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High Arctic Announces 2022 First Quarter Financial and Operating Results

CALGARY, Canada – May 12, 2022, High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' first quarter results today.

Mike Maguire, Chief Executive Officer commented:

"High Arctic built on its strong 2021 closing position this quarter, continuing the trend of increasing revenue and earnings, and coupled this with raises to contract pricing. The increased activity in PNG and growing contribution from the ongoing deployment of our refurbished and enhanced automated hydraulic catwalks in Canada were notable highlights.

We were pleased with the successful return to operation of Rig-115 in Papua New Guinea. The legacy exploration well was professionally capped and abandoned fulfilling a key ESG commitment and added to High Arctic's record of 5+ years of recordable safety incident free work in PNG. We look forward to increasing activity in PNG, where we anticipate activity levels in the coming years have potential to exceed our past peaks. We expect further announcements about advancement of the Papua LNG project, and the development of P'nyang and other PNG-LNG fields, among other projects to increase oil and gas production.

Also noteworthy was the three-year contract renewal we recently announced with one of our largest and longest standing customers for the provision of well servicing rigs in Cold Lake, Alberta, on substantially improved terms and pricing. The strong demand for our services and current labour driven constraints are positive for the continuation of pricing increases and margin growth in our Canadian production services.

Macro market conditions and business fundamentals support a very positive outlook for High Arctic into the second half of 2022 and beyond, and we are pleased to make the first payment under our reinstated monthly dividend this week."

Highlights

The following highlights the Corporation's results for Q1-2022:

- First quarter revenue of $28.7 million, EBITDA of $2.9 million, compared to $17.8 million and $1.2 million respectively in Q1-2021 and an improvement over Q4-2021 with $23.6 million and $1.2 million respectively.
- High Arctic recommenced drilling services activity in PNG during Q1-2022. PNG activity was the primary driver for growth in the Quarter as consolidated revenues rose by $10.9 million and 62% over Q1-2021.
- Oilfield operating services margin as a percent of revenue was modestly lower in Q1-2022 at 18.5% (Q1-2021 – 18.9%). Drilling and Ancillary services segments experienced improved margins, however, profitability decreased in High Arctic's Canadian Production Services segment primarily due to cost inflation, elimination of Canadian Emergency Wage Subsidy (CEWS), and non-capital cost of preparing equipment for service.
- In April 2022 High Arctic announced a 3-year renewal of a key Production Services contract which includes a 20% increase to the base hours rig rate, increases to ancillary equipment and service pricing, provisions for fuel adjustments, and alignment of parameters to current market conditions.
- High Arctic announced recommencement of a monthly dividend payment of $0.005 per share commencing in May 2022.
- Strong liquidity with a working capital balance of $30.6 million, cash of $11.4 million, increasing access to funds under the revolving credit facility covenants and long-term debt of $7.7 million.

Strategy

Our 2022 strategic priorities build on the platform we created in 2021 and include:

- Safety excellence and quality service,
- Actions aimed at generating free cash flow including:
    - Increased utilization of Corporation's world-class fleet of equipment,
    - Improved efficiency and work force productivity, and
    - Operating cost control
- Development of new and existing employees to grow our workforce to meet demand,
- Pursuit of opportunities that secure the Corporation's future as a lower emissions energy services provider,
- Pursuit of opportunities for growth and corporate transactions in well understood markets that enhance shareholder value, and
- Disciplined capital stewardship to improve returns including, divestitures, dividends and common share buybacks.

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The unaudited interim consolidated financial statements ("Financial Statements") and management discussion & analysis ("MD&A") for the quarter ended March 31, 2022 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, EBITDA for purposes of long-term debt covenants, 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, 2022 may be referred to as the "Quarter" or "Q1-2022". The comparative three-months ended March 31, 2021 may be referred to as "Q1-2021". References to other quarters may be presented as "QX-20XX" with X being the quarter/year to which the commentary relates. All amounts are expressed in thousands of Canadian dollars, unless otherwise noted.

