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High Arctic Reports 2018 Third Quarter Results

Calgary Alberta, November 8, 2018 – High Arctic Energy Services Inc. (TSX: HWO) – “High Arctic” or the “Corporation” is pleased to announce its 2018 third quarter results.

Mr. J. Cameron Bailey, High Arctic’s CEO stated: “This quarter included the beginning of positive results from our expansion of well servicing into the United States, the ramp up in activity in Canada following spring break-up, and consistent drilling operation in PNG following relief efforts of the earthquake which occurred earlier in the year. This has led to an outstanding quarter for the Company having established a solid platform from which to grow operations.”

Highlights

High Arctic’s Canadian well servicing operations and the Corporation’s PNG business operations offset reduced activity in the Corporation’s Canadian snubbing operations which continue to face headwinds in light of prolonged low natural gas pricing in the WCSB. Through the two business acquisitions completed in the third quarter of 2018, the Corporation has expanded its snubbing and service rig fleet and its geographic footprint to gain access to better markets. 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.

Third Quarter 2018:

- High Arctic reported revenue of \$54.7 million, net earnings of \$7.5 million and Adjusted EBITDA of \$17.4 million in the quarter.
- Utilization for High Arctic’s 58 registered Concord Well Servicing rigs was 58% in the quarter versus industry utilization of 41% (source: Canadian Association of Oilwell Drilling Contractors “CAODC”).
- The Corporation completed the renegotiation of its expiring drilling contracts for a three-year contract renewal covering Rigs 103 and 104 operating in PNG.
- High Arctic completed the acquisition of Powerstroke and Saddle Well Services during the third quarter of 2018 which increased its snubbing and well servicing fleet and expanded its geographic footprint into the United States.
- Consistent with prior quarters, High Arctic declared \$2.6 million (\$0.05 per share) in dividends during the quarter which represents 18% of funds provided from operations in the quarter. In addition, High Arctic repurchased and cancelled 860,347 shares with a value of \$3.4 million under the Corporation’s NCIB during the quarter resulting in a total of \$6.0 million being returned to shareholders in the quarter via dividends and share repurchases.

Year to Date 2018:

- Year to date the Corporation reported revenue of \$155.5 million, net earnings of \$13.7 million and Adjusted EBITDA of \$45.0 million.
- Rig 405 was demobilized back to Australia during the third quarter after operations were terminated due to a large earthquake that occurred in February 2018 that impacted the wellsite.
- High Arctic continues to maintain a strong balance sheet with \$22.3 million in cash, for a total working capital balance of \$64.2 million.
- A total of \$16.6 million has been returned to shareholders year to date through dividends and share buybacks. The Corporation maintained its monthly dividend of \$0.0165 per share resulting in year to date dividends declared of \$7.8 million. The Corporation purchased and cancelled 2,227,774 shares for a total of \$8.8 million under the Corporation’s NCIB.

Select Comparative Financial Information

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

\$ millions (except per share amounts)	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	% Change	2018	2017	% Change
Revenue	54.7	42.8	28%	155.5	158.7	(2%)
EBITDA⁽¹⁾	17.0	11	55%	42.6	46.5	(8%)
Adjusted EBITDA⁽¹⁾	17.4	10.6	64%	45.0	45.9	(2%)
Adjusted EBITDA % of revenue	32%	25%	27%	29%	29%	(0%)
Operating earnings	10.6	4.1	159%	25.4	26.4	(4%)
Net earnings	7.5	2.8	168%	13.7	16.8	(18%)
per share (basic) ⁽²⁾	0.14	0.06	133%	0.26	0.32	(19%)
per share (diluted) ⁽²⁾	0.14	0.05	180%	0.26	0.31	(16%)
Adjusted Net earnings⁽¹⁾	7.7	2.8	175%	14.5	16.8	(14%)
per share (basic) ⁽²⁾	0.15	0.06	150%	0.28	0.32	(13%)
per share (diluted) ⁽²⁾	0.15	0.05	200%	0.28	0.31	(10%)
Funds provided from operations⁽¹⁾	14.3	9.8	46%	34.8	35.9	(3%)
per share (basic) ⁽²⁾	0.27	0.18	50%	0.66	0.67	(1%)
per share (diluted) ⁽²⁾	0.27	0.18	50%	0.66	0.67	(1%)
Dividends	2.6	2.6	0%	7.8	7.9	(1%)
per share ⁽²⁾	0.05	0.05	0%	0.15	0.15	0%
Capital expenditures	2.2	1.1	100%	6.1	5.5	11%

