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High Arctic Announces 2023 Second Quarter Results

CALGARY, Canada – August 3, 2023, High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' second quarter financial and operating results. The unaudited interim consolidated financial statements, and management discussion & analysis ("MD&A"), for the quarter ended June 30, 2023 will be available on SEDAR at www.sedarplus.ca, 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:

"In PNG we have had our first full quarter of drilling activity with Rig 103. In Canada we have closed the divestment of the nitrogen pumping business for a modest gain and have aligned our G&A costs towards our reduced business footprint.

We are working with our advisers to complete the work to reorganize the Corporation and deliver the tax efficient return of cash to shareholders. The proposed spin-off of the Papua New Guinean business addresses the inefficiencies in managing two small businesses with few synergies. The remaining publicly listed company with Canadian assets and tax pools creates a potentially attractive vehicle for future growth.

I look forward to presenting details of the Reorganization to shareholders in the coming months."

Highlights

The following highlights the Corporations results for Q2-2023:

- Achieved full drilling utilization of PNG Rig 103 during the Quarter, pursuant to a 3-year contract that was renewed in August 2022.
- Generated EBITDA from continuing operations of $3.8 million on revenues of $17.2 million, funds flow from continuing operations of $3.9 million and incurred capital expenditures of $0.7 million.
- Improved liquidity with a working capital balance of $61.8 million, which includes a cash balance of $45.4 million, and long-term debt of $4.0 million, and
- Announced the sale of the Corporation's Canadian Nitrogen transportation, hauling and pumping services business for cash consideration of $1.35 million.
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2023 Strategic Objectives

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

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

In the following discussion, the three months ended June 30, 2023 may be referred to as the "**Quarter**" or "**Q2-2023**". The comparative three months ended June 30, 2022 may be referred to as "**Q2-2022".** References to other quarters may be presented as "**QX-20XX**" with **X** being the quarter/year to which the commentary relates.

RESULTS OVERVIEW

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

(unaudited)	**For the three months ended June 30**		**For the six months ended June 30**	
($ thousands, except per share amounts)	**2023**	2022	**2023**	2022
Operating Results – Continuing Operations				
Revenue	**$ 17,234**	$ 25,023	**$ 26,005**	$ 53,146
Net income (loss)	**89**	(20,230)	**(541)**	(22,803)
per share - basic [(2)]	***0.00***	*(0.42)*	***(0.01)***	*(0.47)*
per share - diluted [(2)]	***0.00***	*n/a*	***n/a***	*n/a*
Oilfield services operating margin [(1)]	**6,466**	5,776	**9,359**	11,004
Oilfield services operating margin as a % of revenue [(1)]	***37.5%***	*23.1%*	***36.0%***	*20.7%*
EBITDA [(1)]	**3,805**	(5,895)	**5,057**	(3,003)
Adjusted EBITDA [(1)]	**4,413**	2,979	**5,354**	5,814
Adjusted EBITDA as % of revenue [(1)]	***25.6%***	*11.9%*	***20.6%***	*10.9%*
Operating income (loss)	**$ 1,296**	$ (3,081)	**$ (681)**	$ (5,801)
Cash Flow – Continuing Operations				
Cash flow from continuing operations	**$ 1,082**	$ 6,004	**$ 1,398**	$ 6,249
Per share – basic and diluted [(2)]	***0.02***	*0.12*	***0.03***	*0.13*
Funds flow from continuing operations[(1)]	**3,914**	2,502	**5,205**	4,693
Per share - basic and diluted [(2)]	***0.08***	*0.05*	***0.11***	*0.10*
Dividend payments	**730**	487	**1,460**	487
Per share - basic and diluted [(2)]	***0.01***	*0.01*	***0.03***	*0.01*
Capital expenditures	**$ 702**	$ 3,134	**$ 1,098**	$ 3,280