RESULTS OVERVIEW

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

	For the three-months ended March 31	
($ thousands, except per share amounts)	**2022**	2021
Revenue	**28,696**	17,767
Net loss	**(2,671)**	(5,197)
Per share (basic and diluted)	**(0.05)**	(0.11)
Oilfield services operating margin	**5,310**	3,362
Oilfield services operating margin as a % of revenue	**18.5%**	18.9%
EBITDA	**2,944**	1,208
Adjusted EBITDA	**2,884**	874
Adjusted EBITDA as % of revenue	**10.1%**	4.9%
Operating loss	**(2,818)**	(6,145)
Cash provided by (used in) operating activities	**300**	(1,085)
Per share (basic and diluted)	**0.01**	(0.02)
Funds provided by operations	**2,243**	590
Per share (basic and diluted)	**0.05**	0.01
Capital expenditures	**1,582**	765

	As at	
($ thousands, except share amounts)	**March 31, 2022**	December 31, 2021
Working capital	**30,649**	29,724
Cash, end of period	**11,442**	12,037
Total assets	**182,042**	185,452
Long-term debt	**7,697**	7,779
Total long-term financial liabilities, excluding long-term debt	**12,602**	13,414
Shareholders' equity	**145,400**	148,851
Per share (basic and diluted)	**2.98**	3.05
Common shares outstanding, thousands	**48,733**	48,733

First Quarter 2022 Summary:

- For the three-months period ended March 31, 2022, High Arctic's consolidated revenues increased by $10,929 or 62% to $28,696, primarily due to higher Drilling and Ancillary revenues. Revenues in High Arctic's Canadian Production Services segment were flat as a result of lower activity offset by higher revenue per hour.
- Net loss of $2,671 in Q1-2022 was lower by 49% as compared to net loss of $5,197 in Q1-2021, mainly due to increased activity in PNG and lower depreciation expense of $1,360 in Q1-2022.
- Oilfield services operating margin as a percent of revenue of 18.5% (2021 – 18.9%) was lower in Q1-2022 due to lower profitability in High Arctic's Production Services segment in Canada. The Production Services segment collected $812 lower CEWS and experienced operational constraints relating to tight labour supply, rigs shutdown due to Covid-19 outbreaks, isolated poor weather conditions, high fuel costs, and higher equipment repair & maintenance expenditure to return equipment to service.
- In Q1-2022 High Arctic's net cash generated from operating activities was $300, with funds provided from operation of $2,243.

Drilling Services Segment

($ thousands, unless otherwise noted)	Three-months ended March 31 2022	2021
Revenue	**9,574**	752
Oilfield services expense	**7,477**	832
Oilfield services operating margin	**2,097**	(80)
Operating margin (%)	**21.9%**	(10.6%)

Production Services Segment

($ thousands, unless otherwise noted)	Three-months ended March 31 2022	2021
Revenue	**15,059**	15,375
Oilfield services expense	**14,815**	12,957
Oilfield services operating margin	**244**	2,418
Operating margin (%)	**1.6%**	15.7%

Operating Statistics – Canada	Three-months ended March 31 2022	2021
Service rigs:		
Average fleet	**51**	49
Utilization	**45%**	48%
Operating hours	**20,448**	21,120
Revenue per hour ($)	**658**	600
Snubbing rigs:		
Average fleet	**7**	8
Utilization	**17%**	28%
Operating hours	**1,062**	2,009

Ancillary Services Segment

($ thousands, unless otherwise noted)	Three-months ended March 31 2022	2021
Revenue	**4,725**	2,196
Oilfield services expense	**1,756**	1,171
Oilfield services operating margin	**2,969**	1,025
Operating margin (%)	**62.8%**	46.7%

Liquidity and Capital Resources

($ thousands)	Three-months ended March 31 2022	2021
Cash provided by (used in):		
Operating activities	**300**	(1,085)
Investing activities	**(418)**	93
Financing activities	**(521)**	(10,408)
Effect of exchange rate changes on cash	**44**	(181)
Decrease in cash	**(595)**	(11,581)

The Bank of PNG continues to encourage the use of the local market currency, Kina or PGK. 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 continues to use PGK for local transactions when practical. Included in the Bank of PNG's conditions is for PNG drilling contracts to be settled in PGK, unless otherwise approved by the Bank of PNG for the contracts to be settled in USD. The Corporation has historically received such approval for its 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 PGK which would expose the Corporation to exchange rate fluctuations related to the PGK. 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.

Operating Activities

In Q1-2022, cash generated from operating activities was $300 (Q1-2021: $1,085 cash used in operating activities), of which $2,243 are funds provided by operations (Q1-2021: $590), and $1,943 cash outflow from working capital changes (Q1-2021: $1,675) mainly due to increase in accounts receivable during the Quarter.

