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High Arctic Announces 2022 Fourth Quarter and Year End Financial and Operating Results

CALGARY, Canada – March 28, 2023, High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' fourth quarter and year-end results today. The audited consolidated financial statements, management discussion & analysis ("MD&A"), and annual information form for the year ended December 31, 2022 will be available on SEDAR at www.sedar.com, and on High Arctic's website at www.haes.ca. All amounts are denominated in Canadian dollars ("CAD"), unless otherwise indicated.

Mike Maguire, Chief Executive Officer commented:

"High Arctic enters 2023 well positioned to increase our service activity in Papua New Guinea in support of the significant LNG commitments made by our customers there. High Arctic has developed a strong position in PNG through top-tier equipment, local logistics expertise and a loyal and well-trained local workforce.

The divestment of underperforming businesses in Canada has provided funds to pursue opportunistic growth in both our PNG and Canadian businesses and return value to shareholders, while weathering any market turbulence due to high inflation or recession."

Highlights

The following highlights the Corporations results for Q4-2022 and YTD-2022:

- Disposition of underperforming assets in Canada for $38.2 million.
- Executed a strategic consolidation of the snubbing industry in Canada by partnering with Team Snubbing, a large snubbing specialist.
- Retained profitable Rental and Nitrogen Services businesses and real estate in Canada.
- After a slowdown prolonged by the pandemic in PNG, rig operations recommenced in 2022.
- In April, reinstated a monthly dividend of $0.005 per share and returned $2.2 million to shareholders.
- Generated Adjusted EBITDA of $5.7 million YTD-2022 and a negative Adjusted EBITDA of $0.9 million in Q4-2022 while realizing a net loss of $36.6 million YTD-2022 and net loss of $9.1 million Q4-2022.
- The significant loss was due to non-cash impairment expense of $9.7 million and elimination of $7.7 million deferred tax asset both associated with the Canadian business sales, a $3.9 million PNG inventory adjustment and obsolescence provision in Q4-2022 in PNG, and $17.7 million in depreciation expense.

Strategy

High Arctic's 2023 Strategic Objectives build on the platform we created in 2022, and include:

- Safety excellence and quality service delivery,
- Redeployment of idled assets in PNG,
- Scaling our Canadian business,
- Opportunities for growth and corporate transactions that enhance shareholder value, and
- Examination of the Corporation's optimal capital structure and dividend policy.

In the following discussion, the three months ended December 31, 2022 may be referred to as the "**Quarter**" or "**Q4-2022**", and similarly the year ended December 31, 2022 may be referred to as "**YTD-2022**". The comparative three months ended December 31, 2021 may be referred to as "**Q4-2021"** and similarly the year ended December 31, 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.

Papua New Guinea – Drilling and Ancillary Services
Drilling Services activities rose in 2022 with PNG seeing drilling rig activity following a long period of relative inactivity during the Covid-19 pandemic. Early in 2022, the Corporation utilized Rig 115 to complete the abandonment of a complex legacy well for a key customer while in Q3-2022 the Corporation executed a three-year renewal of the contract for the provision of drilling services with its principal customer using Rig 103. 2022 also saw the Corporation take steps to formalize the provision of personnel services to the PNG industry following the success of doing the same in 2021. Provision of personnel to both key PNG customers remained strong throughout the year. With higher industry activity, the Corporation increased utilization of its rental equipment including camps, matting, and mobile material handling equipment. The combination of these service activities led to High Arctic achieving revenues of $30.7 million in 2022 as compared to $10.7 million in 2021 in its Drilling Services segment.

In 2022, the Papua-LNG joint venture entered front-end-engineering-and-design ("FEED") and commenced early works activity, foreshadowing a final investment decision ("FID") in the second half of 2023. The 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 further gas liquefaction capacity in the world class PNG-LNG export facility.

In preparation for year-end verification and active drilling in 2023, High Arctic conducted comprehensive substantive procedures to verify the current asset carrying value of inventory. This resulted in a $3.9 million inventory adjustment in the fourth quarter of 2022.

Canada – Production and Ancillary Services
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 "Sale Transactions").

The Canadian well servicing business was sold for an aggregate purchase price of $38.2 million to be settled in cash consideration. 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. The sale price was $38.2 million, which resulted in impairment of $9.0 million recognized in 2022. The well servicing business was originally purchased by the Corporation in August 2016 for $42.8 million in cash with a non-cash $12.7 million gain on the acquisition booked to PP&E.

The Canadian snubbing business was sold to Team Snubbing for a consideration consisting of 42% equity ownership in the post-closing outstanding shares in Team Snubbing, valued at $7.7 million, and a convertible promissory note of $3.4 million. The note has a five-year term, with interest accruing at 4.5% from January 1, 2023, and principal repayments commencing July of 2024. High Arctic's investment in the share capital of Team Snubbing allows for significant influence of key corporate, strategic and financial decisions and High Arctic has rights to the net assets of Team Snubbing. The sale resulted in a 2022 impairment loss of $0.7 million.

