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High Arctic Announces 2022 Third Quarter Financial and Operating Results

CALGARY, Canada – November 10, 2022, High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' third quarter results today.

Mike Maguire, CEO of High Arctic, commented:

"Papua New Guinea is key to High Arctic's long-term business strategy. There have been significant LNG commitments in PNG made by large oil and gas companies and High Arctic is positioned well to support our customers' future investments. Over fifteen years High Arctic has developed the logistics expertise and trained local workforce required to operate the heli-portable drilling rigs in otherwise inaccessible PNG locations.

As our long-term investors know, PNG is a market where we have developed a strong position with potential for higher profits and free cash flow. In the past this has funded corporate growth and shareholder returns.

The divestment of our Canadian Production Services segment this quarter allows us to focus on putting rigs back to work in PNG. We are currently providing services to both our principal customer and the PNG-LNG operator, and we are looking forward to returning to consistent drilling operations following an exceptional period of Covid driven activity suspension.

The Corporation continues to look at the capital allocation decision in relation to its current and expected significant cash balances. This may include a return of capital to shareholders or reinvestment in the business."

Highlights

The following highlights the Corporations results for Q3-2022 and YTD-2022:

- During the Quarter, High Arctic made a strategic shift to capitalize on opportunities and focus on developments in its core market of Papua New Guinea while resetting its long-standing energy service presence in Canada.
    - Disposed of Canadian well servicing business for cash consideration, originally acquired in 2016
    - Consolidated snubbing industry in Canada through disposal of snubbing business for an equity interest and note receivable in acquiring company
    - Renewed a key drilling services contract in PNG as the country begins early-stage reactivation of upstream activity in its largest commodity export, liquified natural gas
    - Carried forward in Canada with active Rental and Nitrogen Services businesses
    - Built upon its record of shareholder returns with dividend payments of $731, and
    - Delivered safety excellence and ESG alignment with a customer portfolio of high-quality operators.
- Preparations to return to drilling in PNG with Rig 103 progressed, adding an upgrade of the topdrive, enhancing the rigs drilling capability. Rig 103 is expected to commence drilling operations by the end of the first quarter of 2023.
- High Arctic maintained a strong financial position, with working capital of $65,434 including $23,386 cash, $12,101 accounts receivable, $28,000 asset sale receivable (due in January 2023), and total debt of $7,860 as at September 30, 2022.

Outlook

High Arctic has taken transformative actions this quarter which will allow the Corporation to focus on the emerging opportunities to deploy drilling assets in Papua New Guinea, while maintaining exposure to the Canadian Energy Services market. High Arctic believes that the fundamentals for sustained high LNG demand, particularly in Asia, positions PNG for substantive LNG export growth, and the drilling required to realize this has the potential to exceed our past activity peaks.

On August 1, 2022 High Arctic entered into a three-year contract renewal covering customer owned Heli-portable Rig 103 and High Arctic's services related to the supply of personnel, camp accommodation and rental equipment to support the drilling operations in PNG.

Work is currently underway to prepare Rig 103, including an upgrade of its topdrive, for recommencement of drilling early in 2023. High Arctic anticipates Rig 103 will operate consistently through the term of the contract. This cornerstone contract is flexible and scalable to align with activity, which positions High Arctic to respond quickly to future incremental drilling opportunities associated with LNG expansion. While the contract for customer owned Rig 104 was not renewed at that time, High Arctic is optimistic for future contracts with third-party customers in the coming activity cycle.

High Arctic maintains active dialogue with the management of all the active energy companies in PNG, towards understanding their project timeframes and plans for drilling activity utilizing High Arctic's owned rigs. The Corporation expects an additional drilling rig deployment in the 1st half of 2023 and is optimistic about further activity increases by the end of next year.

The advancement of the TotalEnergies led *Papua-LNG* project's front-end-engineering-and-design continues to progress and has recently included public forums outlining plans for early-works and overall project timelines around a final investment decision on the two-train *Papua-LNG* project in the 2nd half of 2023. Earlier this year ExxonMobil, operator of the PNG-LNG joint venture, announced the signing of a gas agreement for the development of the P'nyang gas field in the Western Province of PNG, which is anticipated to result in the addition of another train to the world class PNG-LNG export facility. These developments underpin our optimism of an expanding PNG energy sector and increasing future demand for our people, equipment and expertise.

In Canada, the post-closing transitional activities have progressed smoothly with the buyers of Concord Well Servicing and High Arctic's snubbing division. The consolidated Team Snubbing Services has already increased market share, with deployed services exiting Q3-2022 exceeding the sum of the two parts in 2021. Team's dominant market position and service quality has immediately driven pricing improvements and margin growth.

