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## High Arctic Reports 2016 Second Quarter Results

Calgary Alberta, August 12, 2016 – High Arctic Energy Services Inc. (TSX: HWO) – “High Arctic” or the “Corporation” is pleased to announce its 2016 second quarter results with revenue of \$43.5 million and Adjusted EBITDA of \$15.1 million.

Tim Braun, High Arctic’s Chief Executive Officer, stated: “The contracted revenue generated from the two rigs we added to our PNG business in 2015 has provided High Arctic with financial stability in an otherwise challenging global oilfield services market. We continue to build upon our strong balance sheet and exited the second quarter with \$37.7 million in cash and no debt. This strong financial position will assist in navigating through the current industry weakness and provide the means to execute on opportunities to further grow and diversify High Arctic’s business operations.”

### Highlights

High Arctic’s contracted heli portable drilling rig operations in PNG combined with ongoing cost management and a favorable U.S. dollar exchange rate have positively contributed to the growth in High Arctic’s adjusted EBITDA to date in 2016. These results have been achieved in an otherwise challenging global market for the oil and gas industry, which is adapting to an extended low commodity price environment.

#### Second Quarter 2016:

- Contribution from the second new contracted heli-portable drilling rig which was added to High Arctic’s fleet in the third quarter of 2015 partially offset lower activity levels for the Corporation’s remaining operations in PNG and Canada, resulting in an 11% decrease in revenue to \$43.5 million in the quarter from \$48.7 million in the second quarter of 2015.
- Margin contribution from the new drilling rigs in PNG and proactive cost management initiatives offset lower revenues, resulted in a 7% increase in adjusted EBITDA to \$15.1 million from \$14.1 million in the second quarter of 2015.
- The Corporation received an interim extension of its drilling and related services contract for Rig 104 until October 31, 2016 and remains in discussions with its customer for renewals of its contracts for Rigs 103 and 104. Consistent with steps being undertaken throughout the global oilfield services industry during the current downturn in the market, the Corporation’s customer has indicated that they will canvas the market, which is expected to result in competitive bids being received for these contracts. Due to the current weakness in the global oilfield services industry, High Arctic anticipates material price concessions will be made for these contracts which would be partially offset by reduced operating costs.
- A total of \$6.7 million was returned to shareholders during the quarter through \$4.1 million in share repurchases under the Corporation’s normal course issuer bid (“NCIB”) and \$2.6 million in dividends (\$0.05 per share).
- High Arctic received the International Association of Drilling Contractors award for the Australasia Onshore region for the best safety statistics for 2015.

#### Year to Date 2016:

- Full contribution from High Arctic’s two contracted drilling rigs and an 8% increase in the U.S. dollar exchange rate has offset lower activity in Canada and the Corporation’s remaining PNG operations resulting in a 5% increase in revenue to \$98.2 million in the first six months of 2016 versus \$93.4 million in the comparable period in 2015.
- Additional margin contribution from the Corporation’s new rigs increased adjusted EBITDA by 51% to \$36.9 million year to date in comparison to \$24.5 million earned in the first six months of 2015.

- High Arctic has distributed a total of \$11.7 million to shareholders year to date via \$6.5 million in share buybacks under the Corporation's NCIB and \$5.2 million in dividends which represents 16% of funds provided from operations year to date.

Increased amortization expense associated with the capital cost of the two rigs added to High Arctic's fleet in 2015 partially offset High Arctic's increased EBITDA in the second quarter, resulting in net earnings of \$6.3 million (\$0.12 per share) in the quarter versus \$7.2 million (\$0.13 per share) in the second quarter of 2015. Year to date, the EBITDA contribution from the two owned drilling rigs offset increased amortization expense associated with the rigs, which resulted in net earnings increasing 46% year to date to \$17.5 million (\$0.33 per share) from \$12.0 million (\$0.22 per share) in the first six months of 2015. Earnings in the comparative period of 2015 only included four months of income contribution from Rig 115 and none from Rig 116 as this rig did not enter the country until August 2016.