	As at	
($ thousands, except share amounts)	**June 30 2023**	December 31, 2022
Financial Position	*(unaudited)*	
Working capital [(1)]	**$ 61,816**	$ 59,461
Cash	**45,419**	19,559
Total assets	**133,505**	133,957
Long-term debt	**3,939**	4,028
Long-term financial liabilities, excluding long-term debt	**5,016**	4,881
Shareholders' equity	**$ 112,082**	$ 115,231
Per share - basic [(1)(2)]	***2.30***	*2.37*
Common shares outstanding, thousands	**48,674**	48,691

(1) Readers are cautioned that Oilfield services operating margin, EBITDA from continuing operations (Earnings from continuing operations before interest, tax, depreciation and amortization), Adjusted EBITDA from continuing operations, Funds flow from continuing operations, oilfield services operating margin, working capital and Shareholders' equity per share - basic do not have standardized meanings prescribed by IFRS – see "Non-IFRS Measures" for calculations of these measures.

(2) The number of common shares used in calculating net income (loss) per share, cash flow from (used in) operating activities per share, funds flow from continuing operations per share, dividends per share and shareholders' equity per share is determined as explained in Note 10(b) of the Financial Statements.

Three-month period ended June 30, 2023 Summary:

- Revenue for the Quarter was $17,234, a decrease of $7,789 compared to Q2-2022 at $25,023. The combined Drilling Services segment and Ancillary Services segments increased revenue by an aggregate $7,566 on the strength of PNG customer demand and the Production Services segment decreased by $16,079 with the 2022 Sale Transactions and inactivity for remaining equipment.
- Reported adjusted EBITDA from continuing operations of $4,413 in Q2-2023, an increase of $1,434 over Q2-2022. The favourable variance was due to the full utilization of PNG Rig 103 in the Quarter, associated rentals and operational momentum with PNG drilling commencement in late Q1-2023. The Sale Transactions resulted in the removal of Canadian well servicing and snubbing assets from the low utilization "spring break-up" second quarter Production Services segment results.
- High Arctic generated net income of $89 from continuing operations in Q2-2023 compared to a net loss from continuing operations of $20,230 for Q2-2022. The return to positive net income, albeit modest, was due to positive results in PNG after having disposed of low margin Canadian assets in the third quarter of 2022. The prior year net loss was impacted by impairment of $8,679 and a $7,921 deferred tax asset charge.
- Oilfield services operating margins improved as a percent of revenue from 23.1% in Q2-2022 to 37.5% in Q2-2023. This improvement was primarily a result of the Sales Transactions in 2022 that saw the disposal of certain Production Services segment assets.
- Supported by operational performance during the quarter High Arctic strengthened its balance sheet as working capital increased by $2,355 and $730 was returned to shareholders in the form of dividends.

Six-month period ended June 30, 2023 Summary:

- Revenue from continuing operations for the first half of 2023 was $26,005, a decrease of $27,141 compared to the first half of 2022 at $53,146. The Drilling Services segment and Ancillary Services segments increased revenue by an aggregate $2,612 on the strength of PNG activity which gained momentum in the second quarter of 2023 and the Production Services segment decreased by $31,141 with the 2022 Sale Transactions and inactivity for remaining equipment.
- Reported adjusted EBITDA from continuing operations of $5,354 in the first half of 2023, a decrease of $460 as compared to the first half of 2022. The decrease is attributable to a reduced presence in Canada with the Sale Transactions and the resulting impact primarily to the Production Services segment. The Drilling Services segment mitigated the decrease with the resumption of active drilling in PNG.
- High Arctic generated a net loss of $541 from continuing operations in YTD-2023 compared to a net loss of $22,803 in the first half of 2022. The improvement was primarily attributable to improved PNG operating results and non-cash charges associated with the prior year Sales Transactions. Specifically, YTD-2023 depreciation expense was $5,378 lower and 2022 first half results were impacted by a $8,679 equipment impairment and $7,240 deferred tax asset charge.
- Oilfield services operating margins improved as a percent of revenue from 20.7% in Q2-2022 to 36.0% in the first half of 2023. This improvement is primarily a result of the strength in Ancillary service segments and the 2022 Sales Transactions impact on Production Services segment results.
- Supported by operational performance during the first half of 2023, High Arctic strengthened its balance sheet as working capital increased by $2,355 and $1,460 was returned to shareholders in the form of dividends.

