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High Arctic Reports 2018 Fourth Quarter and Year End Results

Calgary Alberta, March 14, 2019 – High Arctic Energy Services Inc. (TSX: HWO) – "High Arctic" or the "Corporation" is pleased to announce its 2018 fourth quarter and year end results.

Mr. J. Cameron Bailey, High Arctic's CEO stated: "Notwithstanding the slow down of Canadian industry activity in the fourth quarter due to low domestic oil prices caused by the surplus of oil production in Western Canada and ongoing pipeline constraints, High Arctic finished the year with renewed strategic focus. We recognize the unique challenges faced by the industry and our clients and will continue to focus on providing the highest quality of service delivered with industry leading safety standards at fair and reasonable prices."

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 entering the US market through the Powerstroke acquisition. 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. As previously announced the Corporation secured a three-year contract renewal for its primary contracts of personnel and rental equipment to support drilling operations effective August 1, 2018 and worked closely with clients supporting earthquake recovery efforts during the course of the year generating increased ancillary services revenue.

Fourth Quarter 2018:

- High Arctic reported revenue of $47.8 million, net loss of $(2.3) million and Adjusted EBITDA of $6.6 million in the quarter.
- Utilization for High Arctic's 58 registered Concord Well Servicing rigs was 51% in the quarter versus industry utilization of 37% (source: Canadian Association of Oilwell Drilling Contractors "CAODC").
- Consistent with prior quarters, High Arctic declared $2.5 million ($0.05 per share) in dividends during the quarter which represents 125% of funds provided from operations in the quarter. In addition, High Arctic repurchased and cancelled 246,088 shares with a value of $0.8 million under the Corporation's NCIB during the quarter resulting in a total of $3.3 million being returned to shareholders in the quarter via dividends and share repurchases.
- In the quarter, High Arctic incurred $4 million in dividend withholding taxes which was related to earnings in prior quarters.
- Start up costs amounting to $2 million were incurred in the quarter related to expansion into the US as part of the Powerstroke acquisition.

Year to Date 2018:

- Year to date the Corporation reported revenue of $203.3 million, net earnings of $11.4 million and Adjusted EBITDA of $51.6 million.
- High Arctic continues to maintain a strong balance sheet with $31.5 million in cash, positive cash flow, undrawn $45 million facility and a total working capital balance of $56.8 million.

- A total of $19.9 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 $10.3 million. The Corporation purchased and cancelled 2,473,862 shares for a total of $9.6 million under the Corporation's NCIB. Subsequent to December 31, 2018 year end, the Corporation has purchased and cancelled another 464,811 shares for a total of $1.8 million under this program.

Select Comparative Financial Information

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

	Three Months Ended December 31			Year Ended December 31		
$ millions (except per share amounts)	2018	2017	% Change	2018	2017	% Change
Revenue	**47.8**	51.5	(7%)	**203.3**	210.2	(3%)
EBITDA(1)	**6.1**	11.8	(48%)	**48.7**	58.3	(16%)
Adjusted EBITDA(1)	**6.6**	12.4	(47%)	**51.6**	58.3	(11%)
Adjusted EBITDA % of revenue	**14%**	24%	(42%)	**25%**	28%	(11%)
Operating earnings (loss)	**(0.8)**	5.3	(115%)	**23.7**	31.7	(25%)
Net earnings (loss)	**(2.3)**	3.5	(166%)	**11.4**	20.3	(44%)
per share (basic)(2)	**(0.04)**	0.06	(167%)	**0.22**	0.38	(42%)
per share (diluted)(2)	**(0.04)**	0.06	(167%)	**0.22**	0.38	(42%)
Adjusted Net earnings (loss)(1)	**(2.3)**	3.5	(166%)	**12.2**	20.3	(40%)
per share (basic)(2)	**(0.04)**	0.06	(167%)	**0.24**	0.38	(37%)
per share (diluted)(2)	**(0.04)**	0.06	(167%)	**0.24**	0.38	(37%)
Funds provided from operations(1)	**2.0**	9.3	(78%)	**36.8**	45.2	(19%)
per share (basic)(2)	**0.05**	0.18	(72%)	**0.71**	0.85	(16%)
per share (diluted)(2)	**0.05**	0.17	(71%)	**0.71**	0.84	(15%)
Dividends	**2.5**	2.6	(4%)	**10.3**	10.5	(2%)
per share(2)	**0.05**	0.05	0%	**0.20**	0.20	0%
Capital expenditures	**3.7**	1.3	185%	**9.8**	6.8	44%