	As at		
	September 30, 2018	December 31, 2017	% Change
Working capital⁽¹⁾	64.2	53.7	20%
Total assets	275.3	267.0	3%
Total non-current financial liabilities	8.0	3.6	122%
Net cash, end of period⁽¹⁾	17.5	22.1	(21%)
Shareholders' equity	233.3	230.8	1%
Shares outstanding⁽²⁾	51.2	53.3	(4%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted net earnings, 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 and adjusted net earnings per share amounts is determined differently as explained in note 15 in the Financial Statements.

Corporate Profile

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Canada, the United States 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") and the United States through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. In addition, High Arctic also provides work-over services in PNG with its heli-portable work-over rig. The revenue, expenses and assets related to the acquisition of Powerstroke and Saddle Well Services have been reported within the Production Services segment.

Ancillary Services

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

Consolidated Results

(\$ millions)	Three Months Ended September 30				Nine Months Ended September 30			
	2018	2017	Change	%	2018	2017	Change	%
Revenue	54.7	42.8	11.9	28%	155.5	158.7	(3.2)	(2%)
EBITDA⁽¹⁾	17.0	11.0	6.0	55%	42.6	46.5	(3.9)	(8%)
Adjusted EBITDA⁽¹⁾	17.4	10.6	6.8	64%	45.0	45.9	(0.9)	(2%)
Adjusted EBITDA % of Revenue	32%	25%	7%	28%	29%	29%	0%	0%
Net earnings	7.5	2.8	4.7	168%	13.7	16.8	(3.1)	(18%)
per share (basic) ⁽²⁾	0.14	0.06	0.1	133%	0.26	0.32	(0.1)	(19%)
per share (diluted) ⁽²⁾	0.14	0.05	0.1	180%	0.26	0.31	(0.1)	(16%)
Adjusted net earnings⁽¹⁾	7.7	2.8	4.9	175%	14.5	16.8	(2.3)	(14%)
per share (basic) ⁽²⁾	0.15	0.06	0.1	150%	0.28	0.32	(0.0)	(13%)
per share (diluted) ⁽²⁾	0.15	0.05	0.1	200%	0.28	0.31	(0.0)	(10%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA and Adjusted net earnings 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 and adjusted net earnings per share amounts is determined as explained in note 15 of the Financial Statements.

Third Quarter:

Activity for the Corporation's well servicing operations increased quarter over quarter contributing to a 7% increase in well servicing revenue in the quarter relative to the third quarter of 2017. This positive contribution was augmented by higher drilling activity and Rig 115 contract break fee and demobilization revenue in PNG resulting in an 28% increase in consolidated revenue to \$54.7 million in the quarter from \$42.8 million in the third quarter of 2017.

The increase in consolidated revenue, combined with the increased contribution from the Drilling Services segment, which has a higher operating margin, resulted in Adjusted EBITDA increasing to \$17.4 million in the quarter from \$10.6 million in the third quarter of 2017. Increased contribution from the international business segment resulted in higher EBITDA, which helped offset an increase in share-based compensation as well as reduced foreign exchange gains, resulting in an increase in net earnings of \$7.5 million (\$0.14 per share (basic)) in the quarter versus \$2.8 million (\$0.06 per share (basic)) in the third quarter of 2017.

Year to Date 2018:

- Increased activity from High Arctic's well servicing segment was not enough to offset the decrease in drilling activity in PNG and lower Canadian nitrogen and snubbing activity, resulting in a 2% decrease in revenue to \$155.5 million year to date versus \$158.7 million in the first nine months of 2017.

- Adjusted EBITDA decreased \$0.9 million relative to the comparable period in 2017. The decline is due to a reduction in revenue combined with a greater proportion of revenue contribution from lower margin Production Services compared to the first nine months of 2017.
- The Corporation generated \$13.7 million (\$0.26 per share(basic)) in net earnings year to date versus \$16.8 million (\$0.32 per share (basic)) in the first nine months of 2017.
- A total of \$7.8 million has been returned to shareholders year to date through dividends which represents 22% of funds provided from operations year to date.

