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High Arctic Announces 2019 Fourth Quarter and Year End Financial and Operating Results

CALGARY, Canada – March 12, 2020 – High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic"). The audited consolidated financial statements, management discussion & analysis ("MD&A), and annual information form for the year ended December 31, 2019 will be available on SEDAR at www.sedar.com, and on High Arctic's website at www.haes.ca. Non-IFRS measures, such as EBITDA, Adjusted EBITDA, Adjusted Net Earnings (Loss), Operating margin % and working capital are included in this News Release. See Non-IFRS Measures section, below. All amounts are denominated in Canadian dollars ("CAD"), unless otherwise indicated.

RECENT GLOBAL DEVELOPMENTS

First quarter 2020 global events have significantly impacted the global economy and weakened High Arctic's near-term outlook. The spread of the COVID-19 virus around the world in combination with OPEC's inability to contain global oil supply during early March 2020 has significantly undermined commodity prices, customer cash flows and investor confidence. Further, the influence of these recent developments and the impact to our customers' capital spending budgets, as well as their ability to pay for work completed on a timely basis is currently unknown and may have a significant impact on High Arctic's financial operating results.

These developments reinforce and further heighten High Arctic's strategic focus. The importance of a strong financial position and customer service differentiation through high quality is absolutely imperative. These attributes are key principles for High Arctic throughout the energy industry economic cycle, as demonstrated in fiscal 2019. We enter the challenging period ahead in a strong position with positive net cash on the balance sheet.

The Corporation is currently reviewing the impact of these global events on our business. We are re-forecasting our budget internally with a view of preserving cash flow and balance sheet strength. We are keeping options open with respect to our dividends, share repurchases and strategic investments.

HIGHLIGHTS

Recent developments relating to the COVID-19 virus, the instability created by OPEC's inability to contain global oil supply and the impact on commodity prices creates significant global uncertainty at this time, the implications of which could cause energy demand disruption in the near and long-term. Notwithstanding these challenging developments, High Arctic's strong and debt-free balance sheet at December 31, 2019 provides an opportunity to consider strategic investments.

The oil and natural gas industry continued to face commodity price challenges in 2019, which created difficult capital market access and an environment of capital spending caution. Such caution has slowed drilling and completion activity industry-wide. The Corporation has responded by maintaining a focus on cash flow management, and disciplined capital expenditure and cost efficiency programs. Activity in the United States ("US") offset some of the headwinds that prevailed in Canada during the year. Further, the Corporation continues to actively seek new opportunities in Papua New Guinea ("PNG").

During the year, the Chairman of High Arctic's Board of Directors was appointed as PNG Honorary Consul to Canada. The Corporation is looking forward to continuing positive and productive business relationships with PNG.

A summary of results for the Corporation for the fourth quarter and for the year ended December 31, 2019 are outlined below.

RESULTS OVERVIEW

	Three Months Ended December 31		Year ended December 31	
	2019	2018	**2019**	2018
Financial ($ millions CAD, unless otherwise noted)				
Revenue	**42.8**	47.8	**185.5**	203.3
Adjusted EBITDA [(1)]	**3.6**	6.6	**19.4**	51.6
Operating earnings (loss) [(1)]	**(3.9)**	(0.8)	**(9.4)**	23.7
Net earnings (loss)	**(2.7)**	(2.3)	**(8.8)**	11.4
Adjusted net earnings (loss) [(1)]	**(2.7)**	(2.3)	**(9.9)**	12.2
Net earnings (loss) per share	**(0.06)**	(0.04)	**(0.18)**	0.22
Cash provided by operations	**1.2**	16.5	**12.7**	42.1
Funds provided by operations [(1)]	**3.1**	2.0	**15.3**	36.9
Capital spending	**(4.9)**	(3.7)	**(14.8)**	(9.8)
Business acquisitions	**-**	0.2	**(8.3)**	(8.0)
Proceeds from capital disposals	**3.3**	5.9	**4.9**	3.4
Working capital [(1)]	**-**	-	**35.8**	56.8
Cash	**-**	-	**9.3**	31.5
Total assets	**-**	-	**251.8**	272.4

(1) Not defined under IFRS. See Non-IFRS Measures, below.