High Arctic retains its Ancillary Services Segment in Canada comprised of the Nitrogen Pumping business and a Rentals business focused on pressure control equipment.

As a result of the Sale Transactions, the Corporation has a significantly reduced Canadian business and has written down the deferred tax assets of $7.7 million while retaining $126.7 million of operating tax loss carry-forward in Canada. Additionally, the $37.0 million revolving bank loan credit facility was terminated effective July 28, 2022.

RESULTS OVERVIEW

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

($ thousands, except per share amounts)	For the three months ended December 31 **2022**	2021	For the year ended December 31 **2022**	2021
Revenue	**13,099**	23,644	**80,020**	76,442
Oilfield services operating margin	**(2,417)**	4,700	**11,917**	15,216
Oilfield services operating margin as a % of revenue	**(18.5%)**	19.9%	**14.9%**	19.9%
Net loss	**(9,103)**	(4,608)	**(36,583)**	(18,607)
Per share (basic and diluted)	**(0.19)**	(0.09)	**(0.75)**	(0.38)
EBITDA	**(5,584)**	1,175	**(8,714)**	4,429
Adjusted EBITDA	**(892)**	1,836	**5,664**	4,918
Adjusted EBITDA as % of revenue	**(6.8%)**	7.8%	**7.1%**	6.4%
Operating loss	**(8,001)**	(4,582)	**(16,689)**	(19,430)
Cash flow from (used in) operating activities	**501**	(3,472)	**7,863**	(1,797)
Per share (basic and diluted)	**0.01**	(0.07)	**0.16**	(0.04)
Funds flow from operating activities	**(8,039)**	1,390	**(2,980)**	3,697
Per share (basic and diluted)	**(0.16)**	0.03	**(0.06)**	0.08
Dividend payments	**975**	9,747	**2,193**	9,747
Per share (basic and diluted)	**0.02**	0.20	**0.045**	0.20
Capital expenditures	**97**	3,134	**4,073**	7,242

($ thousands, unless otherwise stated and per share amounts)	As at / For the year ended **December 31 2022**	December 31 2021	December 31 2020
Working capital	**59,461**	29,724	44,577
Cash and cash equivalents	**19,559**	12,037	32,598
Total assets	**133,957**	185,452	214,159
Long-term debt	**4,028**	7,779	10,000
Long-term financial liabilities, excluding long-term debt	**5,186**	13,414	15,926
Shareholders' equity	**115,231**	148,851	177,221
Per share (basic and diluted)	**2.37**	3.05	3.58
Common shares outstanding	**48,691,864**	48,733,145	48,759,660

Three-month period ended December 31, 2022 Summary:

- High Arctic's consolidated revenue for Q4-2022 reduced to $13,099 from $23,644 in Q4-2021, impacted largely by the Sale Transactions.
- Low margin reimbursable activity with customers combined with inventory adjustments relating to stock held in PNG reduced consolidated oilfield services operating margin as a percentage of revenue for Q4-2022 to (18.5)% from 19.9% in Q4-2021.
- Delay in the recommencement of Rig 103 in PNG contributed to a net loss of $9,103 in Q4-2022 versus a net loss of $4,608 in Q4-2021. Adjusted EBITDA for Q4-2022 was a loss of $892, compared to a profit of $1,836 in Q4-2021.
- Inventory count and obsolescence reviews conducted in PNG, led to an inventory adjustment of $4,450 and a reduction in the obsolescence provision of $579.

Year ended December 31, 2022 Summary:

- Higher drilling related activity in PNG more than offset the reduction in Canadian well servicing and snubbing revenue following the sale of these Canadian assets during Q2-2022 leading to consolidated revenue for 2022 of $80,020 as compared to $76,442 in 2021.
- Adjusted EBITDA delivered by the Corporation in 2022 was $5,664, compared to $4,918 in 2021.
- The Sale Transactions and costs associated with reactivation of drilling equipment in PNG contributed to a reduction in consolidated oilfield services operating margin as a percentage of revenue to 14.9% in 2022 from 19.9% in 2021.
- Non-cash impairment expense of $9,667 associated with the disposal of assets through the Sales Transactions, recognition of a non-cash deferred tax expenses on the elimination of a deferred tax assets of $7,743 associated with the Canadian operations, and PNG inventory adjustment and obsolescence provision of $3,871 contributed to the increase in net loss for 2022 to $36,583 compared with the net loss of $18,607 recorded in 2021.