High Arctic continues to maintain a strong balance sheet exiting the quarter with a positive net cash position of \$37.7 million, with no amounts outstanding on its \$45.0 million credit facilities. Funds provided from operations was \$13.4 million in the quarter and \$32.3 million year to date, an increase of 28% and 73%, respectively, over the comparative periods in 2015. High Arctic's strong balance sheet provides a total potential liquidity of \$82.7 million to assist the Corporation in pursuing growth opportunities which may arise during the current industry 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 June 30			Six Months Ended June 30		
	2016	2015	% Change	2016	2015	% Change
<b>Revenue</b>	43.5	48.7	(11%)	98.2	93.4	5%
<b>EBITDA<sup>(1)</sup></b>	14.7	13.4	10%	36.0	22.9	57%
<b>Adjusted EBITDA<sup>(1)</sup></b>	15.1	14.1	7%	36.9	24.5	51%
<b>Adjusted EBITDA % of Revenue</b>	35%	29%	21%	38%	26%	46%
<b>Operating earnings</b>	9.4	10.2	(8%)	25.1	17.1	47%
<b>Net earnings</b>	6.3	7.2	(13%)	17.5	12.0	46%
per share (basic and diluted) <sup>(2)</sup>	0.12	0.13	(8%)	0.33	0.22	50%
<b>Funds provided from operations<sup>(1)</sup></b>	13.4	10.5	28%	32.3	18.7	73%
per share (basic) <sup>(2)</sup>	0.25	0.19	32%	0.61	0.34	79%
per share (diluted) <sup>(2)</sup>	0.25	0.19	32%	0.60	0.33	82%
<b>Dividends</b>	2.6	2.8	(7%)	5.2	5.5	(5%)
per share <sup>(2)</sup>	0.05	0.05	-	0.10	0.10	-
<b>Capital expenditures</b>	2.3	15.5	(85%)	7.4	36.6	(80%)

  

	As at		
	June 30, 2016	December 31, 2015	% Change
<b>Working Capital</b>	49.4	43.2	14%
<b>Total assets</b>	236.2	244.1	(3%)
<b>Total non-current financial liabilities</b>	1.5	6.6	(77%)
<b>Net cash, end of period<sup>(1)</sup></b>	37.7	11.5	228%
<b>Shareholders' Equity</b>	200.0	201.2	(1%)
<b>Shares outstanding – end of period<sup>(2)</sup></b>	52.6	54.4	(3%)

(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 10.

(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 June 30				Six Months Ended June 30			
	2016	2015	Change	%	2016	2015	Change	%
<b>Revenue</b>								
PNG	38.6	42.3	(3.7)	(9%)	86.8	77.5	9.3	12%
Canada	4.9	6.4	(1.5)	(23%)	11.4	15.9	(4.5)	(28%)
<b>Total</b>	<b>43.5</b>	<b>48.7</b>	<b>(5.2)</b>	<b>(11%)</b>	<b>98.2</b>	<b>93.4</b>	<b>4.8</b>	<b>5%</b>

Consolidated revenue decreased by 11% to \$43.5 million in the quarter from \$48.7 million in the second quarter of 2015. This decrease was driven by reduced activity in PNG and Canada which was partially offset by revenue earned by the Corporation's second drilling rig which was added to the fleet in the third quarter of 2015. On a year to date basis, the revenue contribution from the two new drilling rigs throughout the first six months of 2016, combined with an 8% increase in the average U.S. dollar to Canadian dollar exchange rate, offset a 28% decline in Canadian revenues and lower contribution from the Corporation's other PNG drilling and rental activities.

