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High Arctic Announces 2023 Third Quarter Results

CALGARY, Canada – November 15, 2023, High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' third quarter financial and operating results. The unaudited interim consolidated financial statements, and management discussion & analysis ("MD&A"), for the quarter ended September 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:

> *"High Arctic's businesses in both Canada and PNG have had a solid third quarter, contributing to increased net cash balances. The closing of the sale of our Nitrogen Pumping business in Canada progressed the streamlining of our Canadian business. In Canada we have a low operating cost high-margin rental business in addition to strategic investments in the oilfield services industry.*
>
> *Rig 103 continues drilling operations in PNG which are expected to be completed by the third quarter of 2024. In addition, the Ancillary Services segment continues to perform at expectations and our manpower solutions revenue stream has had a successful initiation during 2023. We continue to await a final investment decision on Papua LNG and the project operators process, timetable and decision on drilling rig selection. This decision is expected to clarify development drilling specifications and sets the stage for insights on exploration prospects where High Arctic's owned assets carry distinct advantage given their heli-portable design.*
>
> *On the reorganization and tax efficient return of capital, we continue to work to addresses the concerns some shareholders have shared with us and will revert with our intentions once that work is complete."*

Highlights

The following highlights the Corporations results for Q3-2023:

- Full drilling utilization of PNG Rig 103 during the Quarter, pursuant to a 3-year contract renewed in August 2022.
- Generated positive Adjusted EBITDA from continuing operations of $3.2 million on revenues of $17.8 million, funds flow from continuing operations of $3.1 million, and incurred capital expenditures of $0.7 million.
- Recorded a non-cash impairment loss of $20.5 million on PNG asset carrying values based on uncertainty around future drilling activity levels.
- Incurred a net loss from continuing operations of $15.0 million or ($0.31) per share in Q3-2023.
- After the Quarter, suspended the monthly dividend to optimize capability to fund a pending tax-efficient return of capital to shareholders, and
- Closed the sale of the Corporation's Canadian nitrogen transportation, hauling and pumping services business for total cash consideration of $1.35 million resulting in a gain on sale of $0.6 million.

2023 Strategic Objectives

High Arctic's 2023 Strategic Objectives build on the platform 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.

RESULTS OVERVIEW

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

(unaudited)	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of Canadian Dollars, except per share amounts)	2023	2022	2023	2022
Operating results from continuing operations:				
Revenue(3)	17,814	11,940	43,819	65,278
Net loss from continuing operations	(15,039)	(4,368)	(15,580)	(26,895)
Per share – basic (1)(2)	*(0.31)*	*(0.09)*	*(0.32)*	*(0.56)*
Oilfield services operating margin(2)(3)	5,855	3,086	15,215	14,368
Oilfield services operating margin as a % of revenue(2)	*32.9%*	*25.9%*	*34.7%*	*22.0%*
EBITDA(2)	(16,166)	(270)	(11,109)	(2,996)
Adjusted EBITDA(2)	3,202	598	8,556	6,686
Adjusted EBITDA as % of revenue(2)	*18.0%*	*5.0%*	*19.5%*	*10.2%*
Operating income (loss)	308	(2,582)	(373)	(8,107)
Cash flow from continuing operations:				
Cash flow from operating activities	1,882	971	3,391	7,494
Per share – basic (1)(2)	*0.04*	*0.02*	*0.07*	*0.15*
Funds flow from (used in) operating activities(2)	3,154	(620)	8,470	4,349
Per share – basic (1)(2)	*0.06*	*(0.01)*	*0.17*	*0.09*
Dividend payments	730	731	2,190	1,218
Per share – basic (1)(2)	*0.01*	*0.01*	*0.05*	*0.02*
Capital expenditures	702	636	1,829	3,940

(unaudited) (thousands of Canadian Dollars, except per share amounts)	As at Sept 30, 2023	As at Dec 31, 2022
Financial position:		
Working capital(2)	63,452	59,461
Cash	46,801	19,559
Total assets	115,566	133,957
Long term debt	3,394	4,028
Long term financial liabilities, excluding long term debt	1,139	4,881
Shareholders' equity	97,302	115,231
Per share – basic(1)(2)	*2.00*	*2.37*
Common shares outstanding (in thousands)	48,674	48,691

(1) The number of common shares used in calculating net loss from continuing operations 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 of the Financial Statements.