Streamlining of the management support structure of High Arctic's remaining Canadian business is well underway and has been consolidated for efficient operation of our pressure control focused *HAES Rentals* and *Nitrogen pumping* services. Management remains attentive to opportunities to best realize a return on the investments in these Canadian service lines, and the dormant snubbing assets in the USA. Commensurate with these efforts is an exploration of growth financing options levered off the Corporations assets in PNG.

Strategy

Strategic priorities build on High Arctic's core values, code of business conduct and fiscal discipline, including:

- Safety excellence and quality service delivery,
- Actions aimed at generating free cash flow including:
    - Increased utilization of the 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 for shareholders including divestitures, dividends and common share buybacks.

Noteworthy performance during the third quarter included:

- Activity in PNG maintained a personnel count of about 200 employees deployed, reaching key safety milestones of 6 years and 3 million work hours recordable incident free.
- As previously announced, renewed a three-year contract for drilling services with its principal customer in PNG, and made progress towards commencing active drilling operations with Rig 103 in Q1-2023.
- On July 27, 2022, the Corporation sold its Canadian well servicing business for an aggregate purchase price of $38,200, and sold its Canadian snubbing business for 42% equity ownership of Team, the acquiring company, and a note receivable of $3,365 (the "Sale Transactions").
- During the Quarter, High Arctic generated $942 (YTD-2022 $ $7,362) in cash flow from operations and spent $660 ($3,976) on equipment capital expenditures for positive net cash generation of $282 (YTD-2022 $3,386).
- Paid shareholders dividends of $731 (YTD $$1,218) and after Quarter-end began to buy back shares, in nominal quantities, pursuant to its Normal Course Issuer Bid expiring in early December 2022.

Canadian Production Services Segment Divestments

As reported last quarter, On July 27, 2022, High Arctic executed two separate asset sales transactions resulting in the effective divestment of the Corporation's Production Services segment.

The Canadian well servicing business was sold for an aggregate purchase price of $38,200 payable in cash. The Well Servicing Transaction involved the sale of well servicing rigs, associated rental equipment, and real estate used in the support of these operations along with the transfer of field personnel and a large majority of the office support personnel. Cash payment of $10,200 was received on first closing in July 2022. The second and final closing of the Well Servicing Transaction will occur in January 2023, with the remaining $28,000 cash payment and transfer of real estate titles to the purchaser. The Corporation will repay $3,565 of mortgage principal related to the real estate properties at second closing.

As at Q2-2022, an estimated impairment of $8,236 was charged relating to the difference in carrying value of the assets and total consideration of the Well Servicing transaction. An additional impairment of $646 was identified in Q3-2022, resulting in a total impairment of $8,882 relating to this transaction. By comparison, the well servicing business was purchased in August 2016 for $42,800 with a non-cash $12,700 gain on the acquisition booked to PP&E.

The Canadian Snubbing business was sold to Team Snubbing Services Inc. for consideration consisting of 42% ownership in the post-closing outstanding shares (420,000 common voting shares) in Team, valued at $7,738, and a convertible promissory note of $3,365. The note has a five-year term, with interest accruing at 4.5% from January 1, 2023, and principal repayments commencing July of 2024. Investment in the share capital of Team represents a joint arrangement whereby High Arctic has significant influence of the operations and rights to the net assets of Team. This transaction involved both the sale of High Arctic's Canadian snubbing assets and the transfer of field personnel.

As at Q2-2022, an estimated impairment of $443 was charged relating to the difference in carrying value of the Canadian snubbing assets of $11,546 and estimated fair value less cost to sell of $11,103. An additional impairment of $233 was identified in Q3-2022, resulting in a total impairment of $676 relating to the Snubbing Transaction.

High Arctic retains its Ancillary Services Segment in Canada comprised of the Nitrogen Pumping business and a Rentals business focused on pressure control equipment. High Arctic also retains its snubbing assets in the USA, which along with the hydraulic workover rig (Rig 102) in PNG remain idle and will be reported under Ancillary Services.

As a result of the Sale Transactions, the Corporation has a significantly reduced Canadian business and has written down the deferred tax assets of $7,743 while retaining in excess of $130,000 of operating tax loss carry-forward in Canada. Additionally, the Corporation cancelled its revolving bank loan credit facility effective July 27, 2022.

