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High Arctic Announces 2020 First Quarter Financial and Operating Results

CALGARY, Canada – May 14, 2020 – High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' first quarter results today.

HIGHLIGHTS

The following highlights the Corporation's results for Q1-2020:

- Internal promotion of Mike Maguire to CEO to lead the Corporation's response to the current global crisis.
- Revenue of $39.6 million (Q1-2019 $46.5 million) and adjusted EBITDA of $2.7 million (Q1-2019 $5.5 million) for the Quarter.
- Implementation of programs with a target to reduce annualized cash outflows by $25 million compared to 2019.
- Deliverance of top-tier quality essential services to our core customers during the onset of the crisis to maintain our base business.
- Strict oversight of working capital to manage our cash balances and maintain a strong balance sheet through the crisis.

Mike Maguire, Chief Executive Officer commented: "*We are in challenging times, but we have a corporate culture of delivering high quality services for our customers. Our team is focused on keeping our base business and balance sheet strong to ensure we are ready to excel in the recovery when it comes*."

The Corporation's strategic priorities for 2020 include:

- Safety excellence and a focus on quality through global standards, including safeguarding our people against COVID-19.
- Reinforcement of existing core markets evidenced by top-tier customer market share in Canada and PNG.
- Cost control focused on operating cash flow while balancing strategic priorities, to emerge from the current conditions ready to reactivate and grow.
- Capital stewardship characterized by disciplined working capital management and capital allocation to maintain value for shareholders including common share buybacks, where appropriate.

The unaudited interim consolidated financial statements ("Financial Statements") and management discussion & analysis ("MD&A") for the quarter ended March 31, 2020 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), Oilfield services operating margin, Operating margin %, Percent of revenue, Funds provided from operations, Working capital and Net cash are included in this News Release. See Non-IFRS Measures section, below. All amounts are denominated in Canadian dollars ("CAD"), unless otherwise indicated.

Within this News Release, the three months ended March 31, 2020 may be referred to as the "**Quarter**" or "**Q1-2020**". The comparative three months ended March 31, 2019 may be referred to as "**Q1-2019**". References to other quarters may be presented as "**QX-20XX**" with X being the quarter/year to which the commentary relates.

RESULTS OVERVIEW

($ millions, except per share amounts)	For the three months ended March 31 2020	2019
Revenue	**39.6**	46.5
EBITDA (1)	**5.5**	6.2
Adjusted EBITDA (1)	**2.7**	5.5
Adjusted EBITDA as % of revenue	**7%**	12%
Operating loss	**(4.7)**	(1.8)
Net loss	**(2.2)**	(1.0)
Per share (basic and diluted) (2)	**(0.04)**	(0.02)
Funds provided from operations (1)	**2.0**	4.8
Per share (basic and diluted) (2)	**0.04**	0.10
Dividends	**1.6**	2.5
Per share (basic and diluted) (2)	**0.03**	0.05
Capital expenditures	**1.9**	2.6

($ millions, except share amounts)	As at March 31 2020	December 31, 2019
Working capital (1)	**51.8**	35.8
Cash, end of period	**28.3**	9.3
Total assets	**264.6**	251.8
Long-term debt	**10.0**	-
Total long-term financial liabilities	**18.8**	9.1
Shareholders' equity	**210.4**	205.6
Per share (basic and diluted)	**4.24**	4.11
Common shares outstanding, millions	**49.6**	49.6

(1) Readers are cautioned that EBITDA (Earnings before interest, tax, depreciation and amortization), Adjusted EBITDA, Adjusted net earnings, Funds provided from operations, and working capital do not have standardized meanings prescribed by IFRS – see “Non IFRS Measures” on page 17 of MD&A for calculations of these measures.

(2) The number of common shares used in calculating net loss per share, funds provided from operations per share, dividends per share and shareholders’ equity per shares is determined as explained in Note 7 of the Financial Statements.

Operating Highlights	Three months ended March 31 2020	2019
Revenue (CAD $Millions):		
Drilling Services	**13.9**	18.8
Production Services	**21.8**	22.8
Ancillary Services	**4.5**	5.7
Inter-segment eliminations	**(0.6)**	(0.8)
Total	**39.6**	46.5
Production Services- Canada:		
Service rigs		
Average Fleet #	**51**	56
Utilization %	**58%**	54%
Operating hours	**26,899**	27,410
Revenue per hour	**623**	627
Snubbing rigs		
Average Fleet #	**9**	16
Utilization %	**31%**	20%
Operating hours	**2,555**	2,925
Production Services - US:		
Service rigs		
Average Fleet #	**3**	1
Utilization %	**41%**	56%
Operating hours	**1,114**	503
Revenue per hour	**934**	846
Snubbing rigs		
Average Fleet #	**6**	4
Utilization %	**9%**	30%
Operating hours	**467**	1,081

First Quarter 2020:

- High Arctic reported revenue of $39.6 million, incurred a net loss of $2.2 million and realized Adjusted EBITDA of $2.7 million during Q1-2020. This compares to Q1-2019, with revenue of $46.5 million, a net loss of $1.0 million and Adjusted EBITDA of $5.5 million. Changes were mainly due to $6.9 million of reduced revenue, attributable to reduced drilling services activity, with revenue reduction of $4.9 million over Q1-2019, together with $0.8 million of restructuring costs.
- Q1-2020 dividends amounted to $1.6 million ($0.03 per share), compared to $2.5 million in Q1-2019 ($0.05 per share).
- Dividends were suspended in March 2020, which amount to approximately $0.8 million per month.
- Cash increased $19.0 million as compared to a decrease of $8.5 million in Q1-2019.
- Late in Q1-2020, the Corporation drew $10 million on its available $45 million loan facility.
- Utilization for High Arctic's 50 registered Concord Well Servicing rigs was 58% in the Quarter versus industry utilization of 36% (source: Canadian Association of Oilwell Drilling Contractors "**CAODC**"), and
- High Arctic did not repurchase any shares during the Quarter.

RESPONDING TO RECENT GLOBAL DEVELOPMENTS

During Q1-2020, the global coronavirus ("**COVID-19**") reached a pandemic state as declared by the World Health Organization on March 11th. Measures taken by governments around the world to contain the virus significantly reduced demand for crude oil along with other products and services. This caused a significant slowdown in the global economy, market volatility and significant uncertainty in terms of how long these conditions will persist.

At the same time, the cooperation between the Organization of Petroleum Exporting Countries ("**OPEC**") and non-OPEC members, primarily Saudi Arabia and Russia, to manage global crude oil production levels broke down and each party increased their daily crude production, increasing overall global supply. The combination of these events resulted in a crisis and sudden decline in benchmark crude oil prices. Average benchmark crude oil prices in March 2020 declined approximately 50 percent compared with average prices in December 2019.

As customers reduce their capital and other spending, including shut-ins of production to manage through this event, the services needed for drilling and completions and other services to the oil and gas industry have been negatively impacted. The duration of the current commodity price volatility is uncertain.

Recognizing the severe financial impact of these conditions to near-term customer cash flow and the immediate shift from growth to urgent cash preservation and financial flexibility, High Arctic was quick to adjust in anticipation of slowing customer demand. Accordingly, the Corporation has implemented measures expected to reduce certain cash outflows by approximately $25 million over prior-year 2019 levels including:

- A 65% reduction in capital expenditures.
- The suspension of monthly shareholder dividends in March 2020.
- A 30% to 50% workforce reduction to executive, management and support personnel.
- Acceleration of change to globalize processes and reduce fixed infrastructure costs, and
- Change in executive leadership and formation of a Board Executive Committee to provide oversight.

These austerity measures were carefully considered to reinforce High Arctic's solid base of business in the markets we compete in while preserving a strong financial position and quality service offerings.

To close out the 2020 first quarter we are well positioned to persevere through the uncertainty with capacity ready for deployment when markets recover and restore activity levels. Highlights include:

- Resilient focus on the safety and well being of our people through mature health, safety and environment policies including procedures to safeguard against COVID-19.
- Core customer base in Canada and a term contract through Q3-2021 for well servicing with a large investment grade customer in western Canada.
- Standing operations in PNG since 2012 and a term contract through Q3 2021 for heli-portable drilling services with a leading customer in PNG.
- Regional workforce strength and equipment poised for quick activation.
- A dominant market share and niche service offering positioned for liquified natural gas development with heli-portable drilling services in PNG and snubbing services in western Canada, and
- Liquidity of $63 million with cash of $28 million combined with $35 million in Bank Facility borrowing capacity.

High Arctic's near-term outlook will continue to be impacted until such time as the COVID-19 pandemic stabilizes, world economies begin to open up, and travel restrictions are removed. Further, the impact of future impairment charges, increased risk of collectability of accounts receivable and measurement uncertainty will continue to be relevant considerations in future periods if conditions persist or worsen. The Corporation's flexible operating plan will provide options to prudently manage operations and preserve financial flexibility.

During Q1-2020, the Corporation responded immediately to reduce operating expenses in line with revenue generating activities, and further reduced indirect support and general and administrative personnel world-wide, providing significant annualized cost savings. Further, High Arctic undertook an extensive cash re-budgeting process, in response to higher risks and uncertainty in the current environment. The Corporation suspended its monthly dividend in March 2020 for an indefinite term to preserve cash resources.

High Arctic reached out to its customers to ensure that close working relations are continued as we all manage through this downturn. Our focus on high quality service and customer service differentiation continues to be an absolute imperative. These attributes have been, and continue to be, key principles for High Arctic throughout the energy industry economic cycle.

The impact to our customers' capital spending and operating budgets, and their ability to pay for work completed on a timely basis, could have a significant impact on High Arctic's financial operating results as the time period associated with the global shut-down extends into the year. We continue to work closely with our customers to ensure credit and operating risks are minimized.

Although details are still forthcoming, the Canadian federal government's $1.7 billion well abandonment and site reclamation stimulus may provide meaningful opportunity for High Arctic to participate in the resulting work programs, through our Production Services segment.

Liquidity and Capital Resources

Operating Activities

Cash provided from operations of $8.6 million (Q1-2019 - $ nil) for the Quarter was due to $2.0 million of funds flow and $6.6 million due to working capital changes, mainly the reduction in accounts receivable during the quarter.