(2) 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 and working capital per share - basic & diluted do not have standardized meanings prescribed by IFRS – see "Non-IFRS Measures" for calculations of these measures.

(3) Revenue generated from the Canadian well services and snubbing assets sold in the Sale Transactions, during the three and nine months ended September 30, 2022 totaled $4,959 and $36,099 respectively. Oilfield services expenses, incurred from the Canadian well services and snubbing assets sold in the Sale Transactions, during the three months and nine months September 30, 2022 totaled $3,965 and $31,740 respectively. The Canadian snubbing assets were sold for an equity interest in the purchaser, Team Snubbing, on July 27, 2022. As a result, subsequent to this date, revenue and expenses in connection with High Arctic's 42% ownership interest in Team Snubbing are being reflected in income from equity investments.

Third Quarter 2023 Summary

- Revenue for the Quarter from continuing operations was $17,814, an increase of $5,874 compared to Q3-2022 at $11,940. The combined Drilling Services segment and Ancillary Services segments increased revenue by an aggregate $10,618 on the strength of increased revenues from PNG and Canadian rentals. This increase was partially offset with the decline from the Production Services segment that decreased by $4,959 as a result of the sale of Canadian well servicing and snubbing assets in 2022. Revenue generated from the assets sold in the Sale Transactions during Q3-2022 totaled $4,959.
- High Arctic recorded an impairment loss of $20,500 on its PNG Operations CGU as uncertainty around future drilling activity levels in PNG negatively impact future cashflows and asset carrying values.
- Reported Adjusted EBITDA from continuing operations of $3,202 in Q3-2023, an increase of $2,603 over Q3-2022. The favourable variance was primarily 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. Higher utilization rates experienced in the Canadian rentals business also contributed to the increase in Adjusted EBITDA in the quarter.
- Oilfield services operating margins improved as a percent of revenue from 25.9% in Q3-2022 to 32.9% in Q3-2023. This improvement was primarily a result of the elimination of the lower margin Canadian well servicing and snubbing assets that were sold in Q3-2022.
- High Arctic generated a net loss of $15,039 from continuing operations in Q3-2023 compared to a net loss from continuing operations of $4,368 for Q3-2022. The increase in net loss of $10,671 in Q3-2023 over Q3-2022 was due to the impairment loss of $20,500 on its PNG Operations CGU. Mitigating the impact of the impairment was the stronger operational performance mentioned above, a $3,865 deferred tax recovery recorded as a result of the impairment and $470 in higher Q3-2023 interest income.

Year-to-date September 30, 2023 Summary

- Revenue from continuing operations for the nine months of 2023 was $43,819, a decrease of $21,459 compared to the corresponding period of 2022 at $65,278. This decrease was due to the sale of Canadian well servicing and snubbing assets in 2022 which accounted for revenues of $36,099 for the nine months ended September 30, 2022. Partially offsetting this decline was increased revenue from the Drilling Services segment of $13,108 as a result of steady drilling activity in PNG since Q1-2023. Revenue generated from the assets sold in the Sale Transactions during first half of 2022 totaled $36,099.
- Despite lower revenue for the nine months of 2023 Adjusted EBITDA from continuing operations increased $1,870 to $8,556 when compared to the corresponding period of 2022. The increase is primarily attributable to the contribution coming from High Arctic's higher margin businesses being Drilling and Ancillary Services when compared to 2022 which had a greater contribution from the Production Services segment which contained the Canadian well servicing and snubbing assets that were sold on July 27, 2022.
- Oilfield services operating margins improved as a percent of revenue from 22.0% in Q3-2022 to 34.7% in the nine months of 2023. This improvement is primarily a result of the strength in Drilling Services and Ancillary Services operating segments and the results of the Canadian well servicing and snubbing assets impact on the 2022 Production Services segment results.
- High Arctic generated a net loss of $15,580 from continuing operations in YTD-2023 compared to a net loss of $26,895 in the corresponding period of 2022. The lower net loss recorded in YTD-2023 was primarily attributable to improved income from operations, the gain on sale of the nitrogen business, higher interest income and lower interest and finance expenses. The YTD-2022 deferred tax expense of $7,116 recorded that related to the reversal of the Corporation's deferred tax asset and the YTD-2023 deferred tax recovery of $3,892 recorded as a result of the impairment recorded in Q3-2023, offset the $10,942 year over year asset impairment expenses increase.

