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# High Arctic Announces 2024 First Quarter Results

CALGARY, Alberta – May 15, 2024, High Arctic Energy Services Inc. (TSX: HWO) (the "Corporation" or "High Arctic") released its' first quarter financial and operating results. The unaudited consolidated financial statements, management discussion & analysis ("MD&A"), for the quarter ended March 31, 2024 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.

## Intention to Return Capital and Reorganize

On May 11, 2024 the Corporation announced the Annual General and Special Meeting of Shareholders to be held in Calgary, Alberta on June 17, 2024 (the "Meeting"). The meeting has been called by the High Arctic Board of Directors for the purpose of holding a shareholders vote on the separation of the Corporation's North American and Papua New Guinea ("PNG") businesses, by way of a court-approved plan of arrangement (the "Arrangement"), as well as a distribution of surplus cash to shareholders by way of a return of capital of up to $0.76 per common share ( up to $38.2 million) of High Arctic (the "Return of Capital").

The Arrangement will transfer High Arctic's PNG business to a separate, dedicated, and independent, publicly traded company named High Arctic Overseas Holdings Corp. ("SpinCo"), while High Arctic will continue to own and operate the Corporation's existing North American Business. Each of the two companies will have its own management and operational teams and a separate Board of Directors.

Under the proposed Arrangement, each shareholder of High Arctic will receive one-quarter of one (1/4) common share of SpinCo and one-quarter of one (1/4) common share of post-Arrangement High Arctic for each common share of High Arctic held. As a result of the Arrangement, each shareholder will continue to own its pro rata portion of both SpinCo and post-Arrangement High Arctic. The Arrangement, the Return of Capital, and other resolutions related to the reorganization, as well as annual meeting matters, will be put to the Shareholders for approval at the Meeting. Both the Arrangement and the Return of Capital will require two thirds (2/3) of all votes cast in favour to pass.

Mike Maguire, Chief Executive Officer commented:

> *"Our businesses in both Canada and PNG have had very solid starts to 2024. Our recent acquisition and amalgamation of Delta Rental Services in Canada has delivered financial performance in line with our pre-transaction expectations and we anticipate further improvement as we move out of integration phase and optimize equipment cross-deployment. In PNG Rig 103 has delivered another high-quality quarter of drilling activity ahead of its suspension and stacking which will be completed in Q2 2024.*
>
> *I am pleased to have finally published the details of our long-anticipated reorganization and the associated tax efficient Return of Capital to shareholders. I am excited about the opportunities that this can unlock for the two distinct and separate businesses. Mail-out of meeting materials to shareholders is underway and I encourage all shareholders to read the materials which detail the reasons supporting the Arrangement, key dates and the processes available for voting.*
>
> *The PNG business will be owned by a new publicly listed Canadian company with operations focussed on PNG. High Arctic will retain the Canadian assets which have been strengthened with the addition of Delta Rental Services and is an attractive vehicle for future growth and transactions. The Board and Management of High Arctic unanimously recommend that all shareholders vote in favour of all resolutions at the meeting."*

In the following discussion, the three months ended March 31, 2024 may be referred to as the "quarter" or "Q1 2024" and the comparative three months ended March 31, 2023 may be referred to as "Q1 2023". References to other quarters may be presented as "QX 20XX" with X/XX being the quarter/year to which the commentary relates.

## 2024 FIRST QUARTER HIGHLIGHTS

- Seamless integration of the Delta business with the legacy High Arctic rental business that now operates under the Delta Rental Services banner with first quarter results in line with expectations, and potential for upside from deploying underutilized assets into our expanded geographical coverage in Alberta.
- Realized a fourth continuous quarter of full utilization of PNG Rig 103 and with performance in Q1 2024 consistent with the second half of 2023.
- Improved liquidity with a working capital balance of $67.5 million, which includes a cash balance of $57.3 million, and long-term debt of $3.5 million.
- Generated Adjusted EBITDA from continuing operations of $4.5 million on revenue of $18.0 million.
- Achieved net income of $3.5 million or $0.07 per share on a fully-diluted basis.
- Strong Q1 2024 operational performance from Team Snubbing resulted in $0.5 million in income from equity investments from High Arctic's 42% equity investment.

## 2024 Strategic Objectives

High Arctic's 2024 Strategic Objectives build on the platforms created and directions taken in 2023, and include:

- Continued relentless focus on safety excellence and quality service delivery,
- Distribute surplus capital and prepare for the spin out of the PNG business to shareholders,
- Create appropriate capital and corporate structures for the current businesses, that provide the opportunity to consider transactions which would create value for the Corporation's shareholders,
- Grow the core businesses through selective and opportunistic investments,
- Steward capital to preserve balance sheet strength and financial flexibility, and
- Execute accretive acquisitions in Canada that allow the Corporation to optimize its available tax loss carry-forwards.