The unaudited interim consolidated financial statements, management discussion & analysis ("MD&A"), for the quarter ended September 30, 2022 will be available on SEDAR at www.sedar.com, and on High Arctic's website at www.haes.ca. Within this news release, the three-months ended September 30, 2022 may be referred to as the "Quarter" or "Q3-2022", and similarly the nine months ended September 30, 2022 may be referred to as "YTD-2022". The comparative three-months ended September 30, 2021 may be referred to as "Q3-2021", and similarly the nine months ended September 30, 2021 may be referred to as "YTD-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 *($ thousands, except per share amounts)*:

	For the three months ended September 30		For the nine months ended September 30	
($ thousands, except per share amounts)	**2022**	2021	**2022**	2021
Revenue	**12,519**	**18,654**	**66,921**	**52,798**
Net loss	**(4,546)**	**(4,784)**	**(27,480)**	**(13,999)**
Per share (basic and diluted)	**(0.09)**	**(0.10)**	**(0.56)**	**(0.29)**
Oilfield services operating margin	**3,088**	**3,886**	**14,334**	**10,516**
Oilfield services operating margin as a % of revenue	***24.7%***	***20.8%***	***21.4%***	***19.9%***
EBITDA	**(297)**	**1,294**	**(3,130)**	**3,254**
Adjusted EBITDA	**572**	**1,412**	**6,556**	**3,082**
Adjusted EBITDA as % of revenue	***4.6%***	***7.6%***	***9.8%***	***5.8%***
Operating loss	**(2,759)**	**(4,597)**	**(8,688)**	**(14,848)**
Cash flow from operating activities	**942**	**737**	**7,362**	**1,675**
Per share (basic and diluted)	**0.02**	**0.02**	**0.15**	**0.03**
Funds flow from operating activities	**196**	**1,077**	**5,059**	**2,307**
Per share (basic and diluted)	**-**	**0.02**	**0.10**	**0.05**
Dividend payments	**731**	**-**	**1,218**	**-**
Per share (basic and diluted)	**0.015**	**-**	**0.025**	**-**
Capital expenditures	**660**	**2,658**	**3,976**	**4,108**

	As at	
($ thousands, except share amounts)	**September 30, 2022**	December 31, 2021
Working capital	**65,434**	29,724
Cash and cash equivalents, end of period	**23,386**	12,037
Total assets	**149,662**	185,452
Long-term debt	**3,971**	7,779
Long-term financial liabilities, excluding long-term debt	**6,062**	13,414
Shareholders' equity	**125,652**	148,851
Common shares outstanding, thousands	**48,733,145**	48,733,145

Three-Months Period Ended September 30, 2022 Summary:

- High Arctic continues to see improved activity levels in PNG, driving a net increase in Drilling Services and Ancillary Service revenues to $4,870 and $2,905, respectively (Q3-2021 revenues: $2,718 and $3,280, respectively).
- PNG activity drove consolidated oilfield services operating margin as a percentage of revenue up to 24.7% from 20.8% in Q3-2021. Improved profitability in the Quarter relative to Q3-2021 was without Canadian emergency wage subsidies ("**CEWS**") and Canadian emergency rent subsidies ("CERS") in 2022 (Q3-2021 $865 of CEWS & CERS received).
- High Arctic continued work preparing customer owned Drilling Rig 103, which now includes an equipment upgrade of the top drive, for active well site operations pursuant to its new contract renewal expiring in 2025.
- The Corporation's Production Service segment realized revenue of $4,959 and an operating margin of 9.9% in the month of July before the close of the Sale Transactions.

Year to Date September 30, 2022 Summary:

- The recommencement of drilling services activity in PNG has resulted in YTD-2022 Drilling Services segment revenue of $20,545 compared to $4,362 YTD-2021 and through associated rentals increased the Ancillary Services segment revenue to $11,878 YTD-2022 compared with $8,049 YTD-2021.
- High Arctic's owned Rig 115 successfully completed abandonment of a customer's legacy exploration well and the rig was moved offsite during the second quarter of 2022.
- Primarily due to the receipt of first closing payment of $10,200 associated with the Well Servicing Transaction in Canada, the cash balance on hand increased by $11,349 YTD-2022 to $23,386.
- YTD-2022 the Corporation has paid out $1,218 of dividends since recommencing monthly dividend distribution in Q2-2022.
- The Corporation received payment for services performed for the acquisition and deliver of equipment to be utilized on Drilling Rig 103. At September 30, 2022 the equipment was not yet received in PNG and the $4,287 cash received has been classified as deferred revenue and the related $4,115 cost of the equipment is reflected in inventory.

Drilling Services Segment

	Three months ended September 30		Nine months ended September 30	
($ thousands, unless otherwise noted)	**2022**	2021	**2022**	2021
Revenue	**4,870**	2,718	**20,545**	4,362
Oilfield services expense	**3,718**	2,430	**15,832**	4,159
Oilfield services operating margin	**1,152**	288	**4,713**	203
Operating margin (%)	***23.7%***	*10.6%*	***22.9%***	*4.7%*

Production Services Segment

	Three months ended September 30		Nine months ended September 30	
($ thousands, unless otherwise noted)	**2022**	2021	**2022**	2021
Revenue	**4,959**	13,100	**36,099**	41,802
Oilfield services expense	**4,469**	11,140	**33,219**	35,236
Oilfield services operating margin	**490**	1,960	**2,880**	6,566
Operating margin (%)	***9.9%***	*15.0%*	***8.0%***	*15.7%*