Operating Segments

Drilling Services

(\$ millions)	Three Months Ended September 30				Nine Months Ended September 30			
	2018	2017	Change	%	2018	2017	Change	%
Revenue	25.5	17.7	7.8	44%	72.2	80.3	(8.1)	(10%)
Oilfield services expense ⁽¹⁾	13.9	10.5	3.4	32%	41.0	45.2	(4.2)	(9%)
Oilfield services operating margin ⁽¹⁾	11.6	7.2	4.4	61%	31.2	35.1	(3.9)	(11%)
Operating margin (%)	45%	41%	4%	10%	43%	44%	(1%)	(2%)

(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. Following damage to the well site from the earthquake in February 2018, the customer decided to terminate operations and Rig 405 was returned to Australia during the third quarter of 2018.

Third Quarter:

Drilling Services revenue increased 44% in the quarter to \$25.5 million from \$17.7 million in the third quarter of 2017. This increase was due to higher drilling activity in the quarter. Drilling activity began to recover during the quarter from the impact of a large earthquake in PNG on February 25, 2018.

Rig 103 continued drilling at Barikewa until the rig was released on August 13, 2018 and commenced moving to Moro base. On September 3, 2018 Rig 103 began mobilizing to well site IST3 and had a spud date of November 4, 2018. Rig 104 was warm stacked and began moving to Muruk 2 in mid-August which continued throughout September with an anticipated spud date during November. Rig 115 generated a contract break fee and demobilization revenue in July and was cold stacked in Port Moresby through August and September. Rig 116 continued to generate standby revenue under its take-or-pay contract.

Operating margin as a percentage of revenue increased quarter over quarter to 45% versus 41% in the third quarter of 2017. The Rig 115 contract break fee and, consistent with prior quarters, the standby revenue generated on Rig 116 combined to skew margins higher due to minimal operating costs being incurred. The take-or-pay contract for Rig 116 expired on November 2, 2018.

Year to Date 2018:

Consistent with the second quarter results, lower drilling activity combined with reduced contribution from take-or-pay contracted revenue from Rig 115 has contributed to a 10% decline in Drilling Services revenue to \$72.2 million year to date versus \$80.3 million generated in the first nine months of 2017. The lower drilling activity in 2018 is a result of the major earthquake in the first quarter and resulting delays in drilling programs compared to the same period in 2017 when Rig 115 was under take-or-pay until June and Rig 104 was actively drilling.

Operating margin as a percentage of revenue decreased to 43% year to date versus 44% in the first nine months of 2017. Consistent with the second quarter results, the first six months of 2017 benefitted from revenue generated from the take-or-pay contract on Rig 115.

Production Services

(\$ millions)	Three Months Ended September 30				Nine Months Ended September 30			
	2018	2017	Change	%	2018	2017	Change	%
Revenue	22.2	20.8	1.4	7%	63.5	60.1	3.4	6%
Oilfield services expense ⁽¹⁾	18.1	15.8	2.3	15%	52.0	48.9	3.1	6%
Oilfield services operating margin ⁽¹⁾	4.1	5.0	(0.9)	(18%)	11.5	11.2	0.3	3%
Operating margin (%)	18%	24%	(6%)	(25%)	18%	19%	(1%)	(5%)

Operating Statistics:

Service rigs

Average Fleet ⁽²⁾	58	55	3	5%	57	55	2	4%
Utilization ⁽³⁾	58%	59%	(1%)	(2%)	58%	57%	1%	2%
Operating hours	30,630	29,993	637	2%	90,234	85,171	5,063	6%
Revenue per hour	613	583	30	5%	616	590	26	4%

Snubbing rigs

Average Fleet ⁽⁴⁾	12	9	3	33%	9	9	0	0%
Utilization ⁽³⁾	25%	29%	(4%)	(14%)	22%	29%	(7%)	(24%)
Operating hours	2,499	2,406	93	4%	5,369	7,212	(1,843)	(26%)

(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 and United States 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. The net book value of Rig 102 is not material and 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.

Third Quarter:

Increased quarter over quarter activity and pricing for High Arctic's Concord Well Servicing rigs offset lower activity experienced from the Corporation's snubbing operations in the quarter resulting in a 7% increase in revenue for the Production Services segment to \$22.2 million in the quarter versus \$20.8 million in the third quarter of 2017. Operating hours for the Concord rigs increased 2% to 30,630 hours in the quarter from 29,993 hours in the third quarter of 2017. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 58% versus the 41% 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 allowed the average revenue per hour for the Concord rigs to increase to \$613 per hour in the quarter from \$583 per hour in the comparative quarter in 2017.