## Q1 2024 Investor Conference Call

A High Arctic investor conference call is schedule to begin at 11:00 am MT (1:00 pm ET) on Thursday, May 16, 2024. The conference call dial in numbers are 1-800-898-3989 or 416-340-2217 and the participant passcode is 6026512#. Participants joining from outside North America can find International dial-in numbers at: https://www.confsolutions.ca/ILT?oss=7P1R8009525114

An archived recording of the conference call will be available approximately two hours after the call ends by dialing 1-800-408-3053 and entering passcode 8446938# will remain available until June 15, 2024. An audio recording of the conference call will also be available within 24 hours on High Arctic's website.

## RESULTS OVERVIEW

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

| | Three months ended Mar 31, | |
|---|---|---|
| (thousands of Canadian Dollars, except per share amounts) | 2024 | 2023 |
| **Operating results from continuing operations:** | | |
| Revenue – continuing operations | **18,005** | 8,771 |
| Net income (loss) - continuing operations | **3,505** | (630) |
| *Per share (basic & diluted)* (1) | ***0.07*** | *(0.01)* |
| Oilfield services operating margin - continuing operations (1) | **7,345** | 2,893 |
| *Oilfield services operating margin as a % of revenue* (2) | ***40.8%*** | *33.0%* |
| EBITDA - continuing operations (1) | **5,073** | 1,252 |
| Adjusted EBITDA - continuing operations (1) | **4,529** | 941 |
| *Adjusted EBITDA as a % of revenue* (1) | ***25.2%*** | *10.7%* |
| Operating income (loss) - continuing operations (2) | **2,756** | (1,977) |
| **Cash flow from continuing operations:** | | |
| Cash flow from continuing operating activities | **7,435** | 308 |
| *Per share (basic & diluted)* (1) | ***0.15*** | *0.01* |
| Funds flow from continuing operating activities (2) | **4,617** | 1,291 |
| *Per share (basic & diluted)* (1) | ***0.09*** | *0.03* |
| Dividends declared | **-** | 730 |
| *Per share (basic & diluted)* (1) | **-** | *0.015* |
| Capital expenditures | **1,050** | 396 |

| | As at | |
|---|---|---|
| (thousands of Canadian Dollars, except per share amounts) | Mar 31, 2024 | Dec 31, 2023 |
| **Financial position:** | | |
| Working capital (2) | **67,567** | 62,985 |
| Cash and cash equivalents | **57,038** | 50,331 |
| Total assets | **129,562** | 123,137 |
| Long-term debt (non-current) | **3,308** | 3,352 |
| Shareholders' equity | **103,761** | 99,332 |
| *Per share (basic)* (1) | ***2.11*** | *2.04* |
| *Per share (fully diluted)* (1) | ***2.06*** | *1.94* |
| Common shares outstanding | **49,122,302** | 49,122,302 |

(1) The number of common shares used in calculating net loss per share, cash flow from (used in) operating activities, funds flow from operating activities per share, dividend payments 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 (Earnings before interest, tax, depreciation, and amortization), Adjusted EBITDA, Operating loss, Funds flow from operating activities, Dividend payments per share, Working capital does not have a standardized meaning prescribed by IFRS – see "Non IFRS Measures" in the MD&A for calculations of these measures.

### Three-month period ended March 31, 2024 Summary:

- Drilling Rig 103 operated continuously through Q1 2024, driving substantive increases in both the Drilling Services and Ancillary Services segments including pull through rentals associated with drilling activity when compared to the Q1 2023 results. When coupled with increased contribution from Canadian rentals inclusive of the first full quarter contribution from the Delta business acquired in Q4 2023, and a reduction in low margin reimbursables, this delivered the following financial results:
  - Revenue for the quarter from continuing operations of $18,005, comparable to Q4 2023 and an increase of $9,234 or 105% compared to Q1 2023 at $8,771, and
  - Adjusted EBITDA from continuing operations of $4,529 in Q1 2024, outpacing the $3,240 generated in Q4 2023 and a significant increase of $3,588 over Q1 2023.
- The improved operations in Q1 2024 combined with increased investment income in the quarter to drive the following improved financial results for the Corporation despite elevated administrative expenses associated with the reorganization initiative:
  - Net income of $3,505 from continuing operations in Q1 2024 compared to $2,745 in Q4 2023 and a net loss from continuing operations of $630 realized in Q1 2023, and
  - Increased oilfield services operating margins from 33.0% in Q1 2023 to 40.8% in Q1 2024.