Drilling Services Segment

	Three months ended June 30		Six months ended June 30	
($ thousands, unless otherwise noted)	**2023**	2022	**2023**	2022
Revenue	**$ 13,437**	$ 6,101	**$ 19,713**	$ 15,675
Oilfield services expense	**9,657**	4,637	**14,742**	12,114
Oilfield services operating margin (1)	**$ 3,780**	**$ 1,464**	**$ 4,971**	**$ 3,561**
Operating margin (%)	***28.1%***	***24.0%***	***25.2%***	***22.7%***

(1) See "Non-IFRS Measures"

Ancillary Services Segment – Continuing Operations

	Three months ended June 30		Six months ended June 30	
($ thousands, unless otherwise noted)	**2023**	2022	**2023**	2022
Revenue	**$ 3,797**	$ 3,567	**$ 6,292**	$ 7,717
Oilfield services expense	**1,111**	1,399	**1,904**	2,664
Oilfield services operating margin (1)	**$ 2,686**	**$ 2,168**	**$ 4,388**	**$ 5,053**
Operating margin (%)	***70.8%***	***60.7%***	***69.8%***	***65.5%***

(1) See "Non-IFRS Measures"

Liquidity and Capital Resources

	Three months ended June 30		Six months ended June 30	
($ thousands)	**2023**	**2022**	**2023**	2022
Cash provided by (used in) continued operations:				
Operating activities	**$ 1,082**	$ 6,004	**$ 1,398**	$ 6,249
Investing activities	**(769)**	(1,519)	**26,999**	(1,925)
Financing activities	**(1,505)**	(788)	**(2,469)**	(1,309)
Effect of exchange rate changes on cash	**(5)**	(137)	**4**	(93)
Increase (decrease) in cash	**$ (1,197)**	**$ 3,560**	**$ 25,932**	**$ 2,922**

	As at June 30	
($ thousands, unless otherwise noted)	**2023**	December 31 2022
Current assets	**$ 74,284**	$ 69,278
Working capital (1)	**61,816**	59,461
Working capital ratio (1)	**5.9:1**	*7.1:1*
Cash and cash equivalents	**45,419**	19,559
Net cash (1)	**$ 41,304**	$ 15,345

(1) See "Non-IFRS Measures"

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 our contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the Bank of PNG 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

In Q2-2023, cash generated from operating activities from continuing operations was $1,082, down from the Q2-2022 cash generated from operating activities of $6,004. Funds flow from continuing operations totaled $3,914 in the Quarter (Q2-2022: $2,502), see "Non-IFRS Measures", and a $2,832 cash outflow from working capital changes (Q2-2022: $3,502 inflow).

In the six months ended June 30, 2023, cash generated from operating activities from continuing operations was $1,398, down from $6,249 in the corresponding period of 2022. Funds flow from continuing operations totaled $5,205 in the six months ended June 30, 2023, (YTD-2022: $4,693), see "Non-IFRS Measures", and a $3,807 cash outflow from working capital changes (YTD-2022: $1,556 inflow).

Investing Activities

During Q2-2023, the Corporation's cash used in investing activities from continuing operations was $769 (Q2-2022: $1,519) primarily as a result of lower capital expenditures totalling $702 in the Quarter when compared to the (Q2-2022: $1,710).

During the six months ended June 30, 2023, the Corporation's cash from investing activities from continuing operations was $26,970 ($1,925 used in the six months to June 30, 2022) reflecting the receipt of the final cash proceeds of $28,000 from the Well Servicing Transaction in Q1-2023 offset by lower capital expenditures totalling $1,098 (YTD-2022: $3,280) and $101 proceeds on disposal of property and equipment (YTD-2022: $1,107), and cash outflow of $33 relating to working capital balance changes for capital items (YTD-2022: $248).

Financing Activities

In Q2-2023, the Corporation's cash used in financing activities was $1,505 (Q2-2022: $788). During the Quarter, the Corporation paid $730 in dividends (Q2-2022 $487), $43 (Q2-2022: $81) towards principal payments on its mortgage financing (see "Mortgage Financing below"), $732 against lease liability payments (Q2-2022: $464) and cash inflow of $Nil relating to noncash working capital balance changes (Q2-2022: $244).