	As at		
	December 31, 2018	December 31, 2017	% Change
Working capital(1)	**56.8**	53.7	6%
Total assets	**272.4**	267.0	2%
Total non-current financial liabilities	**14.6**	12.8	14%
Net cash, end of period(1)	**31.5**	22.1	43%
Shareholders' equity	**234.2**	230.8	1%
Shares outstanding(2)	**51.0**	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 (loss) per share and adjusted net earnings (loss) per share amounts is determined differently as explained in note 17 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

	Three Months Ended December 31				Year Ended December 31			
($ millions)	2018	2017	Change	%	2018	2017	Change	%
Revenue	**47.8**	51.5	(3.7)	(7%)	**203.3**	210.2	(6.9)	(3%)
EBITDA(1)	**6.1**	11.8	(5.7)	(48%)	**48.7**	58.3	(9.6)	(16%)
Adjusted EBITDA(1)	**6.6**	12.4	(5.8)	(47%)	**51.6**	58.3	(6.7)	(11%)
Adjusted EBITDA % of Revenue	**14%**	24%	(10%)	(42%)	**25%**	28%	(3%)	(11%)
Net earnings (loss)	**(2.3)**	3.5	(5.8)	(166%)	**11.4**	20.3	(8.9)	(44%)
per share (basic)(2)	**(0.04)**	0.06	(0.10)	(167%)	**0.22**	0.38	(0.16)	(42%)
per share (diluted)(2)	**(0.04)**	0.06	(0.10)	(167%)	**0.22**	0.38	(0.16)	(42%)
Adjusted net earnings (loss)(1)	**(2.3)**	3.5	(5.8)	(166%)	**12.2**	20.3	(8.1)	(40%)
per share (basic)(2)	**(0.04)**	0.06	(0.10)	(167%)	**0.24**	0.38	(0.14)	(37%)
per share (diluted)(2)	**(0.04)**	0.06	(0.10)	(167%)	**0.24**	0.38	(0.14)	(37%)

(1) Readers are cautioned that EBITDA, Adjusted EBITDA and Adjusted net earnings (loss) 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 (loss) per share and adjusted net earnings (loss) per share amounts is determined as explained in note 17 of the Financial Statements.

Fourth Quarter:

- Activity for the Corporation's drilling services decreased by $4 million in the fourth quarter of 2018 compared to the fourth quarter of 2017. This was partially offset by the new snubbing revenue provided by the Powerstroke acquisition. Consolidated revenue decreased 7% to $47.8 million in the quarter from $51.5 million in the fourth quarter of 2017.

- The decrease in consolidated revenue combined with the decreased contribution from the Drilling Services segment, which has a high operating margin, resulted in Adjusted EBITDA decreasing to $6.6 million in the quarter from $12.4 million in the fourth quarter of 2017. Flat contribution from the international business segment with an increase in share-based compensation expense as well as reduced foreign exchange gain resulted in a decrease in net earnings to $(2.3) million, (($0.04) per share (basic)) in the quarter versus $3.5 million, ($0.06 per share (basic)) in the fourth quarter of 2017.

Year to Date 2018:

- Increased activity from High Arctic's well servicing segment was insufficient to offset the decrease in drilling activity in PNG and lower Canadian nitrogen and snubbing activity, resulting in a 3% decrease in revenue to $203.3 million in 2018 versus $210.2 million in 2017.
- Adjusted EBITDA decreased $6.7 million in 2018 compared to 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 2017.
- The Corporation generated $11.4 million ($0.22 per share (basic)) in net earnings in 2018 versus $20.3 million ($0.38 per share (basic)) in 2017.
- A total of $10.3 million was returned to shareholders in 2018 through dividends which represents 28% of funds provided from operations in 2018. The Corporation purchased and cancelled 2,473,862 shares for a total of $9.6 million under the Corporation's NCIB. Subsequent to December 31, 2018 year end, the Corporation has purchased and cancelled another 464,811 shares for a total of $1.8 million under this program.