Operating Results

Drilling Services segment

(unaudited)	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of Canadian Dollars, unless otherwise noted)	2023	2022	2023	2022
Revenue	13,940	4,870	33,653	20,545
Oilfield services expense	(10,731)	(3,718)	(25,475)	(15,832)
Oilfield services operating margin(1)	3,209	1,152	8,178	4,713
Operating margin (%)	*23.0%*	*23.7%*	*24.3%*	*22.9%*

(1) See "Non-IFRS Measures"

Ancillary Services segment

(unaudited)	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of Canadian Dollars, unless otherwise noted)	2023	2022	2023	2022
Revenue	3,874	2,326	10,166	10,235
Oilfield services expense	(1,190)	(882)	(3,091)	(3,460)
Oilfield services operating margin(1)	2,684	1,444	7,075	6,775
Operating margin (%)	*69.3%*	*62.1%*	*69.6%*	*66.2%*

(1) See "Non-IFRS Measures"

Production Services segment

(unaudited)	Three months ended Sept 30,		Nine months ended Sept 30,	
(thousands of Canadian Dollars, unless otherwise noted)	2023	2022	2023	2022
Revenue	-	4,959	-	36,099
Oilfield services expense	(38)	(4,469)	(38)	(33,219)
Oilfield services operating margin(1)	(38)	490	(38)	2,880
Operating margin (%)	*nm*	*9.9%*	*nm*	*8.0%*

(1) See "Non-IFRS Measures"

Liquidity and capital resources

	Three months ended		Nine months ended	
(thousands of Canadian Dollars)	Sept 30, 2023	Sept 30, 2022	Sept 30, 2023	Sept 30, 2022
Cash provided by (used in) continued operations:				
Operating activities	1,882	971	3,391	7,494
Investing activities	1,146	8,690	28,005	6,745
Financing activities	(1,540)	(905)	(4,009)	(2,214)
Effect of exchange rate changes on cash	-	(419)	4	(512)
Increase in cash from continued operations	1,488	8,337	27,391	11,513
			As at	As at
(thousands of Canadian Dollars, unless otherwise noted)			Sept 30, 2023	Dec 31, 2022
Current assets			77,183	69,278
Working capital(1)			63,452	59,461
Working capital ratio(1)			5.6:1	7.1:1
Cash and cash equivalents			46,801	19,559
Net cash(1)			43,230	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 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 will grant these approvals.

If such approvals are not received, the Corporation's PNG 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 Q3-2023, cash generated from operating activities from continuing operations was $1,882, up from the Q3-2022 cash generated from operating activities of $971. Funds flow from continuing operations totaled $3,154 in the Quarter versus funds flow used in continuing operations for Q3-2022 of $620, see "Non-IFRS Measures", and a $1,272 cash outflow from working capital changes (Q3-2022: $1,591 inflow).

In the nine months ended September 30, 2023, cash generated from operating activities from continuing operations was $3,391, down from $7,494 in the corresponding period of 2022. Funds flow from continuing operations totaled $8,470 in the nine months ended September 30, 2023, (YTD-2022: $4,349), see "Non-IFRS Measures", and a $5,079 cash outflow from working capital changes (YTD-2022: $3,145 inflow).

Investing Activities

During Q3-2023, the Corporation's cash from investing activities from continuing operations was $1,146 compared to Q3-2022 that saw positive cash from investing activities from continuing operations of $8,690. 2022 was favorably impacted with initial $10,000 cash receipts from the sale of the Canadian well servicing assets that exceeded the $1,350 received in the Quarter for the sale of the Canadian nitrogen business assets.

During the nine months ended September 30, 2023, the Corporation's cash from investing activities from continuing operations was $28,005 (YTD-2022 $6,745) reflecting the receipt of the final cash proceeds of $28,000 from the Well Servicing Transaction in Q1-2023 (YTD-2022: $11,361) offset by lower capital expenditures totaling $1,829 (YTD-2022: $3,940) and $1,350 in proceeds received on the disposal of the Canadian nitrogen business assets, and cash inflow of $383 relating to working capital balance changes for capital items (YTD-2022: $676, cash outflow).