## Operations in PNG

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

Following the drilling of Antelope 6 in the first quarter of 2016, Rig 115 was de-mobilized from the well location to a storage location in Port Moresby in the second quarter. The rig generated its contracted moving or standby rates during the second quarter and commenced preparations for mobilization to Antelope 7 in July 2016. Rig 116 remains on standby in Port Moresby, with its two year contract term anticipated to commence before the end of 2016.

Rig 103 was active during the quarter drilling the first of two wells in the Western Province. Activities in the quarter for Rig 104 were focused on mobilizing the rig to a high elevation drilling location in Muruk for a well which is scheduled to commence drilling in the fourth quarter of 2016. Late in the quarter, operations were suspended by the customer to wait for the passing of the regional rainy season and a small crew was retained to secure the rig and keep it in operable condition.

The three year operations management contracts for Rigs 103 and 104 were extended during the quarter to expire on October 31, 2016 for Rig 104 and upon completion of drilling the second well in the Western Province for Rig 103. Demobilization from this well is anticipated to be completed during the fourth quarter.

The contracted revenue for Rigs 115 and 116 partially offset reduced revenues from the lower activity on Rig 104 and lack of utilization of the pre-spud drilling equipment for Rigs 103 and 104. In addition, reduced support requirements implemented by a customer in June 2015 have resulted in lower operations support revenue. Revenue for the Corporation's drilling operation decreased 5% during the quarter to \$33.9 million versus \$35.5 million in the comparative quarter of 2015. Year to date, the full contribution from Rigs 115 and 116 has resulted in a 16% increase in drilling revenue to \$74.9 million versus \$64.7 million generated in the first six months of 2015.

Lower drilling activity in the quarter and the completion of matting rental contracts in the first quarter of 2016 resulted in a 30% decrease in associated rental revenue in the quarter to \$4.7 million versus \$6.8 million in the second quarter of 2015. The Corporation's rental fleet includes approximately 10,000 Dura-Base® mats, of which an average of 4,200 mats were under contract during the quarter. Additional rental revenues are also generated from heli-portable camps and various trucks, cranes and other oilfield equipment, which are tied to drilling activity. In addition, certain equipment is now being included in the drilling contract rates which were previously included in rental revenue prior to June 2015.

Year to date, lower contracted rental revenues were partially offset by \$1.0 million in non-recurring income for damaged and lost mats upon a contract expiry in the first quarter resulting in a 7% decline in rental revenue to \$11.9 million in the first six months versus \$12.8 million in the comparative period in 2015.

The lower drilling and rentals activity in the quarter resulted in an overall 9% decrease in PNG revenues to \$38.6 million from \$42.3 million in the second quarter of 2015. Year to date, the full six month contribution from rigs 115 and 116 allowed PNG revenues to increase 12% to \$86.8 million in the first six months of 2016 versus \$77.5 million in the comparative period in 2015.

## Operations in Canada

Seasonal spring breakup conditions combined with continued low industry activity levels in Canada driven by low commodity prices resulted in a 24% decline in revenue in the quarter to \$4.9 million versus \$6.4 million in the second quarter of 2015. Industry drilling rig activity declined 53% in the quarter compared to the second quarter of 2015, resulting in the lowest quarterly industry rig utilization in the Western Canadian Sedimentary Basin on record (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 across the industry sector.

In response to lower industry activity levels, High Arctic has reduced its marketed snubbing fleet to 8 rigs in the quarter from its total fleet of 18 units. The remaining un-marketed units have been parked and will be reactivated as industry activity improves. Utilization for High Arctic's snubbing units was 16% overall (36% on marketed units) during the quarter versus 18% (35% on marketed units) in the second 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 9% decline in snubbing revenue to \$3.7 million in the second quarter of 2016 versus \$4.0 million in the comparative 2015 quarter.

On a year to date basis, utilization for High Arctic's snubbing units is 18% (40% on marketed units) versus 24% (46% on marketed units) in the comparable period in 2015. The sharp decline in activity since the first quarter of 2015 has resulted in a 26% decrease in snubbing revenue year to date to \$8.3 million from \$11.3 million in the first six months of 2015.

Lower activity and pricing also impacted the Corporation's nitrogen and equipment rental services which experienced a 49% decline in revenue to \$1.2 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 and completed two such jobs in the quarter. Year to date, nitrogen and equipment rental revenue is down 35% to \$3.1 million from \$4.7 million in the first half of 2015.

While lower activity levels and pricing pressures are anticipated to continue in 2016, the Corporation has continued to experience higher levels of activity with its deeper capacity snubbing units. Operations commenced for the Corporation's fully-guided 170k snubbing unit that was added to the fleet in the first quarter of 2016, with operations for the Corporation's new 285k high capacity four post snubbing commencing subsequent to quarter end in early August. 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.

## Oilfield Services Expense and Margin

(\$ millions)	Three Months Ended June 30				Six Months Ended June 30			
	2016	% <sup>(1)</sup>	2015	% <sup>(1)</sup>	2016	% <sup>(1)</sup>	2015	% <sup>(1)</sup>
<b>Oilfield services expenses</b>								
Personnel costs	9.7	22%	12.6	26%	22.4	23%	25.8	28%
Drilling rig and other rental costs	8.3	19%	11.0	23%	17.2	18%	22.0	24%
Material and supplies cost	5.6	13%	5.7	12%	11.2	11%	10.1	11%
Equipment operating and maintenance costs	1.3	3%	1.6	3%	3.0	3%	3.5	4%
Other	0.5	1%	0.2	0%	0.8	1%	0.4	0%
<b>Total oilfield services expenses</b>	<b>25.4</b>	<b>58%</b>	<b>31.1</b>	<b>64%</b>	<b>54.6</b>	<b>56%</b>	<b>61.8</b>	<b>66%</b>
<b>Oilfield services margin</b>	<b>18.1</b>	<b>42%</b>	<b>17.6</b>	<b>36%</b>	<b>43.6</b>	<b>44%</b>	<b>31.6</b>	<b>34%</b>

<sup>(1)</sup> Operating costs as a % of total revenue.

Cost reduction initiatives completed during 2015 and 2016 allowed High Arctic to reduce its operating costs as a percentage of revenue to 58% in the quarter and 56% year to date from 64% and 66% in the comparable periods in 2015. The decline in operating costs positively impacted oilfield services margins which increased to \$18.1 million (42% of revenue) in the quarter from \$17.6 million (36% of revenue) in the second quarter of 2015. Year to date, higher revenue and lower operating costs allowed oilfield services margin to increase to \$43.6 million (44% of revenue) from \$31.6 million (34% of revenue) in the first six months 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, which skewed margins higher than they would otherwise have been under normal operations.
- In response to lower activity levels, management has undertaken a number of cost reduction initiatives which have resulted in lower operating costs in the Corporation's Canadian and PNG operations. High Arctic maintains a scalable cost infrastructure wherever possible which adjusts to variable activity levels and provides substantial operating leverage when activity changes; and

- 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 costs of material and supplies 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 June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
<b>General and administration</b>	<b>3.0</b>	3.5	(14%)	<b>6.7</b>	7.1	(6%)
Percent of revenue	<b>7%</b>	7%		<b>7%</b>	8%	

General and administrative costs declined in the quarter and year to date relative to the comparable periods in 2015 due to lower variable compensation plan costs as well as staffing and other cost reductions in the Corporation's Canadian operations to coincide with reduced activity levels. On a percentage of revenue basis, general and administrative costs remain consistent at 7% for the quarter and year to date, which decreased from 8% in the first six months of 2015.

## Amortization

Amortization cost increased to \$5.4 million in the quarter from \$3.5 million in second quarter of 2015. This increase is associated with the two new drilling rigs and rental equipment added to High Arctic's fleet in 2015. These capital additions also resulted in an increase in amortization expense year to date to \$11.2 million from \$6.4 million in the comparative period in 2015.

## Share-based Compensation

The decrease in share-based compensation expense to \$0.3 million in the second quarter and \$0.6 million year to date from \$0.4 million and \$1.0 million in the respective periods in 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 PNG Kina through its operations in that country. 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 declined in the second quarter relative to the first quarter of 2016; however, it remained strong relative to the Canadian dollar, with an average exchange rate of 1.288 during the second quarter of 2016 (2015 – 1.229). 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.

As at June 30, 2016, the U.S. dollar exchange rate was 1.292 versus 1.384 as at December 31, 2015. This decline in exchange rate has resulted in a translation loss of \$10.1 million recorded in other comprehensive income for the six months ended June 30, 2016 (\$0.7 million for the three months ended June 30, 2016).

The fluctuation in exchange rates year to date also resulted in a \$0.4 million foreign exchange loss being recorded on various foreign exchange transactions (\$0.1 million for the three months ended June 30, 2016). 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 credit 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 and \$0.2 million year to date, which is consistent with 2015.

## Income Taxes

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
<b>Net earnings before income taxes</b>	<b>9.2</b>	9.8	(0.6)	<b>24.6</b>	16.3	8.3
Current income tax expense	<b>1.6</b>	3.5	(1.9)	<b>4.4</b>	5.3	(0.9)
Deferred income tax expense	<b>1.3</b>	(0.9)	2.2	<b>2.7</b>	(1.0)	3.7
<b>Total income tax expense</b>	<b>2.9</b>	2.6	0.3	<b>7.1</b>	4.3	2.8
Percent of net earnings before income taxes	<b>32%</b>	27%		<b>29%</b>	26%	

The Corporation's effective tax increased to 29% for the first six months of 2016 from 26% in the first half 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 the quarter. As at June 30, 2016, the Corporation had approximately \$114.0 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 High Arctic's subsidiary companies to the parent company. No distributions that are subject to withholding taxes were made during the quarter. As at June 30, 2016, the Corporation's subsidiaries had approximately \$94.8 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 \$10.1 million year to date foreign currency transaction losses for foreign operations discussed above, \$2.6 million in gains on short term investments has been recorded in other comprehensive income year to date, which increased \$1.3 million during the second quarter. These gains relate to an increase in the market value of strategic investments made by the Corporation in select publicly traded oilfield service companies while it evaluates potential acquisition opportunities. Included in the \$1.3 million gain recognized in the second quarter was \$0.1 million realized from proceeds of \$0.5 million on the sale of short term investments.

## Liquidity and Capital Resources

(\$ millions)	Three Months Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
Cash provided by (used in):						
Operating activities	25.8	18.5	7.3	46.9	31.6	15.3
Investing activities	(1.7)	(17.9)	16.2	(6.8)	(38.6)	31.8
Financing activities	(6.8)	(2.9)	(3.9)	(15.9)	(7.2)	(8.7)
Effect of exchange rate changes	(0.1)	(0.5)	0.4	(2.0)	2.6	(4.6)
Increase (decrease) in cash and cash equivalents	17.2	(2.8)	20.0	22.2	(11.6)	33.8

  

	As At			
	June 30, 2016	December 31, 2015	Change	%
Working capital <sup>(1)</sup>	49.4	43.2	6.2	14%
Working capital ratio <sup>(1)</sup>	2.6:1	2.3:1	0.3:1	13%
Net cash <sup>(1)</sup>	37.7	11.5	26.2	228%
Undrawn availability under credit facilities	24.0	21.5	2.5	12%

<sup>(1)</sup> See non-IFRS measures

As at June 30, 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 credit facilities.

Management believes High Arctic's current capital resources, plus anticipated cash generated from operating activities in 2016, will be sufficient to meet its anticipated capital expenditures, 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

The growth in EBITDA resulted in a 28% increase in funds provided from operations in the quarter to \$13.4 million from \$10.5 million in the second quarter of 2015. Year to date, funds provided from operations has increased 73% to \$32.3 million from \$18.7 million in the first six months of 2015. After working capital adjustments, net cash generated from operating activities year to date is \$46.9 million compared to \$31.6 million for the first six months of 2015.

### Investing Activities

High Arctic incurred \$2.3 million in capital expenditures in the second quarter and \$7.4 million year to date related to the purchase of various rental equipment items in Canada and PNG and a 170k standalone snubbing rig. In addition to the \$7.4 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.

Proceeds of \$0.6 million were generated from the partial sale of the Corporation's short term investments and redundant operating assets during the second quarter of 2016.

### Financing Activities

During the second quarter of 2016, the Corporation repurchased \$4.1 million in shares under the Corporation's NCIB and distributed \$2.6 million in dividends bringing the total year to date repurchases under the NCIB to \$6.5 million and \$5.2 million in dividend payments. In the first quarter of 2016, the Corporation repaid \$4.0 million that had been outstanding on its credit facility.



## Outlook

High Arctic continues to benefit from revenue generated under term contracts in PNG, which has assisted the Corporation in managing through the current downturn in the global oilfield services market. PNG's vast reserves of natural 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. This is evidenced through the recent series of proposed corporate transactions which has culminated in ExxonMobil making a bid to purchase InterOil. High Arctic is encouraged by the significant investments being made by major oil and natural gas exploration and development companies in PNG and believes such investments support the expectation of continued long-term development of PNG's natural gas resources. Nonetheless, the downturn in world energy markets is being reflected in activity levels and pricing expectations in PNG along with the rest of the global oilfield services market.

Rigs 115 and 116 continue to operate under take-or-pay contracts, with Rig 115 currently mobilizing to drill the Antelope 7 well. This rig is anticipated to be active for the remainder of 2016 and into early 2017. The take-or-pay contract for Rig 115 is scheduled to expire in June 2017, and the two year take-or-pay contract for Rig 116 is anticipated to commence before the end of 2016.

Rig 103 is currently completing a drilling program for a customer in the Western Province of PNG which is anticipated to be completed in the fourth quarter of 2016. Mobilization of Rig 104 to a high elevation location in Muruk is currently suspended, as planned by the customer, in order to avoid potential mobilization challenges associated with seasonal high rain fall in the area of activity. Nominal revenue amounts are anticipated to be generated during this stand-down period as minimal operation support services will be provided.

The contract for Rig 104 is currently extended until October 31, 2016 with the extension period on Rig 103 ending once the rig completes demobilisation from its current well site. Management continues discussions with its customer on contract renewals for Rigs 103 and 104. Consistent with steps being undertaken throughout the global oilfield services industry during the current downturn in the market, the Corporation's customer has indicated that they will canvas the market, which is expected to result in competitive bids being received for these contracts. Through this process, High Arctic anticipates material pricing concessions will be made for these contracts which would be partially offset by reduced operating costs.

Demand for the Corporation's rental equipment and mats is anticipated to continue to coincide with the drilling activity in PNG. Management continues to evaluate new markets for the expansion and redeployment of non-contracted mat inventory, with an initial small trial of matting rentals in Japan scheduled for the fourth quarter.

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. Heavy rainfall in July negatively impacted field activities during the month; however, activity has begun to increase in August and management is cautiously optimistic that further significant weakening in the Canadian market is limited.

While High Arctic's contracted status in PNG, continued delivery of high quality service and proactive cost management have provided positive EBITDA performance in a period of reduced activity, 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 upcoming quarters. 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. High Arctic's strong balance sheet positions the Corporation well to continue managing through the industry downturn and to potentially capitalize on growth opportunities.

## Non-IFRS Measures

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

### EBITDA

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

### Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on 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 and six months ended June 30:

(\$ millions)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
<b>Net earnings for the period</b>	6.3	7.2	17.5	12.0
<b>Add:</b>				
Interest and finance expense	0.1	0.1	0.2	0.2
Income taxes	2.9	2.6	7.1	4.3
Amortization	5.4	3.5	11.2	6.4
<b>EBITDA</b>	<b>14.7</b>	<b>13.4</b>	<b>36.0</b>	<b>22.9</b>
<b>Add:</b>				
Share-based compensation	0.3	0.4	0.6	1.0
Gain (loss) on sale of assets	-	0.3	(0.1)	0.3
Foreign exchange loss	0.1	-	0.4	0.3
<b>Adjusted EBITDA</b>	<b>15.1</b>	<b>14.1</b>	<b>36.9</b>	<b>24.5</b>

### 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 and six months ended June 30:

\$ millions	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Net cash generated from operating activities</b>	<b>25.8</b>	18.5	<b>46.9</b>	31.6
Less:				
Net change in items of non-cash working capital	(12.4)	(8.0)	(14.6)	(12.9)
<b>Funds provided from operations</b>	<b>13.4</b>	10.5	<b>32.3</b>	18.7

## 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	
	June 30, 2016	December 31, 2015
<b>Current assets</b>	<b>79.6</b>	77.4
Less:		
<b>Current liabilities</b>	<b>(30.2)</b>	(34.2)
<b>Working capital</b>	<b>49.4</b>	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	
	June 30, 2016	December 31, 2015
<b>Cash and cash equivalents</b>	<b>37.7</b>	15.5
Less:		
Long-term debt	-	(4.0)
<b>Net cash</b>	<b>37.7</b>	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](http://www.sedar.com) or by contacting the Corporation.

# High Arctic Energy Services Inc.

## Consolidated Statements of Financial Position

As at June 30, 2016 and December 31, 2015

Unaudited - Canadian \$ Millions

	June 30, 2016	December 31, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	37.7	15.5
Accounts receivable	19.3	42.4
Short term investments	12.8	10.6
Inventories	9.1	8.0
Prepaid expenses	0.7	0.9
	<u>79.6</u>	<u>77.4</u>
<b>Non-current assets</b>		
Property and equipment	151.6	161.7
Deferred tax asset	5.0	5.0
Loans due from related parties	-	-
	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b><u>236.2</u></b>	<b><u>244.1</u></b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	16.3	23.6
Capital lease obligation	2.0	-
Current portion of deferred revenue	2.0	2.2
Income taxes payable	9.0	7.5
Dividend payable	0.9	0.9
	<u>30.2</u>	<u>34.2</u>
<b>Non-current liabilities</b>		
Deferred revenue	1.5	2.6
Long-term debt	-	4.0
Deferred tax liability	4.5	2.1
	<u>6.0</u>	<u>8.7</u>
<b>Total liabilities</b>	<b><u>36.2</u></b>	<b><u>42.9</u></b>
<b>Shareholders' equity</b>	<b><u>200.0</u></b>	<b><u>201.2</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>236.2</u></b>	<b><u>244.1</u></b>

# High Arctic Energy Services Inc.

## Consolidated Statements of Earnings and Comprehensive Income

For the three and six months ended June 30, 2016 and 2015

Unaudited - Canadian \$ Millions, except per share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Revenue</b>	43.5	48.7	98.2	93.4
<b>Expenses</b>				
Oilfield services	25.4	31.1	54.6	61.8
General and administration	3.0	3.5	6.7	7.1
Amortization	5.4	3.5	11.2	6.4
Share-based compensation	0.3	0.4	0.6	1.0
	34.1	38.5	73.1	76.3
<b>Operating earnings for the period</b>	<b>9.4</b>	<b>10.2</b>	<b>25.1</b>	<b>17.1</b>
Foreign exchange loss	0.1	-	0.4	0.3
(Gain) loss on sale of property and equipment	-	0.3	(0.1)	0.3
Interest and finance expense	0.1	0.1	0.2	0.2
<b>Net earnings before income taxes</b>	<b>9.2</b>	<b>9.8</b>	<b>24.6</b>	<b>16.3</b>
Current income tax expense	1.6	3.5	4.4	5.3
Deferred income tax expense (recovery)	1.3	(0.9)	2.7	(1.0)
<b>Net earnings for the period</b>	<b>6.3</b>	<b>7.2</b>	<b>17.5</b>	<b>12.0</b>
<b>Earnings per share:</b>				
Basic	0.12	0.13	0.33	0.22
Diluted	0.12	0.13	0.33	0.22