Ancillary Services Segment

($ thousands, unless otherwise noted)	Three months ended September 30 2022	2021	Nine months ended September 30 2022	2021
Revenue	**2,905**	3,280	**11,878**	8,049
Oilfield services expense	**1,458**	1,642	**5,137**	4,302
Oilfield services operating margin	**1,447**	1,638	**6,741**	3,747
Operating margin (%)	***49.8%***	*49.9%*	***56.7%***	*46.5%*

Liquidity and Capital Resources

($ thousands)	Three months ended September 30 2022	2021	Nine months ended September 30 2022	2021
Cash provided by (used in):				
Operating activities	**942**	737	**7,362**	1,675
Investing activities	**8,670**	(2,191)	**6,713**	(2,850)
Financing activities	**(905)**	(509)	**(2,214)**	(11,301)
Effect of exchange rate changes on cash	**(419)**	445	**(512)**	88
Increase (decrease) in cash	**8,288**	(1,518)	**11,349**	(12,388)

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, 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

Q3-2022 funds flow from operating activities was $942 (Q3-2021: $737), of which $196 are funds generated by operations (Q3-2021: $1,077 funds flow from operations), see "Non-IFRS Measures" on page 18, and $746 cash inflow from working capital changes (Q3-2021: $340 outflow) mainly due to decrease in trade accounts receivable during the Quarter.

YTD-2022 cash generated from operating activities was $7,362 (YTD-2021: $1,675), of which $5,059 are funds flow from operations (YTD-2021: $2,307), see "Non-IFRS Measures" on page 18, and $2,303 cash inflow from working capital changes (YTD-2021: $632 outflow) mainly due to decrease in accounts receivable during the period.

Investing Activities

Q3-2022 the Corporation's cash from investing activities was $8,670 (Q3-2021: $2,191 cash used in investing activities). Proceeds on disposal of property and equipment mainly related to the Well Servicing transaction was $10,254 (Q3-2021: $152), partially offset by capital expenditures of $660 (Q3-2021: $2,658), and $924 cash outflow relating to working capital balance changes for capital items (Q3-2021: $315 inflow).

YTD-2022 the Corporation's cash from investing activities was $6,713 (YTD-2021: $2,850 used). Proceeds on disposal of property and equipment was $11,365 (YTD-2021: $983), partially offset by capital expenditures of $3,976 (YTD-2021: $4,108), and $676 cash outflow relating to working capital balance changes for capital items (YTD-2021: $275 inflow).

Financing Activities

Q3-2022, the Corporation's cash used in financing activities was $905 (Q2-2021: $509). During the quarter the Corporation made dividend payments of $731, lease payments of $94 (Q2-2021: $407) and mortgage principal repayments of $80, see "Mortgage Financing below".

YTD-2022, the Corporation's cash used in financing activities was $2,214 (YTD-2021: $11,301). During the period the Corporation made lease payments of $1,025 (YTD 2021: $1,199), dividend payments of $1,218 and principal payments on mortgage financings of $215, see "Mortgage Financing below" (YTD-2021: $10,000 loan payment on Credit Facility).

Mortgage Financing

	As at September 30, 2022	As at December 31, 2021
Current	**3,889**	296
Non-current	**3,971**	7,779
Total	**7,860**	8,075

In December 2021, High Arctic entered 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. In January 2023, the High Arctic will transfer title to certain owned real estate locations to the purchaser of the well servicing business and will be required to repay mortgage principal of $3,565 related to these properties.

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.

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: potential for higher profits and free cash flow ; returning to consistent drilling operations following an exceptional period of Covid driven activity suspension; a return of capital to shareholders or reinvestment in the business; impact of commodity prices on demand for and market prices for the Corporation’s services; continued impact of Covid-19; emerging opportunities to deploy drilling assets in Papua New Guinea; expansion of the PNG energy sector; expected drilling commencement dates for rigs in PNG; additional drilling rig deployment in the first-half of 2023; sustained high LNG demand particularly in Asia; substantive LNG export growth in PNG; anticipation Rig 103 will operate consistently through the term of the contract; incremental drilling opportunities associated with LNG expansion; future contracts for Rig 104 with third-party customers; 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; 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; developments in Ukraine; effect of economic and trade sanctions on Russia; OPEC’s ability and desire to change 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 is an energy services provider. High Arctic is a market leader in Papua New Guinea providing drilling and specialized well completion services and supplies rental equipment including rig matting, camps, material handling and drilling support equipment. In western Canada High Arctic provides nitrogen services and pressure control equipment on a rental basis to a number of exploration and production companies.

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