and rental equipment added to High Arctic's fleet in 2015.

Share-based Compensation

The decrease in share-based compensation expense to \$0.3 million from \$0.6 million in first quarter of 2015, is a result of a higher number of options granted in 2014 versus 2015. The amortization costs associated with the Corporation's option grants is higher in the first year subsequent to the grant versus future years. 150,000 stock options were granted in the first quarters of both 2016 and 2015.

Foreign Exchange Transactions

The Corporation has exposure to the U.S. dollar and other currencies such as the Kina through its operations in PNG. 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 during the quarter relative to the Canadian dollar, with an average exchange rate of 1.374. This strong U.S. dollar benefited the Corporation during the quarter as the majority of the Corporation's PNG business is conducted in U.S. dollars.

The strength of the U.S. dollar began to soften at the end of the quarter, with a closing exchange rate of 1.299 as at March 31, 2016. This lower exchange rate relative to the prior quarter end price of 1.384 as at December 31, 2015, resulted in a translation loss of \$9.4 million being recorded in other comprehensive income for the three months ended March 31, 2016.

The fluctuation in exchange rates during the first quarter of 2016 also resulted in a \$0.3 million foreign exchange loss being recorded on various foreign exchange transactions. The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

While the Corporation continues to maintain a net consolidated positive cash balance, there are occasions when temporary advances are made on High Arctic's corporate debt facilities to meet Canadian cash needs when foreign funds are not immediately available. In addition, the Corporation incurs fees to maintain its existing facilities. Interest on these temporary borrowings and fees amounted to \$0.1 million in the quarter, which is consistent with 2015.

Income Taxes

(\$ millions)	Three Months Ended March 31			
	2016	2015	Change	%
Net earnings before income taxes	15.4	6.5	8.9	137%
Current income tax expense	2.8	1.8	1.0	56%
Deferred income tax expense	1.4	(0.1)	1.5	1,500%
Total income tax expense	4.2	1.7	2.5	147%
Effective tax rate	27%	26%	1%	4%

The Corporation's effective tax increased to 27% in the quarter from 26% in the first quarter of 2015. This increase was primarily related to higher taxable income generated from PNG.

The Corporation's activities in Canada are not subject to current income taxes due to its ability to utilize various tax pools and losses carried forward from prior years. As a result of these existing tax pools, the Corporation has not recorded any tax expense for Canada during quarter. As at March 31, 2016, the Corporation had approximately \$113.0 million in total tax pools available for use in Canada, of which High Arctic has recorded a deferred tax asset of \$5.0 million on the Corporation's balance sheet.

In addition to the statutory income taxes applicable on net earnings generated in the Corporation's subsidiaries, withholding taxes may apply to certain distributions, such as dividends, made from the High Arctic's subsidiary companies to the parent company. No distributions that are subject to withholding taxes were made during the quarter. As at March 31, 2016, the Corporation's subsidiaries had approximately \$89.5 million in undistributed earnings which could be subject to dividend withholding taxes. The average dividend withholding tax rate is estimated to be 17%. No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as the Corporation controls the relevant entities and has no committed plans to repatriate the earnings in the foreseeable future.

Other Comprehensive Income

In addition to the impact of the \$9.4 million foreign currency transaction losses for foreign operations discussed above, a \$1.3 million gain was recorded in other comprehensive income during the quarter related to gains on short term investments. These gains relate to an increase in market value of strategic investments made by the Corporation in select publicly traded oilfield service companies while it evaluates potential acquisition opportunities.

Liquidity and Capital Resources

(\$ millions)	Three Months Ended March 31			
	2016	2015	Change	%
Cash provided by (used in):				
Operating activities	21.1	13.1	8.0	61%
Investing activities	(5.1)	(20.7)	(15.6)	(75%)
Financing activities	(9.1)	(4.3)	4.8	112%
Effect of exchange rate changes	(1.9)	3.1	(5.0)	(161%)
Increase (decrease) in cash and cash equivalents	5.0	(8.8)	13.8	157%

	As At			
	March 31, 2016	December 31, 2015	Change	%
Working capital ⁽¹⁾	44.1	43.2	0.9	2%
Working capital ratio ⁽¹⁾	2.4:1	2.3:1	0.1:1	4%
Net cash ⁽¹⁾	20.5	11.5	9.0	78%
Undrawn availability under debt facilities	25.0	21.5	3.5	16%

⁽¹⁾ See non-IFRS measures

As at March 31, 2016, the Corporation continued to maintain a strong balance sheet with no outstanding debt and significant financial resources available via working capital, cash and undrawn availability under its debt facilities.

Management believes High Arctic's current capital resources, plus anticipated cash generated from operating activities in 2016, will be sufficient to meet its planned 2016 capital expenditure program of \$15.5 million and anticipated dividends and share repurchases under the Corporation's NCIB for 2016. Management will reassess the Corporation's capital resource needs as changes occur in its business operations and as future growth opportunities arise.