Investing Activities

During Q1-2022, the Corporation's cash used in investing activities was $418 (Q1-2021: $93 cash from investing activities). Capital expenditures were $1,582 (Q1-2021: $765) partially offset by $1,037 proceeds on disposal of property and equipment (Q1-2021: $571), and $127 cash inflow relating to working capital balance changes for capital items (Q1-2021: $287).

Financing Activities

In Q1-2022, the Corporation's cash used in financing activities was $521 (Q1-2021: $10,408). During the quarter the Corporation paid $54 towards principal payments on its mortgage financing, see "Mortgage Financing" below (Q1-2021: $10,000 loan payment Credit Facility), and $467 lease liability payments (Q1-2021: $408) in the Quarter.

Credit Facility

In December 2021, the Corporation amended its revolving credit facility from a borrowing limit of $45,000 to $37,000 and site-specific assets held as mortgage security for separate mortgage financing have been carved out. In addition, up to $5,000 of the revolving loan shall be available by way of account overdraft outside of covenant requirements described below.

The Corporation's revolving credit facility has a maturity date of August 31, 2023, is renewable with the lender's consent, and is secured by a general security agreement over the Corporation's assets.

Interest on the facility, which is independent of standby fees, is charged monthly at prime plus an applicable margin which fluctuates based on the Funded Debt to Covenant EBITDA ratio (defined below). The applicable margin can range between 0.75% – 1.75% depending on the level of principal outstanding; the higher the ratio the higher the margin. Standby fees also fluctuate based on the Funded Debt to Covenant EBITDA ratio and range between 0.40% and 0.60% of the undrawn balance; the higher the ratio the higher the standby fee percentage.

The facility is subject to two financial covenants which are reported to the lender on a quarterly basis. The first covenant requires the Funded Debt to Covenant EBITDA ratio to be less than 3.0 to 1 and the second covenant requires Covenant EBITDA to Interest Expense ratio to be a minimum of 3.0 to 1. Both are calculated on the last day of each fiscal quarter on a rolling four quarter basis. As at March 31, 2022, the Corporation was in compliance with these two financial covenants.

The financial covenant calculations at March 31, 2022 are:

Covenant	Covenant	**As at March 31, 2022**
Funded debt to Covenant EBITDA (1)	< 3.0x	-
Covenant EBITDA to Interest expense (1)	>3.0x	16.4

(1) As at March 31, 2022 the Corporation had access to $16.7 million of the revolving facility.

Funded Debt to Covenant EBITDA is defined as the ratio of consolidated Funded Debt to the aggregate Covenant EBITDA for the trailing four quarters. Funded Debt is the amount of debt provided and outstanding at the date of the covenant calculation. Interest Expense excludes any impact related to lease liabilities. Covenant EBITDA for the purposes of calculating the covenants is defined as a trailing 12-month net income (loss) plus interest expense, current tax expense, deferred income tax expense (recovery), depreciation and amortization, share-based compensation expense, and non-cash inventory write-downs, less gains from foreign exchange and sale or purchase of assets and lease payments.

Mortgage Financing

($ thousands)	**As at March 31, 2022**	As at December 31, 2021
Current	**324**	296
Non-current	**7,697**	7,779
Total	**8,021**	8,075

In December 2021, the Corporation entered into a mortgage arrangement with the Business Development Bank of Canada (BDC) for $8,100, secured by lands and buildings owned and occupied by High Arctic within Alberta. The mortgage financing provides the Corporation with long term liquidity and adds to existing cash balances. The mortgage has an initial term of 5 years with a fixed interest rate of 4.30% and an amortization period of 25 years with payments occurring monthly. The mortgage liability and associated financing costs are carved out of all revolving credit facility financial covenant calculations.

The Corporation capitalized $25 in financing fees incurred to set up the loan in 2021 and applied this to the long-term debt liability. Financing fees will be amortized over the expected life of the mortgage financing.

Outlook

High Arctic is focused on expanding its underlying quality service capacity within each of its existing core operations to deploy idle equipment in coordination with surging customer demand and prices. In Canada, demand exceeds our current crewing capacity and measures are in place to respond to this positive opportunity but will take time as sustained utilization and better compensation are necessary to attract personnel to our industry. In PNG, as previously updated, the short-term project that reactivated drilling operations was safely and successfully completed in Q2-2022. High Arctic remains active with its PNG Ancillary Services segment assets and is providing the services of its drilling personnel to key customers while planning for a rig resumption of its PNG based Drilling Services segment during the second half of 2022.