The positive contribution from the Powerstroke Acquisition resulted in an increase in the Production Services snubbing operations which saw revenue increase to \$3.5 million in the quarter versus the \$3.3 million generated in the third quarter of 2017. Operating hours for the snubbing rigs in the quarter were 2,499 versus 2,406 hours in the third quarter of 2017. Activity

for the Corporation's snubbing operations continues to be 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.

Operating margin decreased 6% since the comparative quarter in 2017, resulting in a 18% operating margin achieved in 2018 versus 24% achieved in the comparative quarter of 2017. The decrease in margin is primarily due to an increase in operating costs in the well servicing division combined with a modest increase in revenue.

Year to Date 2018:

The Production Services segment revenue increased to \$63.5 million from \$60.1 million in the first nine months of 2017. Year to date the Concord rigs have generated 90,234 operating hours for a 58% utilization of the Corporation's 58 average CAODC registered service rigs versus 39% utilization achieved in the first nine months for the industry's registered service rig fleet (source: CAODC). Year to date the Concord rigs have generated an average revenue rate of \$616 per hour compared to an average revenue rate of \$590 per hour for the same period in 2017.

Activity for the Corporation's snubbing rigs has declined 26% year to date versus the first nine months of 2017. This decline in activity was due to the Corporation's core snubbing customers directing their efforts towards completing fracturing programs during the period.

As a result of the increased revenue, operating margin increased to \$11.5 million year to date from \$11.2 million in the first nine months of 2017. Operating margins as a percentage of revenue decreased slightly to 18% during the period from 19% in the first nine months of 2017. The primary factor contributing to this marginal decrease are lower field operating margins in the snubbing segment.

During the third quarter, the Corporation listed its Blackfalds facility for sale after re-locating those operations to its Acheson facility. The assets were classified as held for sale on July 1, 2018 and were sold on October 19, 2018 for proceeds of \$2.6 million.

Ancillary Services

(\$ millions)	Three Months Ended September 30				Nine Months Ended June 30			
	2018	2017	Change	%	2018	2017	Change	%
Revenue	8.1	5.2	2.9	56%	22.7	20.8	1.9	9%
Oilfield services expense ⁽¹⁾	2.6	2.6	0.0	0%	7.8	8.1	(0.3)	(4%)
Oilfield services operating margin ⁽¹⁾	5.5	2.6	2.9	112%	14.9	12.7	2.2	17%
Operating margin (%)	68%	50%	18%	36%	66%	61%	5%	8%

(1) Revenue includes inter-segment revenue charged to Production Services and Drilling Services from Ancillary Services division of \$1.1 million for the quarter and \$2.9 million year to date. In 2017 inter-segment revenue was \$0.9 million for the quarter and \$2.5 million year to date.

(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.

Third Quarter:

Growth in the segment's Canadian and PNG rental operations and nitrogen services offset lower engineering activity 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 increase in PNG rental activity was due to an increase in equipment being utilized in recovery work after the earthquake, and in support of the increased drilling activity. Nitrogen activity was higher due to increased activity from core customers in the quarter.

Operating margin as a percentage of revenue increased to 68% in the quarter versus 50% in the third quarter of 2017. This increase was due to the increased contribution from higher margin PNG rental division in the quarter relative to the third quarter of 2017.

Year to Date 2018:

Increased rentals associated with both higher activity for the Corporation's Concord Well Servicing and higher equipment rental activity in PNG, offset lower nitrogen services and engineering year to date. The higher equipment rental activity was due to increased drilling activity experienced in 2018 versus 2017 as well as increased rentals in PNG associated with recovery work after the earthquake.

Operating margin as a percentage of revenue increased to 66% year to date from 61% in 2017. Higher margin rental divisions in PNG and Canada made up a greater proportion of revenue in 2018, which helped offset the decline in operating margin from the nitrogen services division.