Operating Activities

Consistent with the increase in EBITDA during the quarter, funds provided from operations increased by 130% to \$18.9 million from \$8.2 million in the first quarter of 2015. After working capital adjustments, net cash generated from operating activities during 2016 was \$21.1 million compared to \$13.1 million for the first quarter of 2015.

Investing Activities

High Arctic incurred \$5.1 million in capital expenditures related to the purchase of various rental equipment items in Canada and PNG and a 170k standalone snubbing rig. In addition to the \$5.1 million incurred in cash expenditures, \$2.5 million was invested through a capital lease to secure a new 285k four post snubbing unit. A 120k standalone snubbing unit, valued at \$0.3 million, was exchanged as partial consideration for the purchase of the 170k unit.

Financing Activities

The \$9.4 million in funds used in financing activities during the first three months of 2016 primarily relates to the \$4.0 million repayment of outstanding long-term debt, \$2.6 million in dividend payments and \$2.4 million in share purchases under the Corporation's NCIB.

Outlook

High Arctic continues to benefit from revenue generated under term contracts in PNG, which is in contrast to the current lower activity levels being experienced in the Corporation's Canadian division. PNG's vast reserves of gas are some of the most competitive globally, which continues to attract investment in these projects by some of the world's largest oil and gas exploration and development companies. Nonetheless, the downturn in world energy markets is starting to be reflected in activity levels and pricing expectations.

Upon successfully completing the Antelope 6 well, Rig 115 was demobilized in April to Port Moresby to await its next well, anticipated to be in the fourth quarter of 2016. The rig will continue to generate its contracted standby revenue until it is mobilized to its next location. Rig 116 remains on standby in Port Moresby awaiting assignment for its first well. Management anticipates that the rig will not be mobilized for its first well until the end of 2016 or early 2017.

Rig 103 was assigned to a new customer in the first quarter of 2016 to complete a drilling program in the Western Province of PNG. Rig up was completed in April and drilling operations for this customer are anticipated to last until the third or fourth quarter of 2016.

Mobilization of Rig 104 to a high elevation location in Muruk has been delayed by the customer in order to avoid potential mobilization challenges associated with seasonal high rain fall in the area of activity. Mobilization activities are anticipated to recommence in the third quarter. Nominal revenue amounts are anticipated to be generated during this stand-down period as minimal operation support services will be provided. Management continues discussions with its customer on the contract renewals for Rigs 103 and 104.

Matting utilization in PNG is expected to be approximately 40% to 50% for 2016 and management is actively evaluating new markets for expansion and redeployment of its non-contracted mat inventory. Rental demand for the Corporation's remaining drilling support equipment and camps will continue to coincide with drilling activity in PNG.

In Canada, lower industry activities continue to impact High Arctic's operating results. However, a large percentage of the Corporation's Canadian activity is with larger exploration and development companies who have maintained a higher level of activity relative to smaller oil and gas companies in the current low industry activity cycle. The addition of the two new higher capacity snubbing units during the first quarter is expected to partially offset activity declines for the Corporation's other snubbing units. Management also continues to proactively adjust the Corporation's Canadian operating cost structure and to adapt to the current business environment.

While High Arctic's contracted status in Papua New Guinea, continued delivery of high quality service and proactive cost management have provided strong EBITDA performance, recent delays in customer drilling programs and a further strengthening of the Canadian dollar relative to the US dollar could soften the financial contribution from the Corporation's PNG operations in the upcoming quarters relative to the first quarter of 2016. Additionally, further capital budget reductions for the Corporation's customers may result in further utilization and rate reductions in Canada. Management will continue to monitor and proactively adapt to changes in the business environment in order to mitigate the negative impacts that may be caused by lower industry utilization levels.

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 share-based compensation, gains or losses on sale of assets or investments, 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 ended March 31:

\$ millions	Three Months Ended March 31	
	2016	2015
Net earnings for the period	11.2	4.8
Add:		
Interest and finance expense	0.1	0.1
Income taxes	4.2	1.7
Amortization	5.8	2.9
EBITDA	21.3	9.5
Add:		
Share-based compensation	0.3	0.6
Gain on sale of property and equipment	(0.1)	-
Foreign exchange loss	0.3	0.3
Adjusted EBITDA	21.8	10.4

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.

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 ended March 31:

\$ millions	Three Months Ended March 31	
	2016	2015
Net cash generated from operating activities	21.1	13.1
Less:		
Net change in items on non-cash working capital	(2.2)	(4.9)
Funds provided from operations	18.9	8.2

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	
	March 31, 2016	December 31, 2015
Current assets	75.9	77.4
Less:		
Current liabilities	(31.8)	(34.2)
Working capital	44.1	43.2

Net cash

Net cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of debt. 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 cash as follows:

\$ millions	As At	
	March 31, 2016	December 31, 2015
Cash and cash equivalents	20.5	15.5
Less:		
Long-term debt	-	4.0
Net cash	20.5	11.5

Risks and Uncertainties

Certain activities of the Corporation are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial may also become important factors which affect the Corporation. Prior to making any investment decision regarding High Arctic, investors should carefully consider, among other things, the risk factors set forth in the Corporation's most recent Annual Information Form which is available under the Corporation's profile at www.sedar.com or by contacting the Corporation.