Oil and gas commodity prices have reached ten-year highs in the early months of 2022 driven by the easing of government-imposed restrictions related to the Covid-19 pandemic, and the crisis in Ukraine. The resulting economic and trade sanctions imposed on Russia by certain nations party to NATO and other OECD countries, has created a major re-organization of the global energy supply paths. Europe, who are already experiencing an underperformance of renewable energy supply, has been moving quickly to source new suppliers of gas, oil and even coal to enable the further sanctioning of Russia.

Overall, macro trade and economic conditions and the resulting high commodity prices have been beneficial to customers in High Arctic's two major markets and the Corporation appears well placed geographically and through its top-tier customers to benefit from increased activity through the second half of 2022 and beyond. Though the impact of Covid-19 cases amongst crews remains unpredictable, and market volatility from evolving global events lingers, High Arctic anticipates improvement in annual revenue and profit margins over the near to medium term.

Papua New Guinea continues to be key to High Arctic's long-term business strategy due to the significant LNG investments made by large oil and gas companies in the country and high barriers to entry due to the technical expertise required to operate the heli-portable drilling rigs in remote locations. High Arctic anticipates further investments in LNG infrastructure in PNG in the coming years and other projects to increase oil and gas production. High Arctic anticipates future drilling rig activity levels have potential to exceed our past peaks. This view is supported by the growing LNG supply deficit through 2040 as highlighted by the Shell LNG market update published in February 2022, the advancement of geothermal interest in PNG, and the expansion of our customer base to include all the active E&P companies in the country. We anticipate further announcements firming the development of the Elk-Antelope field for the Papua LNG project, and the development of P'nyang and other PNG-LNG fields to support an expansion of the PNG-LNG export facility, later this year.

In Canada, certain large infrastructure pipeline projects are positive for the oil and gas industry. Following the Enbridge Line 3 Replacement Project to the U.S. which entered service October 1, 2021, there is the LNG Canada pipeline project and the Trans Mountain Expansion under construction and upon completion will provide long awaited tidewater access to Asian markets. Additionally, in the near future, political focus on imports from countries outside North America may turn back towards the security of increased domestic supply. High Arctic's Production Services segment stands to benefit from the stimulus to drilling activity that will follow through resulting well completion work, ongoing well maintenance and end of life abandonment works. The corporation expects to use the anticipated demand growth to push further margin increases as the labor constrained services market is already driving prices upwards.

The Corporation expects efforts to realize the COP-26 declaration signed at the summit by 30 countries, to remain of global importance and focus. We expect efforts to decarbonize oil and gas production to remain, and that this current period in the market provides a significant opportunity for the hydrocarbon industry to secure its long-term position in a carbon abated world. We will continue to focus on appropriate efforts to reduce the climate impact of our operations.

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, EBITDA for purposes of long-term debt covenants, Oilfield services operating margin, Percent of revenue, Funds provided from operations, Working capital, Total long-term financial liabilities, excluding long-term debt, 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 include, among other things, long-term improvement in Canadian oil and gas pricing, impact of high commodity prices on demand for and market prices for the Corporation's services; continued impact of Covid-19; impact of the crisis in Ukraine; ability to prioritize a strong balance sheet and liquidity position; improved activity in PNG through 2022 and beyond; modest improvement in the Corporation's activity in Canada; opportunities to invest and enhance shareholder value; improving economic environment; climate and weather predictions and their effect on energy demand; the Corporation's ability to maintain a USD bank account and conduct its business in USD in PNG; market fluctuations in interest rates, commodity prices, and foreign currency exchange rates; restrictions to repatriate funds held in PGK; customer activity to boost production; expectations regarding the Corporation's ability to raise capital and manage its debt obligations; estimated capital expenditure programs; projections of market prices and costs; continued tightening of supply of services in Canada; slowly improving Canadian snubbing market; 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 key customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; a final Papua LNG investment decision; development of the P'nyang gas field; developments in Ukraine; effect of economic and trade sanctions on Russia; OPEC's ability and desire to increase future production; development of additional pathways to market in Canada, and a shift in political focus from energy transition to energy security; and estimated credit risks and tax losses.

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 Western Canadian 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.

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