	Three Months Ended December 31 2019	2018	Year ended December 31 2019	2018
Operating Highlights				
Revenue (CAD $Millions):				
Production Services	**24.3**	21.4	**92.4**	84.9
Drilling Services	**13.5**	20.8	**71.5**	93.0
Ancillary Services	**5.6**	6.4	**24.6**	29.1
Inter-segment eliminations	**(0.6)**	(0.8)	**(3.0)**	(3.7)
Total	**42.8**	47.8	**185.5**	203.3
Production Services- Canada:				
Service rigs				
Average Fleet #	**57**	58	**57**	58
Utilization %	**53%**	51%	**53%**	56%
Operating hours	**27,382**	27,161	**109,162**	117,395
Revenue per hour	**$607**	$616	**$606**	$616
Snubbing rigs				
Average Fleet #	**18**	17	**18**	10
Utilization %	**19%**	15%	**16%**	20%
Operating hours	**3,085**	2,371	**10,385**	7,401
Production Services - US:				
Service rigs				
Average Fleet #	**2**	1	**2**	1
Utilization %	**119%**	56%	**101%**	38%
Operating hours	**2,186**	517	**5,543**	517
Revenue per hour	**$907**	n/a	**$1,000**	n/a
Snubbing rigs				
Average Fleet #	**6**	4	**6**	4
Utilization %	**25%**	28%	**32%**	25%
Operating hours	**1,353**	1,016	**5,177**	1,356

Fourth Quarter

- High Arctic reported revenue of $42.8 million, incurred a net loss of $2.7 million and realized Adjusted EBITDA(1) of $3.6 million in Q4-2019;
- Utilization for High Arctic's 57 registered Concord Well Servicing rigs (Production Services) was 53% in the Quarter versus industry utilization of 33% (source: Canadian Association of Oilwell Drilling Contractors "CAODC");
- Drilling Services revenue decreased 35% in the Quarter to $13.5 million from $20.8 million in Q4-2018. This decrease was due primarily to Rig 104 moving back to Moro Base in Q3-2019 to be stacked. Rig 103 continued operations throughout the Quarter, while the preservation of Rig 104 in the Moro Base was completed in Q3-2019 and crews were released. Rig 115 and Rig 116 were preserved in cold stack during the Quarter and remain ready to redeploy.
- Consistent with prior quarters, High Arctic declared $2.5 million ($0.05 per share) in dividends during the Quarter which represents 81% of funds from operations in the Quarter. High Arctic did not repurchase any shares during the Quarter.

(1) EBITDA is not defined under IFRS. See Non-IFRS Measures, below.

Year to Date 2019

- Year to date the Corporation reported revenue of $185.5 million, incurred a net loss of $8.8 million and realized Adjusted EBITDA(1) of $19.4 million;
- Adjusted EBITDA decreased $32.2 million YTD-2019 compared to YTD-2018. The decline is due to a reduction in revenue combined with a greater proportion of revenue contribution from lower margin Production Services compared to 2018.
- The Production Services segment revenue increased to $92.4 million in 2019 from $84.9 million in 2018. YTD-2019 the Concord rigs in Canada have generated 109,162 operating hours for a 53% utilization of the Corporation's 57 average CAODC registered service rigs versus 56% utilization and 117,395 hours achieved YTD-2018 (source: CAODC). The decrease in Canadian well service hours were partially offset by year to date hours achieved in the US, which increased to 5,543 hours YTD-2019, up from 517 hours YTD-2018. YTD-2019 the Concord rigs generated an average revenue rate of $606 per hour in Canada compared to an average revenue rate of $616 per hour YTD-2018.
- Total operating hours for the Corporation's snubbing rigs (Production Services) increased by 78% YTD-2019 versus YTD-2018. This increase in activity was mainly due to the increased hours by US operations, which generated 5,177 hours YTD-2019 vs. 1,356 operating hours YTD-2018.
- Lower drilling activity has contributed to a 23% decline in Drilling Services revenue to $71.5 million YTD-2019 versus $93.0 million generated YTD-2018. This decrease was driven by the end of the take-or-pay contract for Rig 116 in Q4-2018 which is reflected in the YTD-2018 results. Rig 115 remained stacked through 2019, having worked the first half of 2018 and having generated a contract break fee in Q3-2018. Rigs 115 and 116 have not been deployed in 2019 though they remain stacked, preserved and ready to deploy when market conditions improve.
- High Arctic continues to maintain a strong balance sheet with $9.3 million in cash and a positive working capital(1) balance of $35.8 million;
- A total of $15.0 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 $9.9 million. The Corporation purchased and cancelled 1,397,247 common shares for total consideration of $5.1 million under the Corporation's Normal Course Issuer Bid ("NCIB"). Subsequent to December 31, 2019, the Corporation did not purchase any common shares under this program.

(1) EBITDA and working capital are not defined under IFRS. See Non-IFRS Measures, below.

Liquidity and Capital Resources

As at December 31, 2019, the Corporation had $nil outstanding on its debt facilities and $9.3 million in cash. Further, High Arctic's credit facility consisted of a $45.0 million revolving loan facility which matures on August 31, 2021. 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, 2019, there was no amount drawn on the facility and total credit available to draw was $45.0 million. The Corporation's loan facilities are subject to two financial covenants, which are reported to the lender on a quarterly basis. The Corporation remains in compliance with the financial covenants under its credit facility as at December 31, 2019. The two covenants are to keep the Funded Debt to covenant EBITDA Ratio under 3.00 to 1.00 (previously 2.50 to 1.00) and maintain its ratio of covenant EBITDA to interest expense at any time to be greater than 3.00 to 1.00. Both are calculated quarterly on the last day of each fiscal quarter on a rolling four quarter basis.