Operating Segments

Drilling Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Revenue	**20.8**	24.8	(4.0)	(16%)	**93.0**	105.1	(12.1)	(12%)
Oilfield services expense [(1)]	**15.1**	16.7	(1.6)	(10%)	**56.1**	61.9	(5.8)	(9%)
Oilfield services operating margin [(1)]	**5.7**	**8.1**	**(2.4)**	**(30%)**	**36.9**	**43.2**	**(6.3)**	**(15%)**
Operating margin (%)	**27%**	33%	(6%)	(18%)	**40%**	41%	(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.

Fourth Quarter:

Drilling Services revenue decreased 16% in the quarter to $20.8 million from $24.9 million in the fourth quarter of 2018. This decrease was due to lower drilling activity in the quarter.

Rig 103 continued operations at IST-3 until December 12 and then mobilized to IDT-21 for its next well. Rig 104 spud its well at Muruk 2 in early November and continued drilling through year end. Rig 115 and Rig 116 were cold stacked during the quarter with Rig 116 completing its take-or-pay contract in early November.

Year to Date 2018:

Consistent with the fourth quarter results, lower drilling activity combined with reduced contribution from take-or-pay contracted revenue from both Rig 115 and Rig 116 has contributed to a 12% decline in Drilling Services revenue to $93.0 million in 2018 versus $105.1 million generated in 2017. The lower drilling activity in 2018 is a result of the major earthquake in the first quarter and resultant delays in drilling programs compared to the same period in 2017 when Rig 115 was under take-or-pay until June, Rig 116 was on standby for the full period and Rig 104 was actively drilling.

Operating margin as a percentage of revenue decreased slightly to 40% in 2018 versus 41% in 2017.

Production Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2018**	2017	Change	%	**2018**	2017	Change	%
Revenue	**21.4**	20.9	0.5	2%	**84.9**	81.0	3.9	5%
Oilfield services expense (1)	**21.3**	15.9	5.4	34%	**73.3**	64.8	8.5	13%
Oilfield services operating margin (1)	**0.1**	**5.0**	**(4.9)**	**(98%)**	**11.6**	**16.2**	**(4.6)**	**(28%)**
Operating margin (%)	**0%**	24%	(24%)	(100%)	**14%**	20%	(6%)	(30%)
Operating Statistics:								
Service rigs								
Average Fleet (2)	58	56	2	4%	58	55	3	5%
Utilization (3)	51%	55%	(4%)	(7%)	56%	57%	(1%)	(2%)
Operating hours	27,161	28,509	(1,348)	(5%)	117,395	113,680	3,715	3%
Revenue per hour	616	611	5	1%	616	596	20	3%
Snubbing rigs								
Average Fleet (4)	17	9	8	89%	10	9	1	11%
Utilization (3)	38%	28%	10%	36%	26%	29%	(3%)	(10%)
Operating hours	4,792	2,344	2,448	104%	9,274	9,556	(282)	(3%)

(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.

Fourth Quarter:

Decreased quarter over quarter activity for High Arctic's Concord Well Servicing rigs was offset by higher activity from the Corporation's snubbing operations in the quarter resulting in a 2% increase in revenue for the Production Services segment to $21.4 million in the quarter versus $20.9 million in the fourth quarter of 2017. Operating hours for the Concord rigs decreased 5% to 27,161 hours in the quarter from 28,509 hours in the fourth quarter of 2017. Consistent with prior quarters, the Concord rigs achieved above industry utilization of 51% versus the 37% utilization generated by the industry's registered well servicing rigs in the quarter (source: CAODC). Pricing remains competitive but with an increased exposure to higher rate operating areas this allowed the average revenue per hour for the Concord rigs to increase to $616 per hour in the quarter from $611 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 $5.9 million in the quarter versus the $3.4 million generated in the fourth quarter of 2017. Operating hours for the snubbing rigs in the quarter were 4,792 versus 2,344 hours in the fourth 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 24% to 0% compared to the same quarter in 2017. The decrease in margin is primarily due to start up costs amounting to $2 million incurred in the quarter related to expansion into the US as part of the Powerstroke acquisition and other associated operating costs.

Year to Date 2018:

The Production Services segment revenue increased to $84.9 million in 2018 from $81.0 million in 2017. Year to date the Concord rigs have generated 117,395 operating hours for a 56% utilization of the Corporation's 58 average CAODC registered service rigs versus 57% utilization achieved in 2017 for the industry's registered service rig fleet (source: CAODC). In 2018 the Concord rigs have generated an average revenue rate of $616 per hour compared to an average revenue rate of $596 per hour in 2017.