General and Administration

(\$ millions)	Three Months Ended September 30				Nine Months Ended September 30			
	2018	2017	Change	%	2018	2017	Change	%
General and administration	3.8	4.2	(0.4)	(10%)	12.6	13.1	(0.5)	(4%)
Percent of revenue	7%	10%	(3%)	(30%)	8%	8%	0%	0%

Relative to the comparable periods in 2017, general and administrative costs have decreased in the third quarter and on a year to date basis. General and administrative costs decreased \$0.4 million to \$3.8 million in the third quarter of 2018 and decreased \$0.5 million to \$12.6 million on a year to date basis. General and administrative costs as a percentage of revenue decreased by 3% since the third quarter of 2017 due to an increase in revenue as well as restructuring efforts to reduce costs undertaken by management during the second quarter of 2018. On a year to date basis, general and administrative costs as a percentage of revenue remained consistent at 8%.

Depreciation

Depreciation expense increased to \$6.5 million in the quarter from \$6.4 million in the third quarter of 2017. The increase is due to the Corporation incurring a month and a half of depreciation associated with the \$14.6 million in operating assets added through completion of the Powerstroke and Saddle Well Services acquisitions that added \$13.4 million and \$1.2 million, respectively, of operating assets.

Share-based Compensation

The increase in share-based compensation to \$0.3 million in the third quarter and \$1.2 million year to date from \$0.1 million and \$0.2 million in the respective periods in 2017, is a result of a higher number of awards granted year to date in 2018 versus 2017. The amortization costs associated with the Corporation's option grants and deferred share units are higher in the first year subsequent to the grant versus future years, and as majority of the 2017 grants occurred during the fourth quarter the expense associated with these grants has largely been incurred in 2018.

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.

During the quarter the Corporation obtained approval from the central bank of PNG to continue to denominate and settle existing contracts, as well as the contract extensions for Rig 103 and 104 in PNG in U.S. dollars. This approval has been granted for the term of the current contracts.

The U.S. dollar remained strong relative to the Canadian dollar, as it increased during the third quarter compared to the first half of 2018, with an average exchange rate of \$1.3069 during the third quarter of 2018 (2017 – \$1.2526). 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 September 30, 2018, the U.S. dollar exchange rate was 1.2945 versus 1.2545 as at December 31, 2017. This strengthening of the U.S. dollar has resulted in a translation gain of \$4.9 million recorded in other comprehensive income for the nine months ended September 30, 2018 (\$2.1 million loss for the three months ended September 30, 2018).

The fluctuation in exchange rates year to date also resulted in a \$0.5 million foreign exchange loss being recorded on various foreign exchange transactions (2017 - \$0.8 million gain). The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

High Arctic utilized \$4.8 million of its debt facility to fund the closing of the Powerstroke Acquisition during the third quarter of 2018. On a year to date basis, the Corporation had an average debt balance outstanding of \$2.4 million, resulting in \$0.4 million being incurred in interest costs (\$0.2 million for the three months ended September 30, 2019).

Income Taxes

(\$ millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Net earnings before income taxes	10.3	4.4	5.9	22.9	26.3	(3.4)
Current income tax expense	2.5	0.5	2.0	8.5	9.0	(0.5)
Deferred income tax expense (recovery)	0.3	1.1	(0.8)	0.7	0.5	0.2
Total income tax expense	2.8	1.6	1.2	9.2	9.5	(0.3)
Effective tax rate	27%	36%		40%	36%	

The Corporation's effective tax rate increased to 40% for the first nine months of 2018 from 36% in the comparable period of 2017. The increase in effective tax rate is largely due to an increase in year to date tax expense associated with tax withholdings on dividend payments from PNG. During the second quarter of 2018 the Corporation paid \$2.2 million in withholding taxes on the payment of intercompany dividends from PNG to Canada versus \$3.1 million paid out in the second quarter of 2017. The increase in effective tax rate year to date, despite a decrease in the amount of tax paid, is due to the Corporation recognizing income tax expense in a prior period, 2016, when a dividend was anticipated to be declared from PNG to Canada and paid out

during the second quarter of 2017, versus the income tax expense on the dividend declared and paid in 2018 being recognized when declared and paid in 2018.

Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a \$4.9 million foreign currency translation gain in other comprehensive income year to date due to the weakening of the Canadian dollar, as compared to the US dollar, at September 30, 2018 relative to December 31, 2017.

During the nine months ended September 30, 2018, the Corporation also recognized a \$0.7 million unrealized loss on its strategic investments, which increased \$0.2 million during the three months ended September 30, 2018 due to fluctuations in investment share prices.

Liquidity and Capital Resources

(\$ millions)	Three Months Ended September 30			Nine Months Ended September 30		
	2018	2017	Change	2018	2017	Change
Cash provided by (used in):						
Operating activities	4.9	2.0	2.9	25.6	28.5	(2.9)
Investing activities	(9.1)	(0.7)	(8.4)	(12.8)	(4.2)	(8.6)
Financing activities	(1.2)	0.1	(1.3)	(12.7)	(23.3)	10.6
Effect of exchange rate changes	(0.4)	(0.9)	0.5	0.1	(1.7)	1.8
Increase (decrease) in cash and cash equivalents	(5.8)	0.5	(6.3)	0.2	(0.7)	0.9
As At						
				September 30, 2018	December 31, 2017	Change
Working capital ⁽¹⁾				64.2	53.7	10.5
Working capital ratio ⁽¹⁾				3.7 : 1	3.2:1	0.2:1
Net cash ⁽¹⁾				17.5	22.1	(4.6)
Undrawn availability under debt facilities				40.2	45.0	(4.8)

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

As at September 30, 2018, the Corporation had \$4.8 million outstanding on its debt facilities and \$22.3 million in cash. The debt drawings were used to fund the Powerstroke Acquisition, while cash proceeds were primarily located in the Corporation's PNG business operations.

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

As a result of the increase in Adjusted EBITDA in the quarter, funds provided from operations increased to \$14.3 million in the quarter from \$9.8 million in the third quarter of 2017. The reduced year to date Adjusted EBITDA combined with increased dividend withholding tax payments has resulted in funds provided from operations to decrease 3% to \$34.8 million from \$35.9 million in the first nine months of 2017.

Investing Activities

During the third quarter, High Arctic completed two business acquisitions for a total investment of \$8.2 million. The Corporation invested \$1.2 million for Saddle Well Services assets acquired and invested \$7.0 million to purchase the shares of Powerstroke. In addition, High Arctic also invested \$2.2 million in capital expenditures during the third quarter.

Year to date the Corporation has invested an additional \$6.1 million (2017 - \$5.5 million) in capital expenditures 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.

During the quarter, the Corporation generated \$0.3 million in cash from the sale of redundant equipment and \$0.8 million year to date (2017 - \$0.2 million).

Financing Activities

During the quarter the Corporation drew down \$4.8 million on its debt facilities to fund the closing of the Powerstroke acquisition. Consistent with prior quarters, the Corporation distributed \$2.6 million in dividends to its shareholders, bringing the year to date total dividends paid to shareholders to \$7.8 million. In addition, the Corporation purchased and cancelled 2,227,774 shares for a total of \$8.8 million under its NCIB, resulting in a total of \$16.6 million being returned to shareholders via dividends and share buybacks year to date.

Credit Facility

In the third quarter of 2018, High Arctic renewed its existing credit facility. As at September 30, 2018, High Arctic’s credit facility consisted of a \$45.0 million revolving loan facility which matures on August 31, 2020. 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 September 30, 2018, approximately \$4.8 million was drawn on the facility and total credit available to draw was approximately \$40.2 million.

Outlook

Activity for the Corporation’s Concord well servicing operations continues to show strength with year to date operating hours for the Concord service rigs 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 where High Arctic service rigs are particularly suited to the working environment.

Similar to prior quarters, attraction and retention of sufficient field staff to meet demand continues to remain an industry challenge and has resulted in the Corporation implementing various compensation initiatives in an effort to attract and retain staff. As seen in the third 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, which is beginning to show results through reduced field staff turnover rates, will improve High Arctic’s ability to respond to activity demands while retaining High Arctic’s strong safety and operational performance.

While activity levels for the Corporation's well servicing operations remain strong, low natural gas prices and oil price differentials continue to hamper activity for the Corporation's snubbing and N2 operations. We expect market conditions in Canada to remain challenging for both organic growth and consolidation opportunities.

The acquisition of Powerstroke has opened a new market for snubbing and well services in the United States and management looks forward to exploring growth opportunities.

In Papua New Guinea, we see strong potential for increasing activity depending on the specific timing of the expansion of LNG export capacity. The recent announcement made by the Prime Minister Peter O'Neil that a Heads of Agreements will be signed for the Papua LNG project is encouraging. The proposed facility is expected to double the LNG export capacity in PNG.