Drilling Services Segment

($ thousands, unless otherwise noted)	Three months ended December 31 **2022**	2021	Year ended December 31 **2022**	2021
Revenue	**$10,126**	$6,291	**$30,671**	$10,653
Oilfield services expense	**13,498**	4,831	**29,330**	8,990
Oilfield services operating margin	**($3,372)**	$1,460	**$1,341**	$1,663
Operating margin (%)	***(33.3%)***	*23.2%*	***4.4%***	*15.6%*

Ancillary Services Segment

($ thousands, unless otherwise noted)	Three months ended December 31 **2022**	2021	Year ended December 31 **2022**	2021
Revenue	**$2,878**	$4,227	**$14,850**	$12,274
Oilfield services expense	**1,612**	1,902	**6,749**	6,204
Oilfield services operating margin	**$1,266**	$2,325	**$8,007**	$6,070
Operating margin (%)	***44.0%***	*55.0%*	***54.3%***	*49.5%*

Production Services Segment

($ thousands, unless otherwise noted)	Three months ended December 31 **2022**	2021	Year ended December 31 **2022**	2021
Revenue	**$1**	$13,637	**$36,100**	$55,440
Oilfield services expense	**406**	12,721	**33,625**	47,957
Oilfield services operating (loss) margin	**($405)**	$916	**$2,475**	$7,483
Operating margin (%)	***-***	*6.7%*	***6.9%***	*13.5%*

Liquidity and Capital Resources

($ thousands)	Three months ended December 31 2022	2021	Year ended December 31 2022	2021
Cash provided (used in) by:				
Operating activities	**$501**	$(3,472)	**$7,863**	$(1,797)
Investing activities	**(61)**	(2,722)	**6,652**	(5,572)
Financing activities	**(4,523)**	(2,088)	**(6,737)**	(13,389)
Effect of exchange rate changes on cash	**256**	109	**(256)**	197
(Decrease) increase in cash	**$(3,827)**	$(8,173)	**$7,522**	$(20,561)

($ thousands, unless otherwise noted)	As at December 31 2022	December 31 2021
Current assets	**$69,278**	**$45,132**
Working capital	**59,461**	**29,724**
Working capital ratio	***7.1:1***	***2.9:1***
Cash and cash equivalents	**19,559**	**12,037**
Net cash	**15,345**	**3,962**
Undrawn availability under revolving credit facility	**N/A**	**$37,000**

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, all such approvals have eventually been received in the past.

Operating Activities

Q4-2022 cash flow from operating activities was $501 (Q4-2021: $3,472 cash flow used in operating activities), of which $8,540 are cash inflows from working capital changes (Q4-2021: $4,862 outflow) partially offset by $8,039 funds flow used in operations (Q4-2021: $1,390 fund flow from operations) mainly due to decrease in inventory and trade accounts receivable during the Quarter.

YTD-2022 cash flow from operating activities was $7,863 (YTD-2021: $1,797 cash flow used in operating activities), of which $10,843 are cash inflow from working capital changes (YTD-2021: $5,494 outflow) and $2,980 are funds flow used in operations (YTD-2021: $3,697).

Investing Activities

During Q4-2022, the Corporation's cash used in investing activities was $61 (Q4-2021: $2,722). Capital expenditures were $97 (Q4-2021: $3,134), partially offset by proceeds on disposal of property and equipment of $36 (Q4-2021: $213). In Q4-2022, no working capital balance changes for capital items (Q4-2021: $199 inflow).

YTD-2022 the Corporation's cash from investing activities was $6,652 (YTD-2021: $5,572 used). Proceeds on disposal of property and equipment mainly related to the Well Servicing Transaction was $11,401 (YTD-2021: $1,196), partially offset by capital expenditures of $4,073 (YTD-2021: $7,242), and $676 cash outflow relating to working capital balance changes for capital items (YTD-2021: $474 inflow).

Financing Activities

Q4-2022, the Corporation’s cash used in financing activities was $4,523 (Q4-2021: $2,088). During the quarter, the Corporation made mortgage principal repayments of $3,646, see “Mortgage Financing below”, dividend payments of $975 (Q4-2021: $9,747), and $98 inflow for adjustments to lease financing payment schedules post-Sale Transactions and other payments for share cancellations (Q4-2021: $416 outflow lease payments). The Corporation did not enter into any new debt financing arrangements in Q4-2022 (Q4-2021 - $8,075 proceeds mortgage financing.)

YTD-2022, the Corporation’s cash used in financing activities was $6,737 (YTD-2021: $13,389). During the period, the Corporation made principal payments on mortgage financing of $3,861, see “Mortgage Financing” below (YTD-2021: $10,000 loan payment on Credit Facility), dividend payments of $2,193 (YTD-2021: $9,747), lease payments of $866 (YTD 2021: $1,615), and share repurchases for cancellation of $60 (YTD-2021: $102). The Corporation did not enter into any new debt financing arrangements in 2022 (YTD-2021 - $8,075 proceeds mortgage financing).