### Drilling services segment

| (thousands of Canadian Dollars, unless otherwise noted) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Revenue | 12,388 | 6,276 |
| Oilfield services expense | (8,746) | (5,085) |
| Oilfield services operating margin(1) | 3,642 | 1,191 |
| ***Operating margin (%)*** | ***29.4%*** | *19.0%* |

(1) See "Non-IFRS Measures"

### Ancillary services segment

| (thousands of Canadian Dollars, unless otherwise noted) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Revenue – continuing operations | 5,617 | 2,495 |
| Oilfield services expense – continuing operations | (1,894) | (793) |
| Oilfield services operating margin(1) | 3,723 | 1,702 |
| ***Operating margin (%)*** | ***66.3%*** | *68.2%* |

(1) See "Non-IFRS Measures"

### Liquidity and capital resources

| (thousands of Canadian Dollars) | Three months ended Mar 31, 2024 | 2023 |
|---|---|---|
| Cash provided by (used in) continued operations: | | |
| Operating activities | 7,435 | 308 |
| Investing activities | (1,050) | 27,768 |
| Financing activities | (298) | (964) |
| Effect of exchange rate changes on cash | 620 | 9 |
| Increase (decrease) in cash from continuing operations | 6,707 | 27,121 |

| (thousands of Canadian Dollars, unless otherwise noted) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Current assets | 86,218 | 79,438 |
| Working capital(1) | 67,567 | 62,985 |
| Working capital ratio(1) | 4.6:1 | 4.8:1 |
| Cash and cash equivalents | 57,038 | 50,331 |
| Net cash(1) | 53,556 | 46,804 |

(1) See "Non-IFRS Measures"

The Bank of PNG ("BPNG") 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 BPNG to maintain its USD account within the conditions of the BPNG currency regulations. The Corporation continues to use PGK for local transactions when practical. Included in the BPNG's conditions is for PNG drilling contracts to be settled in PGK, unless otherwise approved by the BPNG 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 BPNG of PNG approval for contracts to be settled in USD on a contract-by-contract basis, however, there is no assurance the BPNG will 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 Q1 2024, cash generated from operating activities from continuing operations was $7,435, as compared with $308 of cash generated from operating activities from continuing operations in Q1 2023. Funds flow from continuing operations totaled $4,617 in the quarter whereas it was only $1,291 in Q1 2023 (see "Non-IFRS Measures"). In Q1 2024, changes in non-cash working capital totaled $2,818 versus ($983) in Q1 2023.

**Investing Activities**
During the quarter, the Corporation's cash spent on investing activities from continuing operations totaled $1,050 and related to capital expenditures. For Q1 2023 the Corporation received $27,768 net, primarily as a result of the receipt of the final cash proceeds of $28,000 from the 2022 sale of the Corporation's Canadian well servicing assets.

**Financing Activities**
During the quarter, the Corporation's cash used in financing activities was $298 and significantly lower when compared to Q1 2023 at $964. During Q1 2024, the Corporation paid $45 (Q1 2023: $56) towards principal payments on its mortgage financing (see "Mortgage Financing" below) and $253 against lease liability payments (Q1 2023: $153). The largest contributor to the decline in cash used in financing activities in the quarter was due to $730 and $25 returned to shareholders in the form of dividends and share repurchases in Q1 2023 compared to nil for both in Q1 2024.

**Mortgage financing**

| (thousands of Canadian Dollars) | As at Mar 31, 2024 | As at Dec 31, 2023 |
|---|---|---|
| Current | 174 | 175 |
| Non current | 3,308 | 3,352 |
| Total | 3,482 | 3,527 |

The Corporation has mortgage financing secured by lands and buildings owned by High Arctic located within Alberta, Canada. The mortgage has a remaining initial term of under three years with a fixed interest rate of 4.30% with payments occurring monthly. The Corporation's mortgage financing contains certain non-financial covenants requiring lenders' consent including changes to the underlying business.

## Outlook

The acquisition of Delta in December and its integration with our legacy rentals business in Canada, has delivered scale for a cash-positive operation. Delta has performed in line with our pre-transaction expectations during this first quarter and we expect to see strong performance through 2024 as we focus on the marketing of underutilized assets into our expanded geographical coverage.

Over the past two years, the Corporation has divested underperforming and non-core assets and business. Now the Corporation's Canadian business consists of a high-margin equipment rental business centered upon pressure control, a minority interest in Canada's largest oilfield snubbing services business, Team Snubbing Services Inc., and industrial properties at Clairmont and Whitecourt in Alberta, Canada.

High Arctic's investment in Team Snubbing has positively impacted our financial results. In Canada, Team Snubbing continues to report consistent growth in service hours and revenue generation quarter-over-quarter, and the outlook through 2024 is for a continuation of this positive trend. Team Snubbing has increased its ownership of its international partnership to 90% through a non-cash arrangement and has control of Team Snubbing International Inc. and its business. Both of its snubbing packages in Alaska recommenced operations, after seasonal slowdowns, during the first quarter and are expected to operate through the year up until the depths of winter.

We have set a solid platform for 2024 with a strong first quarter from our rentals business and the investment in Team Snubbing. Coupling the outlook for Team Snubbing and the strategic growth of our successfully combined rentals business along with the industry macro developments around pipeline projects that will finally access tidewater markets and expand oil and gas takeaway for Canada in 2024, the Corporation anticipates strong demand for its equipment. