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High Arctic Reports 2018 First Quarter Results

Calgary Alberta, May 10, 2018 – High Arctic Energy Services Inc. (TSX: HWO) – "High Arctic" or the "Corporation" is pleased to announce its 2018 first quarter results.

Mr. J. Cameron Bailey, High Arctic's CEO stated: "We are pleased to report another positive quarter supported by our Concord well servicing operations which continues to experience incremental year over year growth resulting from our strong customer base, coupled with increased oilfield services industry activity. This demonstrates the strength of our diversified operations as the growth in our Concord well servicing operations helped to mitigate lower activity from our PNG drilling operations which was experienced in the quarter as a result of a suspension in field activities following a February 25 earthquake in PNG. We continue to assist our customer in local relief efforts as operations recommence in the region."

Highlights

The stability provided by High Arctic's Canadian well servicing operations has helped to offset lower activity levels in the Corporation's PNG business operations as well as reduced activity in the Corporation's snubbing operations which continue to face headwinds in light of prolonged low natural gas pricing in the WCSB. The Corporation continues to seek opportunities to leverage its financial position to pursue additional growth and diversification opportunities to further strengthen High Arctic's business operations.

- High Arctic reported revenue of $57.6 million and Adjusted EBITDA of $13.7 million in the quarter.
- Utilization for High Arctic's 57 registered Concord Well Servicing rigs was 63% in the quarter versus industry utilization of 47% (source: Canadian Association of Oilwell Drilling Contractors "CAODC").
- The Corporation's PNG operations were impacted by a large earthquake in PNG on February 25, 2018, which resulted in some operating activities being suspended during the quarter. This event only caused minor damage to some support equipment and no personnel were impacted and operating activities have largely recommenced.
- High Arctic continues to maintain a strong balance sheet with $19.7 million in cash, for a total working capital balance of $53.1 million and no amounts outstanding on its debt.
- Consistent with prior quarters, High Arctic declared $2.6 million ($0.05 per share) in dividends during the quarter which represents 22% of funds provided from operations in the quarter. In addition, High Arctic repurchased and canceled 270,408 shares with a value of $1.0 million under the Corporation's NCIB during the quarter resulting in a total of $3.6 million being returned to shareholders in the quarter via dividends and share repurchases.

Select Comparative Financial Information

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

	Three months ended March 31		
$ millions (except per share amounts)	**2018**	**2017**	**% Change**
Revenue	**53.7**	64.8	(17%)
EBITDA[(1)]	**12.7**	21.0	(40%)
Adjusted EBITDA[(1)]	**13.7**	21.0	(35%)
Adjusted EBITDA % of revenue	**26%**	32%	(20%)
Operating earnings	**6.7**	14.5	(54%)
Net earnings	**4.4**	9.0	(51%)
per share (basic and diluted)[(2)]	**0.08**	0.17	(53%)
Funds provided from operations[(1)]	**11.9**	17.0	(30%)
per share (basic and diluted)[(2)]	**0.22**	0.32	(31%)
Dividends	**2.6**	2.6	0%
per share[(2)]	**0.05**	0.05	0%
Capital expenditures	**2.6**	2.6	0%

	As At		
	March 31, 2018	**December 31, 2017**	**% Change**
Working Capital[(1)]	**57.6**	53.7	7%
Total assets	**271.4**	267.0	2%
Total non-current financial liabilities	**3.5**	3.6	(3%)
Net cash, end of period[(1)]	**19.7**	22.1	(11%)
Shareholders' Equity	**233.0**	230.8	1%
Shares outstanding[(2)]	**53.1**	53.3	(0%)

(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 11 for calculations of these measures.
(2) The number of shares used in calculating the net earnings per share amounts is determined differently as explained note 14 in the Financial Statements.

Corporate Profile

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

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

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

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

Consolidated Results

	Three months ended March 31			
$ millions (except per share amounts)	**2018**	2017	Change	%
Revenue	**53.7**	64.8	(11.1)	(17%)
EBITDA[1]	**12.7**	21.0	(8.3)	(40%)
Adjusted EBITDA[1]	**13.7**	21.0	(7.3)	(35%)
Adjusted EBITDA % of revenue	**26%**	32%	(6%)	(20%)
Net earnings	**4.4**	9.0	(4.6)	(51%)
per share (basic and diluted)[2]	**0.08**	0.17	(0.1)	(53%)

(1) Readers are cautioned that EBITDA and Adjusted EBITDA do not have standardized meanings prescribed by IFRS – see "Non IFRS Measures" on page 11 for calculations of these measures.
(2) The number of shares used in calculating the net earnings per share amounts is determined as explained in note 14 of the Financial Statements.

First Quarter:

Activity for the Corporation's well servicing operations increased quarter over quarter contributing to an 11% increase in well servicing revenue in the quarter relative to the first quarter of 2017. This positive contribution was offset by lower drilling activity in PNG as well as lower Canadian nitrogen and snubbing activity, resulting in a 17% decline in consolidated revenue to $53.7 million in the quarter from $64.8 million in the first quarter of 2017.

The reduction in consolidated revenue, combined with the increased contribution from the Production Services segment, which has a lower operating margin, resulted in Adjusted EBITDA declining to $13.7 million in the quarter from $21.0 million in the first quarter of 2017. The reduced Adjusted EBITDA during the quarter combined with increased share-based compensation expense and foreign exchange losses in the quarter resulted in a decline in net earnings to $4.4 million ($0.08 per share) in the quarter versus $9.0 million ($0.17 per share) in the first quarter of 2017.

Operating Segments

Drilling Services

	Three Months Ended March 31			
($ millions)	**2018**	2017	Change	%
Revenue	**23.5**	34.3	(10.8)	(31%)
Oilfield services expense [1]	**14.5**	18.6	(4.1)	(22%)
Oilfield services operating margin [1]	**9.0**	**15.7**	**(6.7)**	**(43%)**
Operating margin (%)	**38%**	46%	(8%)	(17%)

(1) See 'Non-IFRS Measures' on page 11

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) and operates two rigs (Rigs 103 and 104) on behalf of a major oil and gas exploration company in PNG. In the fourth quarter of 2017, High Arctic added a fast-moving land based rig, Rig 405, to its PNG drilling fleet to complete a short-term drilling project. Due to the duration of this project, the rig was leased from a non-PNG third-party contractor. This rig is expected to be returned to the third-party contractor upon completion of its drilling assignment.

First Quarter:

Drilling Services revenue declined 31% in the quarter to $23.5 million from $34.3 million in the first quarter of 2017. This decline was due to a combination of lower pricing and drilling activity in the quarter. In addition, the first quarter of 2017 benefitted from the higher rate contract contribution for Rig 115 which expired in June 2017. Activity was negatively impacted during the quarter by a large earthquake in PNG on February 25, 2018, which curtailed some of the Corporation's operations in PNG.

Rig 405 was active on its drilling program until early February at which time operations were suspended by the Corporation's customer due to local landowner issues. This suspension was further extended following the earthquake with the customer invoking Force Majeure as they assessed the impact to the drilling location. Drilling operations at the site remain suspended, with road access to the site recently re-established enabling the rig and associated equipment to be moved off the well to stable ground nearby. During this period of Force Majeure, the Corporation has received its lower contracted Force Majeure rates which has largely been offset by lower operating costs. Based on initial assessments, only minor damage was incurred to some of the support equipment and no personnel injuries were incurred as a result of the earthquake. During this suspension, High Arctic has provided various personnel and support equipment to assist its customer in local relief effort activities.

Mobilization activity for Rig 104 was suspended and deferred by the customer while they focused resources on the earthquake response. The rig continues to be warm stacked and its expected to recommence mobilization to its next well in Muruk in Q3. Rig 115 commenced mobilization and rig up at a drilling location in Kimu during the quarter with the well spudding in late April. Rig 103 was being stacked and maintenance activities conducted on it at a staging point in the Southern Highlands during the quarter. Rig 116 continued to generate standby revenue under its take-or-pay contract.

Operating margin as a percentage of revenue decreased quarter over quarter to 38% versus 46% in the first quarter of 2017. This decrease was due to an increased proportion of revenue generated from non-owned rigs (Rigs 103, 104 and 405) during the quarter which incur lease expense charges that are not incurred on High Arctic's owned rigs. Margins were also impacted by lower Force Majeure rates on Rig 405 as well as the effect of reduced operating rates generated on the contract extensions for Rigs 103 and 104 which came into effect in July 2017. The reduced activity in the quarter also resulted in lower revenue contribution towards fixed operating costs for the Drilling Services division which also negatively impacted operating margins in the quarter. The first quarter of 2017 also benefited from a full quarter of higher rate contract revenue on Rig 115 which contributed higher margins than the margins currently generated by the rig under its current drilling assignment.

Partially offsetting the impact of the reduced margins generated from the above rigs was the contracted take-or-pay standby revenue generated on Rig 116 which incurs minimal operating costs while the rig is on standby. Take-or-pay standby revenue accounted for approximately 26% of the Drilling Services revenue in the quarter versus 18% in the comparative quarter in 2017. Excluding the impact of the standby revenue, operating margin as a percentage of revenue would have been 18% in the quarter versus 36% in the first quarter of 2017.

Production Services

	Three Months Ended March 31			
($ millions)	**2018**	**2017**	**Change**	**%**
Revenue	**23.3**	22.5	0.8	4%
Oilfield services expense (1)	**19.2**	18.7	0.5	3%
Oilfield services operating margin (1)	**4.1**	**3.8**	**0.3**	**8%**
Operating margin (%)	**18%**	17%	1%	6%
Operating Statistics:				
Service rigs				
Average Fleet (2)	57	54	3	6%
Utilization (3)	63%	62%	1%	2%
Operating hours	32,184	30,664	1,520	5%
Revenue per hour	634	600	34	6%
Snubbing rigs				
Average Fleet (4)	8	9	(1)	(11%)
Utilization (3)	26%	37%	(11%)	(30%)
Operating hours	1,875	3,054	(1,179)	(39%)

(1) See 'Non-IFRS Measures' on page 11
(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 the WCSB through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units.

The Production Services segment also provides heli-portable workover services in PNG through Rig 102; however, no workover services were provided in PNG during 2017 or 2018 and as such no revenue was generated or costs have been incurred associated with this rig during the periods presented.

First Quarter:

Increased quarter over quarter activity and pricing for High Arctic's Concord Well Servicing rigs offset lower activity experienced for the Corporation's snubbing operations in the quarter resulting in a 4% increase in revenue for the Production Services segment to $23.3 million in the quarter versus $22.5 million in the first quarter of 2017. Operating hours for the Concord rigs increased 5% to 32,184 hours in the quarter from 30,664 hours in the first quarter of 2017, allowing the Concord rigs to generate $20.4 million in revenue during the quarter versus $18.4 million in the first quarter of 2017. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 63% versus the 47% utilization generated by the industry's registered well servicing rigs in the quarter (source: CAODC). The increase in activity has allowed for pricing increases in certain areas, however, pricing remains competitive. This increase in pricing combined with an increased exposure to higher rate operating areas and additional contribution from seasonal boiler revenue allowed average revenue per hour for the Concord rigs to increase to $634 per hour in the quarter from $600 per hour in the comparative quarter in 2017.

The positive contribution from the Concord rigs was partially offset by lower activity experienced in the Production Service's snubbing operations which saw revenue decrease to $2.9 million in the quarter versus the $4.1 million generated in the first quarter of 2017. Operating hours for the snubbing rigs in the quarter were 1,875 versus 3,054 hours in the first quarter of 2017. Activity for the Corporation's snubbing operations has been hampered over recent quarters due to prolonged low natural gas prices which is curtailing snubbing activity on natural gas completions for the Corporation's customers.

While some pricing improvements have been achieved over the prior quarter, this has largely been offset by increased field operating costs associated with field personnel compensation increases implemented in late 2017 as well as increased repair and maintenance costs as additional rigs were reactivated to meet customer demand. Margins were also negatively impacted by lower fixed operating cost coverage in the segment's snubbing operation due to the lower snubbing revenue contribution. As a result of this increase in costs, margins for the production services segment remained relatively flat quarter over quarter at 18%.

As a result of the lower activity levels being experienced in the Corporation's snubbing and nitrogen operations, subsequent to quarter end, the Corporation commenced activities to consolidate its Blackfalds field operations support into High Arctic's Acheson operations facility. This measure will allow the Corporation to reduce overlapping operational support functions and is also anticipated to result in reduced field operating costs as operations will now be based out of locations more central to the Corporation's current field activity.

Ancillary Services

	Three Months Ended March 31			
($ millions)	**2018**	**2017**	**Change**	**%**
Revenue	**7.8**	8.8	(1.0)	(11%)
Oilfield services expense (1)	**2.9**	2.8	0.1	4%
Oilfield services operating margin (1)	**4.9**	**6.0**	**(1.1)**	**(18%)**
Operating margin (%)	**63%**	68%	(5%)	(7%)

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of $0.9 million for the quarter (2017 - $0.8 million).
(2) See 'Non-IFRS Measures' on page 11

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

First Quarter:

Growth in the segment's Canadian rental operations partially offset lower equipment rental activity in PNG and lower nitrogen services during the quarter. The growth in the Canadian rental operations over recent quarters has been due to a combination of increased well servicing operations which utilize certain rental equipment as well as successful efforts to expand the segment's rental opportunities with new and existing customers. The lower PNG rental activity was aligned with lower drilling activity in the quarter as well as the expiry of take-or-pay equipment rental contracts associated with Rig 115 at the end of the second quarter in 2017. Nitrogen activity was lower due to reduced activity from core customers in the quarter as lower natural gas pricing in the WCSB curtailed natural gas fracturing activity which is an activity driver for the Corporation's nitrogen operations.

Operating margin as a percentage of revenue declined to 63% in the quarter versus 68% in the first quarter of 2017. This decline was due to the reduced contribution from higher margin service lines and lower rig mat rental volumes in PNG in the quarter relative to the first quarter of 2017.

General and Administration

	Three Months Ended March 31			
($ millions)	**2018**	**2017**	**Change**	**%**
General and administration	**4.3**	4.5	(0.2)	(4%)
Percent of revenue	**8%**	7%	1%	14%

General and administrative costs decreased $0.2 million from $4.5 million in the first quarter of 2017 as a result of cost reductions implemented in the second half of 2017. Due to the decline in revenue during the quarter, general and administrative costs increased to 8% of revenue versus 7% in the first quarter of 2017.

Depreciation

Depreciation expense remained consistent at $6.4 million during the quarter as the Corporation has incurred limited capital expenditures subsequent to the first quarter of 2017 and $3.4 million remains in capital under construction for items not yet placed into operational service for which depreciation has not yet commenced.

Share-based Compensation

Share based compensation was $0.6 million in the quarter versus $0.1 million in the first quarter of 2017. The increase in share-based compensation expense in the quarter is due to an increase in awards granted throughout 2017 and in the quarter under the Corporation's equity incentive plans.

Foreign Exchange Transactions

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

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

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

The U.S. dollar remained strong relative to the Canadian dollar, with an average exchange rate of $1.265 during the first quarter of 2018 (2017 – $1.323). The stronger U.S. dollar benefits the Corporation as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at March 31, 2018, the U.S. dollar exchange rate was 1.289 versus 1.255 as at December 31, 2017. This strengthening of the U.S. dollar has resulted in a translation gain of $3.9 million recorded in other comprehensive income for the three months ended March 31, 2018.

The fluctuation in exchange rates quarter to date also resulted in a $0.4 million foreign exchange loss being recorded on various foreign exchange transactions (2017 - $0.1 million gain). The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

During the quarter, the Corporation did not have any long term debt outstanding but incurred $0.1 million in bank fees and other interest charges ($0.4 million for the three months ended March 31, 2017).

Income Taxes

	Three Months Ended March 31			
($ millions)	2018	2017	Change	%
Net earnings before income taxes	**6.2**	14.2	(8.0)	(56%)
Current income tax expense	**1.6**	3.4	(1.8)	(53%)
Deferred income tax expense	**0.2**	1.8	(1.6)	(89%)
Total income tax expense	**1.8**	5.2	(3.4)	(65%)
Effective tax rate	**29%**	37%	(8%)	(21%)

The Corporation's effective tax rate decreased to 29% for the first quarter of 2018 from 37% in 2017. The decline in effective tax rate in the quarter relative to the first quarter of 2017 is due to dividend withholding taxes on intercompany dividends paid in the first quarter of 2017, which did not occur in the first quarter of 2018 as there were no intercompany dividends paid in the quarter which were subject to dividend withholding taxes.

As at March 31, 2018, High Arctic had $66.7 million in unrecognized tax pools, consisting of $28.8 million in non-capital loss pools and $37.9 million in capital loss pools, which may be utilized to offset future taxable earnings generated by the Corporation's Canadian business operations. These losses expire no earlier than 2025. With the increasing profitability of the Corporation's Canadian business operations, the Corporation will continue to evaluate the appropriateness of recognizing additional deferred tax assets in future reporting periods.

Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $3.9 million foreign currency translation gain in other comprehensive income quarter to date due to the weakening of the Canadian dollar, as compared to the US dollar, at March 31, 2018 relative to December 31, 2017.

During the quarter, the Corporation also recognized a $0.7 million unrealized loss on its strategic investments in other comprehensive income due to fluctuations in investment share prices.

Liquidity and Capital Resources

	Three Months Ended March 31		
($ millions)	2018	2017	Change
Cash provided by (used in):			
Operating activities	**4.8**	(4.9)	9.7
Investing activities	**(2.7)**	(1.9)	(0.8)
Financing activities	**(4.6)**	(1.3)	(3.3)
Effect of exchange rate changes	**0.1**	(0.1)	0.2
Increase (decrease) in cash and cash equivalents	**(2.4)**	(8.2)	5.8
		As At	
	March 31, 2018	December 31, 2017	Change
Working capital[(1)]	57.6	53.7	3.9
Working capital ratio[(1)]	3.3 : 1	3.2 :1	0.1 : 1
Net cash[(1)]	19.7	22.1	(2.4)
Undrawn availability under debt facilities	45.0	45.0	-

(1) See 'Non-IFRS Measures' on page 11

High Arctic continues to maintain a strong balance sheet with $19.7 million in cash and no debt outstanding on its credit facility as at March 31, 2018.

Management believes High Arctic's current capital resources, plus anticipated cash generated from operating activities in 2018, will be sufficient to meet its planned 2018 capital expenditure program of $13.3 million and anticipated dividends and share repurchases under the Corporation's Normal Course Issuer Bid ("NCIB") for 2018. Management will reassess the Corporation's capital resource needs as changes occur in its business operations and as future growth opportunities arise.

The Bank of PNG policy 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 U.S. dollar account within the conditions of the Bank of PNG currency regulations. The Corporation has taken steps to increase its use of PNG Kina for local transactions when practical. Included in the Bank of PNG's conditions, is for future PNG drilling contracts to be settled in PNG Kina, unless otherwise approved by the Bank of PNG for the contracts to be settled in U.S. dollars. The Corporation has received such approval for its existing contracts as well as extensions or amendments of its existing contracts with its key customer in PNG. The Corporation will continue to seek Bank of PNG approval for future customer contracts to be settled in U.S. Dollars 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, the Corporation's PNG drilling contracts will be settled in PNG Kina which would expose the Corporation to exchange rate fluctuations related to the PNG Kina. In addition, this may delay the Corporation's ability to receive U.S. Dollars which may impact the Corporation's ability to settle U.S. Dollar denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation 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

Consistent with the decrease in Adjusted EBITDA for the quarter, funds provided from operations decreased 30% to $11.9 million from $17.0 million in the first quarter of 2017. After working capital adjustments, net cash generated from operating activities during the quarter was $4.8 million compared to negative $4.9 million in 2017. The increase in net cash generated from operating activities relates to increased accounts receivable collections.

Investing Activities

High Arctic incurred $2.6 million in capital expenditures during the quarter (2017 - $2.6 million) primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs to enhance the efficiencies and marketability of rigs in the Corporation's various operating areas. Further capital investment and rig enhancements will be made as driven by customer demand and operating requirements.

During the quarter, the Corporation generated $0.1 million in cash from the sale of redundant equipment.

Financing Activities

During the first quarter of 2018, the Corporation declared monthly dividends of $0.0165 per share, resulting in total dividends paid to shareholders of $2.6 million in the quarter (2017 - $2.6 million). In addition, the Corporation purchased and cancelled 270,408 shares for a total of $1.0 million under its NCIB, resulting in a total of $3.6 million being returned to shareholders via dividends and share buybacks during the quarter.

Credit Facility

In the first quarter of 2017, High Arctic renewed its existing credit facility. As at March 31, 2018, High Arctic's credit facility consisted of a $45.0 million revolving loan facility which matures on August 31, 2019. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the $45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. As at March 31, 2018, no amounts were drawn on the facility and total credit available to draw was $45.0 million.

Outlook

Activity for the Corporation's Concord well servicing operations continues to show strength despite entering into the traditional seasonal second quarter slow down. Year to date, operating hours for the Concord service rigs are approximately 6% above the hours generated in the same period in 2017. This increase in hours demonstrates the strength of High Arctic's customer base and exposure to certain operating areas which are less impacted by seasonal spring breakup conditions.

Similar to prior quarters, attraction and retention of sufficient field staff to meet demand continues to remain a challenge and has resulted in the Corporation implementing various compensation initiatives in an effort to attract and retain staff. As seen in the first quarter results, these compensation programs have added additional costs to the Corporation's Canadian operations, however, management believes this investment in enhanced field compensation plans will improve High Arctic's ability to respond to activity demands while retaining High Arctic's strong safety and operational performance.

Similar staffing challenges are facing the industry as a whole and management believes these staffing challenges combined with reduced industry investment in maintaining underutilized equipment continues to constrain capacity in the WCSB. This tightening of supply has provided the Corporation opportunities to improve pricing for its services in Canada, which will help to offset the increased costs being incurred for staffing and equipment maintenance. However, these pricing gains are largely limited to the Corporation's non-contracted services as the Corporation is limited to provisions within the various customer contracts to adjust pricing for its contracted pricing arrangements with its key customers.

While activity levels for the Corporation's well servicing operations remain positive, low natural gas prices continue to hamper activity for the Corporation's snubbing and N2 operations. Management is actively exploring opportunities to expand into markets with increased activity levels which may help to improve the financial contribution from these operations. In the meantime, in an effort to reduce costs and better position these operations closer to areas of field activity, in late April the Corporation made the difficult decision to close its Blackfalds facility and relocate these operations to its Acheson facility.

In PNG, the Rig 405 well site has been assessed and found to have suffered structural damage from the earthquake and aftershocks in February and March. As a result, the rig and associated equipment has been moved off the well to stable ground nearby to allow work to be conducted on the site which contains active production wells. The rig and equipment suffered superficial damage only and this is being addressed in parallel. The contract remains on Force Majeure and it is unclear at this time when it will return to operation. Rig 115 completed mobilization and is currently active on its drilling program in Kimu. Rig 103 has completed stacking at a staging point in the Southern Highlands and the Corporation is in negotiations with it's customer to swap the remaining Rig 115 work program to Rig 103 which is positioned nearby to the next scheduled Rig 115 wellsite. Mobilization activity for Rig 104 was suspended and deferred by the customer while they focused resources on the earthquake response, it continues to be warm stacked and is expected to recommence mobilization to its next well in Muruk in Q3. Rig 116 remains under contract in Port Moresby

High Arctic continues discussions with its key customer in PNG related to a commercial arrangement regarding the ownership and operations management of the drilling rigs in PNG. High Arctic will continue to provide further updates as appropriate.

Business Risks and Uncertainties

In addition to the financial risks discussed above under "Financial Risk Management", below under "Forward Looking Statements" and elsewhere in this MD&A, High Arctic is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation. Readers of the Corporation's MD&A should carefully consider the risks described under the heading "Risk Factors" in the Corporation's recently filed AIF for the year ended December 31, 2017, which are specifically incorporated by reference herein. The AIF is available on SEDAR at www.sedar.com, a copy of which can be obtained on request, without charge, from the Corporation.

Non-IFRS Measures

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

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

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

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

	Three Months Ended March 31	
$ millions	**2018**	**2017**
Net earnings for the period	**4.4**	9.0
Add:		
Interest and finance expense	**0.1**	0.4
Income taxes	**1.8**	5.2
Depreciation	**6.4**	6.4
EBITDA	**12.7**	21.0
Adjustments to EBITDA:		
Share-based compensation	**0.6**	0.1
Loss (gain) on sale of assets	**-**	-
Foreign exchange (gain) loss	**0.4**	(0.1)
Adjusted EBITDA	**13.7**	21.0

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

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

	Three Months Ended March 31	
$ millions	2018	2017
Revenue	**53.7**	64.8
Less:		
Oilfield services expense	**35.7**	39.3
Oilfield Services Operating Margin	**18.0**	25.5
Oilfield Services Operating Margin (%)	**34%**	39%

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 (used in) operating activities to funds provided from operations for the three months ended March 31:

	Three Months Ended March 31	
$ millions	2018	2017
Net cash generated from (used in) operating activities	**4.8**	(4.9)
Less:		
Net changes in items of non-cash working capital	**7.1**	21.9
Funds provided from operations	**11.9**	17.0

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

	As At	
$ millions	March 31, 2018	December 31, 2017
Current assets	**82.7**	77.1
Less:		
Current liabilities	**(25.1)**	(23.4)
Working capital	**57.6**	53.7

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

	As At	
$ millions	March 31, 2018	December 31, 2017
Cash and cash equivalents	**19.7**	22.1
Less:		
Long-term debt	**-**	-
Net cash	**19.7**	22.1

High Arctic Energy Services Inc.

Consolidated Statements of Financial Position

As at March 31, 2018 and December 31, 2017

Unaudited - Canadian $ Millions

	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	19.7	22.1
Accounts receivable	49.7	40.4
Short term investments	1.7	2.4
Inventory	10.4	10.0
Income taxes receivable	0.4	1.3
Prepaid expenses	0.8	0.9
	82.7	77.1
Non-current assets		
Property and equipment	181.6	182.9
Deferred tax asset	7.1	7.0
Total assets	**271.4**	**267.0**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	23.3	21.5
Dividend payable	0.9	0.9
Deferred revenue	0.9	1.0
	25.1	23.4
Non-current liabilities		
Finance lease obligation	0.5	0.5
Unfavourable lease liability	3.0	3.1
Deferred tax liability	9.8	9.2
Total liabilities	**38.4**	**36.2**
Shareholders' equity	**233.0**	**230.8**
Total liabilities and shareholders' equity	**271.4**	**267.0**

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the three months ended March 31, 2018 and 2017

Unaudited - Canadian $ Millions, except per share amounts

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenue	53.7	64.8
Expenses		
Oilfield services	35.7	39.3
General and administration	4.3	4.5
Depreciation	6.4	6.4
Share-based compensation	0.6	0.1
	47.0	50.3
Operating earnings	**6.7**	**14.5**
Foreign exchange loss (gain)	0.4	(0.1)
Interest and finance expense	0.1	0.4
Net earnings before income taxes	**6.2**	**14.2**
Current income tax expense	1.6	3.4
Deferred income tax expense	0.2	1.8
	1.8	5.2
Net earnings for the period	**4.4**	**9.0**
Earnings per share:		
Basic	0.08	0.17
Diluted	0.08	0.17

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net earnings for the period	4.4	9.0
Other comprehensive income:		
Items that may be reclassified subsequently to net income:		
Foreign currency translation gains (losses) for foreign operations	3.9	(1.4)
Items that may not be reclassified subsequently to net income:		
Losses on short term investments, net of tax	(0.7)	(0.7)
Comprehensive income for period	**7.6**	**6.9**

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

Unaudited - Canadian $ Millions

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net earnings for the period	4.4	9.0
Adjustments for non-cash items:		
Depreciation	6.4	6.4
Amortization for onerous lease	(0.1)	(0.1)
Share-based compensation	0.6	-
Foreign exchange (gain) loss	0.4	(0.1)
Deferred income tax expense	0.2	1.8
	11.9	17.0
Net changes in items of working capital	(7.1)	(21.9)
Net cash generated from operating activities	4.8	(4.9)
Investing activities		
Additions of property and equipment	(2.6)	(2.6)
Disposal of short term investments	-	0.6
Disposal of property and equipment	0.1	0.1
Net changes in items of working capital	(0.2)	-
Net cash used in investing activities	(2.7)	(1.9)
Financing activities		
Long-term debt proceeds	-	7.6
Long-term debt repayments	-	(6.1)
Dividend payments	(2.6)	(2.6)
Purchase of common shares for cancellation	(1.0)	-
Finance lease obligation payments	(1.0)	(0.2)
Net cash used in investing activities	(4.6)	(1.3)
Effect of exchange rate changes	0.1	(0.1)
Net change in cash and cash equivalents	(2.4)	(8.2)
Cash and cash equivalents - beginning of year	22.1	27.3
Cash and cash equivalents - end of period	**19.7**	**19.1**
Cash paid for:		
Interest	0.1	0.4
Income taxes	0.7	0.8

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; the Corporation’s ability to negotiate and execute agreements to effect the proposed joint company with its customer for business operations in PNG; future acquisitions and growth opportunities; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2018 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 U.S. dollar bank account and conduct its business in U.S. dollars in PNG; and 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.

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; the general continuance of current or, where applicable assumed industry conditions; activity and pricing; assumptions regarding commodity prices, in particular oil and gas; the Corporation’s primary objectives, and the methods of achieving those objectives; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this 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 well servicing, 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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