Activity for the Corporation's snubbing rigs has declined 3% in 2018 versus 2017. This decline in activity was due to the Corporation's core snubbing customers directing their efforts towards completing fracturing programs during the period.

Operating margin decreased to $11.6 million in 2018 from $16.2 million in 2017. Operating margins as a percentage of revenue decreased to 14% in 2018 from 20% in 2017. The primary factor contributing to this decrease is lower field operating margins in the snubbing segment.

During the fourth quarter, the Corporation sold its Blackfalds facility after re-locating those operations to its Acheson facility. The assets were sold on October 19, 2018 for net proceeds of $2.5 million.

Ancillary Services

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Revenue	**6.4**	6.6	(0.2)	(3%)	**29.1**	27.4	1.7	6%
Oilfield services expense [(1)]	**2.0**	3.3	(1.3)	(39%)	**9.8**	11.4	(1.6)	(14%)
Oilfield services operating margin [(1)]	**4.4**	**3.3**	**1.1**	**33%**	**19.3**	**16.0**	**3.3**	**21%**
Operating margin (%)	**69%**	50%	19%	38%	**66%**	58%	8%	14%

(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.

Fourth Quarter:

Growth in the segment's PNG rental operations was offset by decreases in Canadian rental operations, nitrogen services and engineering activity during the quarter. The increase in PNG rental activity was due to an increase in equipment being utilized in support of drilling activity, particularly for the remote exploration and appraisal work.

Operating margin as a percentage of revenue increased to 69% in the quarter versus 50% in the fourth quarter of 2017. This increase was due to the increased contribution from the PNG rental division partially offset by a decline in the operating margin from the nitrogen services division compared to the fourth 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 in 2018. 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 February earthquake.

Operating margin as a percentage of revenue increased to 66% in 2018 from 58% 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

	Three Months Ended December 31				Year Ended December 31			
($ millions)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
General and administration	**4.4**	4.0	0.4	10%	**17.0**	17.1	(0.1)	(1%)
Percent of revenue	**9%**	8%	1%	13%	**8%**	8%	0%	0%

Relative to the fourth quarter in 2017, general and administrative costs have increased in the fourth quarter and were flat on a year to year basis. General and administrative costs increased $0.4 million to $4.4 million in the fourth quarter mainly as a result of an increase in accrued bonuses and Workers' Compensation Board expenses of $129K and $57K respectively. For the year, general and administrative costs decreased $0.1 million to $17.0 million in 2018. General and administrative costs as a percentage of revenue increased by 1% to 9% this quarter as compared to the fourth quarter of 2017 and remained consistent at 8% for the year 2018 versus 2017.

Depreciation

Depreciation expense decreased slightly to $6.4 million in the quarter from $6.6 million in the fourth quarter of 2017. The Corporation incurred a full quarter of depreciation associated with the $13.3 million in operating assets added through completion of the Powerstroke and Saddle Well Services acquisitions that added $12.1 million and $1.2 million, respectively, of operating assets. For the year, depreciation was flat.

Share-based Compensation

The increase in share-based compensation to $1.4 million in 2018 from $0.5 million from $0.7 million in 2017 is a result of a higher number of awards granted.

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 currency 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, as it increased during the third quarter compared to the first half of 2018, with an average exchange rate of $1.3214 during the fourth quarter of 2018 (2017 – $1.2715). 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 December 31, 2018, the U.S. dollar exchange rate was 1.3642 versus 1.2545 as at December 31, 2017. This strengthening of the U.S. dollar has resulted in a translation gain of $12.0 million recorded in other comprehensive income for the year ended December 31, 2018 ($7.1 million gain for the three months ended December 31, 2018).

The fluctuation in exchange rates for the year also resulted in a $0.3 million foreign exchange loss being recorded on various foreign exchange transactions (2017 - $0.7 million gain). The Corporation does not currently hedge its foreign exchange transactions or exposure.

Interest and Finance Expense

For the three months ended December 31, 2018 the Corporation incurred no interest costs. On a year to date basis, the Corporation had an average debt balance outstanding of $2.4 million, resulting in $0.6 million being incurred in interest costs.