In PNG, Rig 405 was exported to Perth, Australia and will complete minor remediation works and final acceptance inspection prior to hand back to its owner in the fourth quarter. Rig 103 completed its move to the IST3 well site and began drilling on November 4, 2018. Likewise, Rig 104 will complete its move and rig up at Muruk 2 well site with a planned spud date in November. The take-or-pay contract for Rig 116 expired on November 2 and is currently stacked in Port Moresby. Rig 115 was demobilised during the quarter and is also cold stacked in Port Moresby, both Rig 115 and 116 are being offered for services both within PNG and abroad.

High Arctic and its key customer in PNG announced a three-year contract renewal for Rig 103 and Rig 104 (including support services) effective August 1, 2018 and have moved to their next well sites.

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, other costs related to consolidating facilities, 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 nine months ended September 30:

\$ millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net earnings for the period	7.5	2.8	13.7	16.8
Add:				
Interest and finance expense	0.2	0.2	0.4	0.9
Income taxes	2.8	1.6	9.2	9.5
Depreciation	6.5	6.4	19.3	19.3
EBITDA	17.0	11.0	42.6	46.5
Adjustments to EBITDA:				
Other expenses	0.2	-	0.8	-
Share-based compensation	0.3	(0.1)	1.2	0.2
Gain on sale of assets	0.1	-	(0.1)	-
Foreign exchange (gain) loss	(0.2)	(0.5)	0.5	(0.8)
Adjusted EBITDA	17.4	10.4	45.0	45.9

Adjusted Net Earnings

Adjusted net earnings is calculated based on net earnings prior to the effect of costs not incurred in the normal course of business, such as consolidating facilities, gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings to present a measure of financial performance that is more comparable between periods. Adjusted net earnings as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings per share and Adjusted net earnings per share – diluted are calculated as Adjusted net earnings divided by the number of weighted average basic and diluted shares outstanding, respectively. The following tables provide a quantitative reconciliation of net earnings to Adjusted net earnings for the three and nine months ended September 30:

\$ millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net earnings for the period	7.5	2.8	13.7	16.8
Adjustments to net earnings:				
Other expenses	0.2	-	0.8	-
Adjusted net earnings	7.7	2.8	14.5	16.8

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.

\$ millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenue	54.7	42.8	155.5	158.7
Less:				
Oilfield services expense	33.5	28.0	97.9	99.7
Oilfield Services Operating Margin	21.2	14.8	57.6	59.0
Oilfield Services Operating Margin (%)	39%	35%	37%	37%

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 nine months ended September 30:

\$ millions	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net cash generated from operating activities	4.9	2.0	25.6	28.5
Less:				
Net changes in items of non-cash working capital	9.4	7.8	9.2	7.4
Funds provided from operations	14.3	9.8	34.8	35.9

Working capital

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

\$ millions	As At	
	September 30, 2018	December 31, 2017
Current assets	87.7	77.1
Less:		
Current liabilities	(23.5)	(23.4)
Working capital	64.2	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:

\$ millions	As At	
	September 30, 2018	December 31, 2017
Cash and cash equivalents	22.3	22.1
Less:		
Long-term debt	(4.8)	-
Net cash	17.5	22.1

High Arctic Energy Services Inc.
Consolidated Statements of Financial Position
As at September 30, 2018 and December 31, 2017
Unaudited - Canadian \$ Millions

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	22.3	22.1
Accounts receivable	49.1	40.4
Short term investments	1.7	2.4
Inventory	10.9	10.0
Income taxes receivable	-	1.3
Prepaid expenses	1.3	0.9
Assets held for sale	2.4	-
	<u>87.7</u>	<u>77.1</u>
Non-current assets		
Property and equipment	184.1	182.9
Deferred tax asset	3.5	7.0
	<u>187.6</u>	<u>190.0</u>
Total assets	<u>275.3</u>	<u>267.0</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	22.5	21.5
Dividend payable	0.8	0.9
Deferred revenue	0.2	1.0
	<u>23.5</u>	<u>23.4</u>
Non-current liabilities		
Finance lease obligation	0.4	0.5
Unfavourable lease liability	2.8	3.1
Long-term debt	4.8	-
Deferred tax liability	10.5	9.2
	<u>18.5</u>	<u>12.8</u>
Total liabilities	<u>42.0</u>	<u>36.2</u>
Shareholders' equity	<u>233.3</u>	<u>230.8</u>
Total liabilities and shareholders' equity	<u>275.3</u>	<u>267.0</u>