Mortgage Financing

	As at December 31, 2022	As at December 31, 2021
Current	**$186**	$296
Non-current	**4,028**	7,779
Total	**$4,214**	$8,075

In December 2021, High Arctic 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. In January 2023, High Arctic transferred title to certain owned real estate locations to the purchaser of the well servicing business, in preparation, the Corporation paid mortgage principal of $3,565 related to these properties during December, 2022.

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

The Corporation begins 2023 with a strong balance sheet, access to substantial cash resources on hand and is well positioned. This enables High Arctic to pursue opportunistic growth in both our PNG and Canadian businesses return value to shareholders, and weather market turbulence due to high inflation or recession.

The fundamentals for sustained high LNG demand, particularly in Asia, positions PNG for substantive LNG export growth. The advancement of the TotalEnergies led *Papua-LNG* project’s FEED continues with early-works activity underway and an FID on the multi-train project expected in the 2nd half of 2023. This project is expected to be followed by the P’nyang gas field development in the Western Province of PNG, which is anticipated to result in the addition of further gas liquefaction capacity in the world class *PNG-LNG* export facility. These developments underpin our optimism of an expanding PNG energy sector and increasing future demand for our equipment, personnel and expertise.

To date, the recommencement of drilling activity has been slower than the Corporation anticipated. Currently, customer plans have deferred mobilisation of Rig 115, and both Rig 115 and Rig 116 remain preserved in condition ready to be deployed. The positive effect of the slower ramp up in activity is that the Corporation expects to be able to fund reactivation activities out of PNG cash flow. With the modification and upgrade works completed, Rig 103 commenced drilling operations last week. Given PNG market conditions and current customer plans, we expect Rig 103 to operate consistently through the term of its contract, which is up for renewal in 2025.

Notwithstanding the foregoing, High Arctic recently received advise from the PNG Central Bank instructing the Corporation to settle our contract for Rig 103 in PNG Kina. The Corporation observes that this follows similar well publicized instructions issued by the PNG Central Bank to other large PNG companies. High Arctic has engaged dialogue with the bank aimed at reinstating approval to settle the contract in USD, dialogue is ongoing. Meanwhile the Corporation has taken steps to minimise the impact of any currency conversion delays on its business.

High Arctic maintains a presence in the Canadian market, through its investments in Team Snubbing, HAES rentals and our nitrogen pumping operations. Canada is the world's fourth-largest producer of oil and gas, with vast reserves and additional export pathways coming onstream in the coming years. We continue to evaluate opportunities for investment as they arise in the Canadian market, while remaining attentive to opportunities to best realize a return on the investments in our existing Canadian service lines, and the inactive snubbing assets in the USA.

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 Oilfield services operating margin, EBITDA (Earnings before interest, tax, depreciation, and amortization), Adjusted EBITDA, Operating loss, Funds flow from operating activities, Working capital and Long-term financial liabilities. These do not have standardized meanings.

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 press release contains forward-looking statements. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions are intended to identify forward-looking statements. Such statements reflect the Corporation's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this press release.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this press release as intended, planned, anticipated, believed, estimated or expected. Specific forward-looking statements in this press release include, but are not limited to, statements pertaining to the following: general economic and business conditions which will include, among other things, continued improvement in energy services outlook; continued impact of Russia-Ukraine conflict; continued impact of Covid-19; ability to prioritize a strong balance sheet and liquidity position; activity increases in PNG; opportunities to invest and enhance shareholder value; the Corporation's ability to maintain a USD bank account and conduct its business in USD in PNG; dialogue with the central bank in PNG aimed at reinstating approval to settle the contract in USD; market fluctuations in interest rates, commodity prices, and foreign currency exchange rates; restrictions to repatriate funds held in PGK; expectations regarding the Corporation's ability to raise capital and manage its debt obligations; estimated capital expenditure programs; projections of market prices and costs; expectations for improving customer demand in the near-term, 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; a final *Papua-LNG* investment decision in 2023; the addition of further gas liquefaction capacity to the PNG-LNG export facility; the Corporation's ability to innovate its PNG service offerings and contribute to the reduction of the emissions intensity of the energy industry there; the Corporation's ability to weather any market turbulence due to high inflation or recession; optimism of an expanding PNG energy sector and increasing future demand for our equipment, personnel, and expertise; expectations of Rig 103 to operate consistently through the term of its contract and estimated credit risks and tax losses.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this press release.

The forward-looking statements contained in this press release are expressly qualified in their entirety by this cautionary statement. These statements are given only as of the date of this press release. The Corporation does not assume any obligation to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

About High Arctic 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 exploration and production companies.

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