Income Taxes

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Net earnings (loss) before income taxes	**(0.5)**	5.0	(5.5)	**22.4**	31.4	(9.0)
Current income tax expense	**4.4**	2.9	1.5	**12.9**	11.9	1.0
Deferred income tax expense (recovery)	**(2.6)**	(1.3)	(1.3)	**(1.9)**	(0.8)	(1.1)
Total income tax expense	**1.8**	1.6	0.2	**11.0**	11.1	(0.1)
Effective tax rate	**-360%**	32%		**49%**	35%	

The Corporation's effective tax rate increased to 49% in 2018 from 35% in 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 offset by higher deferred tax recovery in 2018.

Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a $12.0 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 December 31, 2018 relative to December 31, 2017.

During the year ended December 31, 2018, the Corporation recognized a $1.4 million unrealized loss on its strategic investments, which increased $0.7 million during the three months ended December 31, 2018 due to fluctuations in investment share prices. The Corporation also recognized a realized loss on its strategic investments in December 2018 through the sale of a portion of the owned shares.

Liquidity and Capital Resources

	Three Months Ended December 31			Year Ended December 31		
($ millions)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Cash provided by (used in):						
Operating activities	**16.5**	5.8	10.7	**42.1**	34.3	7.8
Investing activities	**(0.8)**	1.0	(1.8)	**(13.6)**	(3.2)	(10.4)
Financing activities	**(8.0)**	(11.6)	3.6	**(20.7)**	(34.9)	14.2
Effect of exchange rate changes	**1.5**	0.3	1.2	**1.6**	(1.4)	3.0
Increase (decrease) in cash and cash equivalents	**9.2**	(4.5)	13.7	**9.4**	(5.2)	14.6

	As At		
	December 31, 2018	**December 31, 2017**	**Change**
Working capital[(1)]	56.8	53.7	3.1
Working capital ratio[(1)]	3.4 : 1	3.2:1	0.2:1
Net cash[(1)]	31.5	22.1	9.4
Undrawn availability under debt facilities	45.0	45.0	0.0

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

As at December 31, 2018, the Corporation had $nil outstanding on its debt facilities and $31.5 million in cash.

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 with its key customers 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 in future, 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

The increase in foreign exchange losses and deferred tax expense offset by the increase in net working capital changes has resulted in funds provided from operations to increase 23% to $42.1 million from $34.3 million year on year 2017 to 2018.

Investing Activities

Year to date the Corporation has invested an additional $13.6 million (2017 - $3.2 million) in capital expenditures primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs and the purchase of Saddle Well Services and the Powerstroke group of companies.

Financing Activities

During the year, the Corporation distributed $10.3 million in dividends to its shareholders. In addition, the Corporation purchased and cancelled 2,473,862 shares for a total of $9.6 million under its NCIB, resulting in a total of $19.9 million being returned to shareholders via dividends and share buybacks year to date.

Credit Facility

As at December 31, 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 December 31, 2018, there was no amount drawn on the facility and total credit available to draw was $45.0 million.

Outlook

Industry activity in the fourth quarter was significantly muted due to low domestic oil prices caused from the surplus of oil production in Western Canada relative to the takeaway capacity caused by pipeline constraints requiring the intervention by the Alberta Government to introduce apportionment of oil production in the province. The uncertainties this has created within the Canadian industry are ongoing and will continue until new pipeline capacity is added. The wide differential pricing for Canadian crude oil caused many operators to voluntarily shut-in production followed by regulated apportionment introduced by the Alberta Government has resulted in a decrease of well servicing activity. Canadian oil and gas companies are being very cautious with 2019 capital expenditure programs.

High Arctic recognizes the unique challenges faced by the industry and our clients and will continue to focus on providing the highest quality of service delivered with industry leading safety standards at fair and reasonable prices.

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. The compensation programs introduced throughout 2018 have resulted in markedly reduced field staff turnover rates and have improved High Arctic's ability to respond to activity demands while retaining High Arctic's strong safety and operational performance. As seen in the third and fourth 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 is a net positive to the operating results.

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. High Arctic continues to pursue opportunities to move under utilized assets in Canada to redeploy into the United States where there is better utilization and day rates.

In Papua New Guinea, we see strong potential for increasing activity depending on the specific timing of the expansion of LNG export capacity. The announcement made by Prime Minister Peter O'Neil that a Memorandum of Understanding was signed setting key terms and conditions for a Gas Agreement with the Papua LNG project consortium and indicating a fully-termed LNG Gas Agreement may be signed by the end of March 2019 is very encouraging. Combined with the parallel project of co-habited PNG-LNG expansion train, the proposed facility is expected to double LNG export capacity in PNG and project partners have indicated target timing for commencement of LNG shipments from expansion production in 2024. Based on exploration license commitments and increased optimism ahead of the LNG expansion, we expect drilling activity to increase in PNG later in 2019.