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the three and nine months ended September 30, 2018 and 2017

Unaudited - Canadian \$ Millions, except per share amounts

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue	54.7	42.8	155.5	158.7
Expenses				
Oilfield services	33.5	28.0	97.9	99.7
General and administration	3.8	4.2	12.6	13.1
Depreciation	6.5	6.4	19.3	19.3
Share-based compensation	0.3	0.1	1.2	0.2
	44.1	38.7	131.0	132.3
Operating earnings for the period	10.6	4.1	24.5	26.4
Other expenses	0.2	-	0.8	-
Foreign exchange (gain) loss	(0.2)	(0.5)	0.5	(0.8)
Loss (gain) on sale of property and equipment	0.1	-	(0.1)	-
Interest and finance expense	0.2	0.2	0.4	0.9
Net earnings before income taxes	10.3	4.4	22.9	26.3
Current income tax expense	2.5	0.5	8.5	9.0
Deferred income tax expense	0.3	1.1	0.7	0.5
	2.8	1.6	9.2	9.5
Net earnings for the period	7.5	2.8	13.7	16.8
Earnings per share:				
Basic	0.14	0.06	0.26	0.32
Diluted	0.14	0.05	0.26	0.31

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net earnings for the period	7.5	2.8	13.7	16.8
Other comprehensive income:				
Items that may be reclassified to profit or loss:				
Foreign currency translation gains (losses) for foreign operations	(2.1)	(5.7)	4.9	(10.3)
Items that may not be reclassified subsequently to net income:				
Losses on short term investments, net of tax (note 5)	(0.2)	(0.1)	(0.7)	(1.1)
Comprehensive income for the period	5.2	(3.0)	17.9	5.4

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2018 and 2017

Unaudited - Canadian \$ Millions

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net earnings for the period	7.5	2.8	13.7	16.8
Adjustments for non-cash items:				
Depreciation	6.5	6.4	19.3	19.3
Amortization for onerous lease	(0.1)	(0.1)	(0.3)	(0.3)
Share-based compensation	0.2	0.1	1.0	0.2
Loss (gain) on sale of property and equipment	0.1	-	(0.1)	-
Foreign exchange (gain) loss	(0.2)	(0.5)	0.5	(0.6)
Deferred income tax expense	0.3	1.1	0.7	0.5
	14.3	9.8	34.8	35.9
Net changes in items of working capital	(9.4)	(7.8)	(9.2)	(7.4)
Net cash generated from operating activities	4.9	2.0	25.6	28.5
Investing activities				
Additions of property and equipment	(2.2)	(1.1)	(6.1)	(5.5)
Disposal of short term investments	-	0.3	-	0.9
Disposal of property and equipment	0.3	0.1	0.8	0.2
Business acquisitions	(8.2)	-	(8.2)	-
Net changes in items of working capital	1.0	-	0.7	0.2
Net cash used in investing activities	(9.1)	(0.7)	(12.8)	(4.2)
Financing activities				
Long-term debt proceeds	4.8	3.5	4.8	11.7
Long-term debt repayments	-	(0.6)	-	(26.7)
Dividend payments	(2.6)	(2.6)	(7.8)	(7.9)
Purchase of common shares for cancellation	(3.5)	-	(8.8)	-
Issuance of common shares, net of costs	0.1	-	0.2	0.1
Finance lease obligation payments	-	(0.2)	(1.1)	(0.5)
Net cash used in financing activities	(1.2)	0.1	(12.7)	(23.3)
Effect of exchange rate changes	(0.4)	(0.9)	0.1	(1.7)
Net change in cash and cash equivalents	(5.8)	0.5	0.2	(0.7)
Cash and cash equivalents - beginning of period	28.1	26.1	22.1	27.3
Cash and cash equivalents - end of period	22.3	26.6	22.3	26.6
Cash paid for:				
Interest	0.2	0.2	0.4	0.9
Income taxes	0.8	0.8	6.5	8.1

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 with its key customer in PNG related to a commercial arrangement regarding the ownership and operations management of the drilling rigs 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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