Investing Activities

During the Quarter, the Corporation's cash from investing activities amounted to $1.9 million (Q1-2019 – use of $1.4 million). Capital expenditures during the Quarter of $1.9 million (Q1-2019 - $2.6 million) were offset by proceeds on disposal of $4.9 million (Q1-2019 – $1.4 million). The balance of the change related to changes in associated accounts payable for capital items.

Financing Activities

During the Quarter, the Corporation drew $10 million of its $45 million available long-term debt facility. High Arctic distributed $1.6 million in dividends to its shareholders, down $0.9 million from $2.5 million in Q1-2019 as a result of the suspension of dividends in March 2020.

Further, no common share buy-backs were completed in the Quarter, compared to $2.9 million that were purchased and cancelled in Q1-2019 under the Normal Course Issuer Bid ("**NCIB**"). Dividends payable decreased by $0.8 million in the Quarter, accounting for the change in non-cash working capital.

Credit Facility

As noted above, the Corporation has drawn $10 million of the $45 million revolving loan facility available, 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 Corporation's loan facility is subject to two financial covenants which are reported to the lender on a quarterly basis. As at March 31, 2020, the Corporation remains in compliance with these two financial covenants under the credit facility.

The covenant calculations at March 31, 2020 are:

Covenant	Required	As at March 31, 2020
Funded debt to covenant EBITDA [1][2]	3.0 : 1 Maximum	**0.65 : 1**
Covenant EBITDA to Interest expense [2]	3.0 : 1 Minimum	**16.1 : 1**

(1) Funded debt to covenant EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate EBITDA for the trailing four quarters. Funded debt is the amount of debt provided and outstanding at the date of the covenant calculation.

(2) EBITDA for the purposes of calculating the covenants, "covenant EBITDA," is defined as net income plus interest expense, current tax expense, depreciation, amortization, future income tax expense (recovery), share based compensation expense less gains from foreign exchange and sale or purchase of assets.

OUTLOOK

While the outlook for the global oil business is challenging, High Arctic is taking measures during this period of uncertainty to provide financial flexibility and reinforce our solid base of business. Our people continue to focus on quality as measured by safety performance excellence and long-term customer relationships. Our diversification with operations in Canada, an emerging presence in the US and lead service provider status in PNG has proven beneficial to mitigate currency and commodity risk. Initiatives taken to reduce cash outflows by $25 million over 2019 levels serves to preserve financial strength and cope through this unprecedented COVID-19 economic downturn.

In Papua New Guinea, active well site work ceased quickly in March 2020 as response by our customers to the significant travel bans and declaration of the PNG Government of a State of Emergency.

While the Corporations Drilling Services are suspended, we continue to provide skilled personnel and rental services to assist our customers with services to maintain the production of oil and LNG essential to the people of Papua New Guinea and their foreign customers. While the government of PNG was quick to respond to the COVID-19 crisis and has announced some relief for displaced workers, the Corporation does not expect any stimulus announcements to support the energy sector. A return to well site activity levels of recent years will be predicated on stabilised commodity prices, lifting of State of Emergency, removal of travel restrictions and the signing of an agreement with the State for the P'nyang gas development.

Given the outbreak of the COVID-19 virus and the recent government mandated decisions that have been made as a result, the impact will be substantial, at least in the immediate term. Furthermore, in the absence of information regarding when or how government orders to return to any type of normal operating pattern will be made, we cannot offer any meaningful guidance or outlook to our shareholders at this time. Economic activity and demand will be determined by the actions and policies of government as the pandemic and its' impact unfolds in the coming months.

High Arctic's Outlook dated March 12, 2020, outlined the instability which existed at that time due to COVID-19. As events unfolded we took very quick action to prepare for a serious disruption in economic growth and demand destruction. These steps included restructuring our work force, while ensuring the close relationships with our lender, customers and vendors were appropriately managed and maintained.

It is clear that the next few months and potentially quarters will be difficult. High Arctic believes we are positioned to manage through these challenging times given our strong relationships with our customers, our ability to capitalize upon Canadian government abandonment programs, and our continued focus on excellence in our service offering. The health of our balance sheet, our strong working capital position and the skill of our management team provide us the ability to weather the economic slowdown until activity can be restored. Business combinations and acquisitions will be reviewed to the extent they strengthen our service base but will not be our primary focus over the short-term.

NON - IFRS MEASURES

This News Release contains references to certain financial measures that do not have a standardized meaning prescribed by International Financial Reporting Standards ("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 EBITDA, Adjusted EBITDA, Adjusted net earnings (loss), Oilfield services operating margin, Percent of revenue, Funds provided from operations, Working capital, and Net cash, none of which have standardized meanings prescribed under IFRS.

These financial measures should not be considered as an alternative to, or more meaningful than, net income (loss), Cash from operating activities, current assets or current liabilities, cash 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 News 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; initiatives to reduce cash outlays by $25 million over 2019 levels; continued safety performance excellence; oversight of working capital to maintain a strong balance sheet; 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 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 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 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.

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