Following the three-year contract renewal in Q3 in PNG, Rigs 103 and 104 remained active through the quarter. Rig 103 completed its operations at the IST3 well site and moved to the IDT21 well site in mid December and, subsequent to year end, Rig 103 completed preliminary works on the IDT21 well and "walked" over to IHT1 well on the same drilling pad and conducted works, Rig 103 will continue with infield well works for most of 2019. Rig 104 completed its move and rig up at the Muruk 2 appraisal well site and was drilling at year end, Rig 104 is currently conducting works in the Muruk 2 well bore to assist our customer and their partners with obtaining well and reservoir technical data, Rig 104 will continue working on Muruk 2 with possible additional delineation works to be undertaken before commencing work to fly the rig and associated equipment off the well site. The take-or-pay contract for Rig 116 expired on November 2 and the rig is currently stacked in Port Moresby. Rig 115 was demobilised during the third quarter and is also cold stacked in Port Moresby, both Rig 115 and 116 are being offered for services both within PNG and abroad.

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, 2018, 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 months and year ended December 31:

$ millions	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
Net earnings (loss) for the period	**(2.3)**	3.5	**11.4**	20.3
Add:				
Interest and finance expense	**0.2**	0.1	**0.6**	1.0
Income taxes	**1.8**	1.6	**11.0**	11.1
Depreciation	**6.4**	6.6	**25.7**	25.9
EBITDA	**6.1**	11.8	**48.7**	58.3
Adjustments to EBITDA:				
Other expenses	**-**	-	**0.8**	-
Share-based compensation	**0.2**	0.5	**1.4**	0.7
Loss (gain) on sale of assets	**-**	-	**(0.1)**	-
Foreign exchange (gain) loss	**0.3**	0.1	**0.8**	(0.7)
Adjusted EBITDA	**6.6**	12.4	**51.6**	58.3

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 (loss) as presented is not intended to represent net earnings (loss) or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings (loss) per share and Adjusted net earnings (loss) per share – diluted are calculated as Adjusted net earnings (loss) divided by the number of weighted average basic and diluted shares outstanding, respectively. The following tables provide a quantitative reconciliation of net earnings (loss) to Adjusted net earnings (loss) for the three months and year ended December 31:

$ millions	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
Net earnings (loss) for the period	**(2.3)**	3.5	**11.4**	20.3
Adjustments to net earnings (loss):				
Other expenses	-	-	0.8	-
Adjusted net earnings (loss)	**(2.3)**	3.5	**12.2**	20.3

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 (loss) or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

Oilfield Services Operating Margin %

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

$ millions	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenue	**47.8**	51.5	**203.3**	210.2
Less:				
Oilfield services expense	**37.6**	35.1	**135.5**	134.8
Oilfield Services Operating Margin	**10.2**	16.4	**67.8**	75.4
Oilfield Services Operating Margin (%)	**21%**	32%	**33%**	36%

Percent of Revenue

Certain figures are stated as a percent of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

Funds Provided from Operations

Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash flow from operating activities before working capital adjustments (funds provided from operations) is a useful supplemental measure as it provides an indication of the funds generated by High Arctic's principal business activities prior to consideration of changes in items of working capital.

This measure is used by management to analyze funds provided from operating activities prior to the net effect of changes in items of non-cash working capital and is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months and year ended December 31:

$ millions	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017	Year Ended December 31, 2018	Year Ended December 31, 2017
Net cash generated from operating activities	**16.5**	5.8	**42.1**	34.3
Less:				
Net changes in items of non-cash working capital	**(14.5)**	3.5	**(5.3)**	10.9
Funds provided from operations	**2.0**	9.3	**36.8**	45.2

Working capital

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

	As At	
$ millions	December 31, 2018	December 31, 2017
Current assets	**80.4**	77.1
Less:		
Current liabilities	**(23.6)**	(23.4)
Working capital	**56.8**	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	**December 31, 2018**	**December 31, 2017**
Cash and cash equivalents	**31.5**	22.1
Less:		
Long-term debt	**-**	-
Net cash	**31.5**	22.1

High Arctic Energy Services Inc.