On November 15, 2018 the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,700,386 common shares, representing approximately 10 percent of the Corporation's public float, under a NCIB. The NCIB was valid for one year and expired on November 18, 2019. A total of 1,397,247 common shares have been purchased and cancelled under this NCIB as at December 31, 2019 at a cost of $5.1 million.

On November 28, 2019 the Corporation received approval from the Toronto Stock Exchange to acquire for cancellation up to 2,552,229 common shares, representing approximately 10 percent of the Corporation's public float, under a NCIB. The NCIB is valid for one year and will expire on December 1, 2020. No common shares have been purchased and cancelled under this NCIB as at December 31, 2019. Subsequent to December 31, 2019 year end, the Corporation did not purchase any common shares under this program. In addition, no further common or preferred shares were issued subsequent to December 31, 2019 up to March 12, 2020.

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 USD 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 USD. 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 USD 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 USD which may impact the Corporation's ability to settle USD 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.

Impact of IFRS 16 – *Leases* ("IFRS 16"), on Financial Information

On January 1, 2019, High Arctic adopted IFRS 16 using the modified retrospective approach under which comparative information has not been restated. As a result of this adoption, the Corporation capitalized $8 million of right-of-use assets, recorded $11.2 million in discounted lease liabilities, and removed associated lease assets and liabilities that were recorded under the former standard which are no longer applicable under IFRS 16.

BUSINESS OUTLOOK

March 2020 developments regarding the COVID-19 virus, the instability created by OPEC's inability to contain global oil supply and the impact to commodity prices, collectively create an environment where investor confidence is being undermined. Certain customers have indicated that they intend to place greater focus on maintaining existing production levels in an effort to manage their expenditures within cash generated from operations.

Notwithstanding the above, and in line with our strategic priorities, maintaining a strong balance sheet and strict cost control are priorities for the Corporation, to continue operating effectively in an environment with surplus equipment and low prices for High Arctic's services. As customer demands change, High Arctic is implementing strategic capital spending restraint on existing equipment fleets and further enhancing cost effectiveness of underlying operational and administrative infrastructure in 2020.

High Arctic's strong balance sheet enables it to consider investment opportunities both domestically and internationally. Acquisitions completed in 2019 have resulted in the successful consolidation of the Canadian Snubbing business, making High Arctic the largest snubbing provider in Canada with 33 units representing more than 50% of the Canadian market (Source: Petroleum Services Association of Canada). 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.

In Papua New Guinea, activity has continued to be light as the oil price and associated LNG pricing has remained subdued and with the prolonged negotiations between the State and the partners in the Papua New Guinea LNG project ("Papua LNG") for a gas agreement, project work has continued to defer. The announcement in August 2019 that the Papua LNG gas sales agreement would be honoured by the Government was positively received, but failure of the State and PNG-LNG partners to sign the P'nyang Gas Agreement in January 2020 that underpins the parallel project of co-habited PNG-LNG expansion train has seen project works for both LNG projects continue to defer into the future. While encouraged by recent PNG Prime Ministerial announcements of a special Ministerial Gas Committee to review the P'nyang Gas Agreement negotiations and "decide what is the best outcome for PNG", we have changed our outlook and expect continued low well site activity in PNG through 2020.

High Arctic continues to be active in examining acquisitions domestically and abroad, that are consistent with our strategic objective of deep value opportunities to consolidate existing markets and diversify into new regions, solidifying customer relationships to gain market share, specialty niche operations with noteworthy barriers to entry and expand when industry conditions permit.

ABOUT HIGH ARCTIC ENERGY SERVICES

High Arctic'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 operation 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.

NON-IFRS MEASURES

In this News Release, High Arctic has used the terms EBITDA, Adjusted EBITDA, Adjusted Net Earnings (Loss), Operating margin % and working capital, none of which have standardized meanings prescribed under IFRS. High Arctic's method of calculating these measures may differ from the method used by other entities and, accordingly, they may not be comparable to similar measures presented by other companies. These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), current assets or current liabilities and/or other measures of financial performance as determined in accordance with IFRS. For additional information regarding non-IFRS measures, including their use to management and investors and reconciliations to measures recognized by IFRS, please refer to the Corporation's MD&A, which is available online at www.sedar.com and through High Arctic's website at www.haes.ca.

FORWARD-LOOKING STATEMENTS

This News 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 News 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 News 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 2020 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 USD bank account and conduct its business in USD 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 News Release, the Corporation has made assumptions where 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 News 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 News Release are expressly qualified in their entirety by this cautionary statement. These statements are given only as of the date of this News 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, snubbing and other services to the oil and gas industry.

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