During the six months ended June 30, 2023, the Corporation's cash used in financing activities was $2,469 (YTD-2022: $1,309). During the period, the Corporation paid $1,460 in dividends (YTD-2022: $487), $99 (YTD-2022: $135) towards principal payments on its mortgage financing (see "Mortgage Financing below"), $885 against lease liability payments (YTD-2022: $931), $25 towards purchase of common shares for cancellation (YTD-2022: Nil) and cash inflow of $Nil relating to noncash working capital balance changes (YTD-2022: $244).

Mortgage Financing

	As at June 30, 2023	As at December 31, 2022
Current	**$ 176**	$ 186
Non-current	**3,939**	4,028
Total	**$ 4,115**	$ 4,214

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining term of 3.4 years with a fixed interest rate of 4.30% with payments occurring monthly.

Pursuant to the sale of the Canadian nitrogen pumping assets, the terms of Corporation's mortgage financing were amended. The amendments resulted in a one-time repayment of $500 of mortgage principal on July 28, 2023, the release of the sold assets from the general security of the mortgage and reduced reporting obligations.

Intention to Return Capital and Reorganize

On May 11, 2023, the Corporation announced that the Board of Directors intends to recommend to shareholders a tax efficient return of capital equal to $38.2 million relating to the Q3-2022 sale of High Arctic's Canadian well servicing business, and a reorganization of the Corporation.

The return of capital cash payment and a purchase rights distribution are intended to affect a reorganization of High Arctic's business into two companies, with a foreign legal entity ("High Arctic International") owning the Corporation's existing PNG focused business, and High Arctic Energy Services Inc., the current ultimate parent company within the High Arctic group of companies, owning the Corporation's existing North American business (collectively the "Reorganization"). The Reorganization is intended to unlock the value of the different segments of High Arctic's business by dividing the Corporation into its distinct businesses and providing Shareholders with an opportunity to acquire a direct equity stake in High Arctic International while continuing to hold their current equity stake in High Arctic.

The Board has reserved its final decision to proceed until materials are ready to present to shareholders.

Reorganization Update:

The Corporation is working with its advisors on the reorganization plan, the completion of which will be subject to applicable regulatory and shareholder approvals.

If the reorganization proceeds, it is expected to result in:

- The payout to shareholders of $38.2 million, equivalent to approximately $0.75 per fully diluted share, by way of tax efficient return of capital distribution,
- The sale of High Arctic International to existing shareholders who opt to participate through issuance by the Corporation of a right for shareholders to purchase from the Corporation one (1) ordinary share of High Arctic Energy Services Cyprus Limited (a wholly owned subsidiary of High Arctic immediately prior to the Reorganization) for each common share held in High Arctic,
- A shareholder election process whereby shareholders can:
  - Do nothing, and receive their return of capital distribution as cash;
  - Elect to exercise their purchase rights (in full or in part);
  - Elect to use some or all of the funds to be received pursuant to the return of capital, toward the exercise of purchase rights; and
- Receipt by the Corporation of the proceeds of the sale of ordinary shares of High Arctic International.

Through this Reorganization, the Corporation aims to completely divest its ownership of High Arctic International, an unlisted company incorporated and domiciled in Cyprus that owns the Corporations interests in its foreign subsidiaries. For further information on the corporate structure refer to the Annual Information Form – for the year ended December 31, 2022, located on the High Arctic website and published on SEDAR.

The Corporation expects to announce the exercise price for the purchase of High Arctic International and complete the information memorandum in September. The potential Special Shareholder meeting is anticipated be held in October and the process concluded prior to year end.

If concluded, the Reorganization outlined above will separate the international PNG-focused business from the TSX listed Corporation. Following the reorganization, the Corporation will continue to be listed and it's remaining business will consist of:

- a Canadian rental business centered upon well pressure control;
- industrial real estate properties at Clairmont (leased to a third party) and Whitecourt in Alberta, Canada;
- a significant interest in Canada's largest oilfield snubbing services business, Team Snubbing Services Inc.;
- cash proceeds of the sale of High Arctic International; and
- approximately $130 million of non-capital tax loss carry-forwards.