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Net earnings for the period</b>	<b>6.3</b>	<b>7.2</b>	<b>17.5</b>	<b>12.0</b>
<b>Other comprehensive income:</b>				
<b>Items that may be reclassified subsequently to net income:</b>				
Foreign currency translation gains (losses) for foreign operations	(0.7)	(1.7)	(10.1)	9.1
<b>Items that may not be reclassified subsequently to net income:</b>				
Gains on short term investments, net of tax	1.3	-	2.6	-
<b>Comprehensive income for the period</b>	<b>6.9</b>	<b>5.5</b>	<b>10.0</b>	<b>21.1</b>

# High Arctic Energy Services Inc.

## Consolidated Statements of Changes in Equity

For the six months ended June 30, 2016 and 2015

Unaudited - Canadian \$ Millions

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Operating activities</b>				
Net earnings for the period	6.3	7.2	17.5	12.0
Adjustments for:				
Amortization	5.4	3.5	11.2	6.4
Share-based compensation	0.3	0.4	0.6	1.0
(Gain) loss on sale of assets	-	0.3	(0.1)	0.3
Foreign exchange loss	0.1	-	0.4	-
Deferred income tax expense (recovery)	1.3	(0.9)	2.7	(1.0)
	13.4	10.5	32.3	18.7
Net changes in items of working capital	12.4	8.0	14.6	12.9
<b>Net cash generated from operating activities</b>	<b>25.8</b>	<b>18.5</b>	<b>46.9</b>	<b>31.6</b>
<b>Investing activities</b>				
Additions of property and equipment	(2.3)	(15.5)	(7.4)	(36.6)
Disposal (acquisition) of short term investments	0.5	(0.6)	0.5	(0.6)
Disposal of property and equipment	0.1	0.2	0.1	0.3
Net changes in items of working capital	-	(2.0)	-	(1.7)
<b>Net cash used in investing activities</b>	<b>(1.7)</b>	<b>(17.9)</b>	<b>(6.8)</b>	<b>(38.6)</b>
<b>Financing activities</b>				
Long-term debt repayment	-	-	(4.0)	-
Dividend payments	(2.6)	(2.8)	(5.2)	(5.5)
Purchase of common shares for cancellation	(4.1)	(0.3)	(6.5)	(2.0)
Issuance of common shares, net of costs	0.1	0.1	0.3	0.1
Capital lease obligation payments	(0.2)	-	(0.5)	-
Loan receivable receipts	-	0.1	-	0.2
<b>Net cash used in financing activities</b>	<b>(6.8)</b>	<b>(2.9)</b>	<b>(15.9)</b>	<b>(7.2)</b>
<b>Effect of exchange rate changes</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>(2.0)</b>	<b>2.6</b>
<b>Net change in cash and cash equivalents</b>	<b>17.2</b>	<b>(2.8)</b>	<b>22.2</b>	<b>(11.6)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>20.5</b>	<b>28.4</b>	<b>15.5</b>	<b>37.2</b>
<b>Cash and cash equivalents – End of period</b>	<b>37.7</b>	<b>25.6</b>	<b>37.7</b>	<b>25.6</b>
<b>Cash paid for:</b>				
Interest	0.1	0.1	0.2	0.2
Income taxes	1.5	3.7	2.9	4.0

## 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](http://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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