Financing Activities

In Q3-2023, the Corporation's cash used in financing activities was $1,540 (Q3-2022: $905). During the Quarter, the Corporation paid $730 in dividends (Q3-2022 $731), $544 (Q3-2022: $80) towards principal payments on its mortgage financing and $266 against lease liability payments (Q3-2022: $94).

During the nine months ended September 30, 2023, the Corporation's cash used in financing activities was $4,009 (YTD-2022: $2,214). During the period, the Corporation paid $2,190 in dividends (YTD-2022: $1,218), $643 (YTD-2022: $215) towards principal payments on its mortgage financing, $1,151 against lease liability payments (YTD-2022: $1,025), $25 towards purchase of common shares for cancellation (YTD-2022: $nil) and cash inflow of $nil relating to non-cash working capital balance changes (YTD-2022: $244).

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 to a maximum of $38.2 million relating to the Q3-2022 sale of High Arctic's Canadian well servicing assets, and a reorganization of the Corporation.

The reorganization was intended to separate the international business of High Arctic, which is focussed on Papua New Guinea, from the Canadian business. This addresses the inefficiency of managing two small businesses on opposite sides of the world, with few synergies and allowing senior management to concentrate where they can have the most success.

The Corporation has received feedback from some shareholders and is working with its advisors on the reorganization plan to incorporate key elements of the shareholder feedback. The High Arctic Board has reserved its final decision to proceed with the reorganization until these matters and ongoing strategic review have been addressed to their satisfaction. The Corporation cautions readers of this MD&A that there is no certainty that the reorganization will proceed in the format previously announced, or at all.

Outlook

High Arctic's Canadian rental business, while small, continues to generate solid margins with a high level of utilization and we anticipate this continuing through the winter period. Opportunities to gain scale and underlying net profitability are a priority. Our investment in Team Snubbing performed well in Q3-2023 with Team recording its highest quarterly revenue to date and we have expectations for increased activity to drive Team's revenues up further across the traditionally busy winter period.

Coupling the nearing completion of the long-awaited pipeline expansion to tidewater for both oil liquids and natural gas production, with the evolving attitudes to carbon sequestration, energy security and the longevity of Canada's oil and gas industry sets up a favorable backdrop for relatively sustained upstream energy service demand in Canada. We continue to seek to expand our rentals business capacity to service the energy industry now and into the future.

High Arctic's PNG business was highlighted by Rig 103 operating continuously through the third quarter. Rig 103 has now completed two of the four approved wells on our customer's current drilling program which is expected to be completed by Q3-2024. In addition, the Ancillary Services segment rental fleet of equipment continues to generate strong utilization and pricing and our manpower solutions continues to contribute a strong revenue stream at appropriate margins.

The Corporation's owned rig assets in PNG, heli-portable drilling rigs 115 and 116 and hydraulic workover rig 102, have been idle throughout 2023. This equipment continues to be actively marketed. However, we do not currently have outstanding customer contract tenders or open bid submissions for this equipment. That said, the appointment of Chris Fraser as a key business development executive for High Arctic International has led to opportunities to promote our services to new customers and markets within the region. The Corporation is focussed upon our specialist PNG know-how, drilling capability, fleet of rental equipment and camps, and our worker development and manpower solutions.

We continue to await the final investment decision of the TotalEnergies led Papua-LNG project expected in early 2024. 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 continues to advance towards appraisal of other gas discoveries in PNG and discussions continue with other exploration companies towards future work.

In the immediate term, the current monetary policy environment is delivering high yield fixed interest income for investment of surplus cash. Additional cost discipline as well as the recent suspension of the Corporation's regular monthly dividend, aim to optimize a tax-efficient return of capital to shareholders.

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 and other conflicts; sustained upstream energy service demand in Canada; the expansion of Canada's traditional and emerging energy industries; 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; potential impacts regarding the Corporation's reorganization plan; the performance of the Corporation's investment in Team Snubbing; realizing opportunities to gain scale and underlying net profitability in the Canadian business; expansion of the Canadian rentals business; 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; stimulation of other exploration and appraisal activity in PNG; expectations of Rig 103 to operate beyond the current approved wells on the customers drilling program; deploying idle heli-portable drilling rigs 115 and 116; future work with other exploration companies in PNG; executing on one or more corporate transactions and estimated credit risks.

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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