Consolidated Statements of Financial Position

For the years ended December 31, 2018 and 2017

Canadian $ Millions

	December 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	31.5	22.1
Accounts receivable	36.5	40.4
Short term investments	1.0	2.4
Inventory	10.6	10.0
Income taxes receivable	0.0	1.3
Prepaid expenses	0.8	0.9
	80.4	77.1
Non-current assets		
Property and equipment	184.4	182.9
Deferred tax asset	7.6	7.0
Total assets	**272.4**	**267.0**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	21.6	21.5
Dividend payable	0.8	0.9
Current portion of deferred revenue	0.2	1.0
Contingent Liability	1.0	-
	23.6	23.4
Non-current liabilities		
Finance lease obligation	0.5	0.5
Unfavourable lease liability	2.8	3.1
Deferred tax liability	11.3	9.2
Total liabilities	**38.2**	**36.2**
Shareholders' equity	**234.2**	**230.8**
Total liabilities and shareholders' equity	**272.4**	**267.0**

High Arctic Energy Services Inc.

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2018 and 2017

Canadian $ Millions, except per share amounts

	2018	2017
Revenue	203.3	210.2
Expenses		
Oilfield services	135.5	134.8
General and administration	17.0	17.1
Depreciation	25.7	25.9
Share-based compensation	1.4	0.7
	179.6	178.5
Operating earnings	**23.7**	**31.7**
Foreign exchange loss (gain)	0.8	(0.7)
Gain on sale of property and equipment	(0.1)	-
Interest and finance expense	0.6	1.0
Net earnings before income taxes	**22.4**	**31.4**
Current income tax expense	12.9	11.9
Deferred income tax expense (recovery)	(1.9)	(0.8)
	11.0	11.1
Net earnings for the year	**11.4**	**20.3**
Earnings per share:		
Basic	0.22	0.38
Diluted	0.22	0.38

	2018	2017
Net earnings for the year	11.4	20.3
Other comprehensive income:		
Items that may be reclassified subsequently to net income:		
Foreign currency translation gains (losses) for foreign operations	11.7	(9.5)
Items that may not be reclassified subsequently to net income:		
Losses on short term investments, net of tax (note 7)	(1.4)	(0.6)
Comprehensive income for the year	**21.7**	**10.2**

High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows
For the year ended December 31, 2018 and 2017
Canadian $ Millions

	2018	2017
Net earnings for the year	11.4	20.3
Adjustments for:		
Depreciation	25.7	25.9
Provision for unfavourable lease	(0.4)	(0.4)
Share-based compensation	1.4	0.7
Gain on sale of property and equipment	(0.1)	-
Foreign exchange loss (gain)	0.8	(0.5)
Deferred income tax recovery	(2.0)	(0.8)
	36.8	45.2
Net changes in items of working capital	5.3	(10.9)
Net cash generated from operating activities	42.1	34.3
Investing activities		
Additions of property and equipment	(9.8)	(6.8)
Business acquisition	(8.0)	-
Disposal of short term investments	-	1.8
Disposal of property and equipment	3.4	1.0
Net changes in items of working capital	0.8	0.8
Net cash used in investing activities	(13.6)	(3.2)
Financing activities		
Long-term debt proceeds	4.8	11.7
Long-term debt repayments	(4.8)	(35.7)
Dividend payments	(10.3)	(10.5)
Purchase of common shares for cancellation	(9.8)	-
Issuance of common shares, net of costs	0.4	0.3
Finance lease obligation payments	(1.0)	(0.7)
Net cash used in investing activities	(20.7)	(34.9)
Effect of exchange rate changes	1.6	(1.4)
Net change in cash and cash equivalents	9.4	(5.2)
Cash and cash equivalents - beginning of year	22.1	27.3
Cash and cash equivalents - end of year	**31.5**	**22.1**
Cash paid for:		
Interest	0.6	1.1
Income taxes	11.3	12.5

Forward-Looking Statements

This Press Release contains forward-looking statements. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “seek”, “propose”, “estimate”, “expect”, and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to vary from those described in this Press Release. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this Press Release as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this Press Release include, among others, statements pertaining to the following: general economic and business conditions which will, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2019 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 is a market leader providing drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis in Papua New Guinea. The Canadian and US operations provides well servicing, well abandonment, snubbing and nitrogen services and equipment on a rental basis to a large number of oil and natural gas exploration and production companies operating in Western Canada and the United States.

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