High Arctic Energy Services Inc.

Consolidated Statements of Financial Position

As at March 31, 2016 and December 31, 2015

Unaudited - Canadian \$ Millions

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	20.5	15.5
Accounts receivable	35.0	42.4
Short term investments	11.9	10.6
Inventories	8.1	8.0
Prepaid expenses	0.4	0.9
	<u>75.9</u>	<u>77.4</u>
Non-current assets		
Property and equipment	155.7	161.7
Deferred tax asset	5.0	5.0
Loans due from related parties	-	-
	<u>-</u>	<u>-</u>
Total assets	<u>236.6</u>	<u>244.1</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	17.7	23.6
Equipment lease obligation	2.2	-
Current portion of deferred revenue	2.1	2.2
Income taxes payable	8.9	7.5
Dividend payable	0.9	0.9
	<u>31.8</u>	<u>34.2</u>
Non-current liabilities		
Deferred revenue	1.9	2.6
Long-term debt	-	4.0
Deferred tax liability	3.3	2.1
	<u>37.0</u>	<u>42.9</u>
Total liabilities	<u>37.0</u>	<u>42.9</u>
Shareholders' equity	<u>199.6</u>	<u>201.2</u>
Total liabilities and shareholders' equity	<u>236.6</u>	<u>244.1</u>

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the three months ended March 31, 2016 and 2015

Unaudited - Canadian \$ Millions, except per share amounts

	2016	2015
Revenue	54.7	44.7
Expenses		
Oilfield services	29.2	30.7
General and administration	3.7	3.6
Amortization	5.8	2.9
Share-based compensation	0.3	0.6
Total expenses	39.0	37.8
Operating earnings	15.7	6.9
Foreign exchange loss	0.3	0.3
Gain on sale of property and equipment	(0.1)	-
Interest and finance expense	0.1	0.1
Net earnings before income taxes	15.4	6.5
Current income tax expense	2.8	1.8
Deferred income tax expense (recovery)	1.4	(0.1)
Net earnings for the period	11.2	4.8
Earnings per share:		
Basic	0.21	0.09
Diluted	0.21	0.09

	2016	2015
Net earnings for the period	11.2	4.8
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net income:		
Foreign currency translation gains (losses) for foreign operations	(9.4)	10.8
Items that may not be reclassified subsequently to net income:		
Gains on short term investments, net of tax	1.3	-
Comprehensive income for the period	3.1	15.6

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2016 and 2015

Unaudited - Canadian \$ Millions

	2016	2015
Net earnings for the period	11.2	4.8
Adjustments for:		
Amortization	5.8	2.9
Share-based compensation	0.3	0.6
Gain on sale of property and equipment	(0.1)	-
Foreign exchange loss	0.3	-
Deferred income tax expense (recovery)	1.4	(0.1)
	18.9	8.2
Net changes in items of working capital	2.2	4.9
Net cash generated from operating activities	21.1	13.1
Investing activities		
Additions of property and equipment	(5.1)	(21.1)
Disposal of property and equipment	-	0.1
Net changes in items of working capital	-	0.3
Net cash used in investing activities	(5.1)	(20.7)
Financing activities		
Long-term debt repayment	(4.0)	-
Dividend payments	(2.6)	(2.7)
Purchase of common shares for cancellation	(2.4)	(1.7)
Issuance of common shares, net of costs	0.2	-
Long-term lease obligation payments	(0.3)	-
Loan receivable receipts	-	0.1
Net cash used in financing activities	(9.1)	(4.3)
Effect of exchange rate changes	(1.9)	3.1
Net change in cash and cash equivalents	5.0	(8.8)
Cash and cash equivalents – beginning of period	15.5	37.2
Cash and cash equivalents – end of period	20.5	28.4
Cash paid for:		
Interest	0.1	0.1
Income taxes	1.4	0.3

Forward-Looking Statements

This Press Release 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 Press Release. 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 Press Release as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this Press Release 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; estimated capital expenditure programs for fiscal 2016 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; treatment under governmental regulatory regimes and political uncertainty and civil unrest. With respect to forward-looking statements contained in this Press Release, 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; 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 Press Release, 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 Press Release are expressly qualified in their entirety by this cautionary statement. These statements are given only as of the date of this Press Release. 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.

About High Arctic

High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol “HWO”. The Corporation’s principal focus is to provide drilling and specialized well completion services, equipment rentals and other services to the oil and gas industry.

High Arctic’s largest operation is in Papua New Guinea where it provides drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Canadian operation provides snubbing services, nitrogen supplies and equipment on a rental basis to a large number of oil and natural gas exploration and production companies operating in Western Canada.

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