Outlook

High Arctic is in a position to refocus its Canadian business. The rental business is generating solid margins and a high level of utilization which we anticipate continuing into the traditionally busier winter period. Opportunities to gain scale and underlying net profitability are a priority. Team Snubbing has utilized the customary spring break-up period to prepare additional equipment for deployment in Canada and to establish operations in Alaska through its 50% owned Team Snubbing International partnership. Both Alaskan snubbing packages are now working, with a growing order book of customer activity.

Energy security, evolving attitudes to carbon sequestration and the longevity of Canada's oil and gas industry as well as growing alternative energy industries, provide opportunities for the Corporation to prudently invest in businesses positioned to benefit. These considerations and opportunities are supported by the long-awaited pipeline expansion to tidewater which is close to being realized for both oil liquids and natural gas production. It's a positive development and sets up a favorable backdrop for relatively sustained upstream energy service demand as the world accelerates a transition to responsible production and lower emission energy consumption.

In the immediate term, the current monetary policy environment is delivering high yield fixed interest income for investment of surplus cash. The Corporation is moving forward to establish new leadership in Canada to seize high margin opportunities and set a new direction.

PNG-focused High Arctic International is maintaining cost discipline while preparing for the anticipated upswing in activity in the years ahead. Rig 103 has completed its first full quarter of drilling activity since returning to work under its operations and management contracts. In return for utilizing the rig, High Arctic International pays the customer a daily rig lease rate, and generates revenue based on the level of activity and services provided. The contract for Rig 103 was extended in 2022 to August 2025 with two 1-year options for the customer to extend the term.

The opportunities for growth in PNG include: building on drilling operations by deploying idle heli-portable drilling rigs 115 and 116; supply services to the Papua-LNG project; and, the substantive need for workers and machinery necessary for the contemplated major capital and infrastructure projects.

We await the final investment decision of the TotalEnergies led Papua-LNG project expected later this year. That project is anticipated to stimulate other exploration and appraisal activity and is expected to be followed by the P'nyang gas field development in the Western Province of PNG. State owned Kumul Petroleum is advancing appraisal of other gas discoveries in PNG and discussions continue with other exploration companies towards future work.

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 Shareholders' equity per share 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.sedarplus.ca 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, among others, statements pertaining to the following: general economic and business conditions which will include, among other things, the outlook for energy services; continued impact of Russia-Ukraine conflict; opportunities for growth and transactions that enhance shareholder value; 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; expectations regarding the Corporation's ability to manage its liquidity risk; raise capital and manage its debt finance agreements; 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 its major customers; the return of capital to the Corporation's shareholders and reorganization including divestment of the PNG Business to shareholders, return of a capital payment, purchase rights distribution, unlock the value of the different segments of High Arctic's business, obtaining applicable regulatory and shareholder approvals; the performance of the Corporation's investment in Team Snubbing; upswing in PNG energy sector activity and opportunities for growth; the final investment decision on the Papua-LNG project and development of the P'nyang gas field; expectations of Rig 103 to operate consistently through the term of its contract; deploying idle heli-portable drilling rigs 115 and 116; future work with other exploration companies in PNG; scaling the Canadian business; executing on one or more corporate transactions; estimated credit risks and the utilization of tax losses.

With respect to forward-looking statements contained in this press release, the Corporation has made assumptions regarding, among other things, its ability to: maintain its ongoing relationship with major customers; successfully market its services to current and new customers; devise methods for, and achieve its primary objectives; source and obtain equipment from suppliers; successfully manage, operate, and thrive in an environment which is facing much uncertainty; remain competitive in all its operations; attract and retain skilled employees; and obtain equity and debt financing on satisfactory terms.

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, along with the risk factors set out in the most recent Annual Information Form filed on SEDAR at www.sedarplus.ca.

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 pressure control equipment on a rental basis to exploration and production companies.

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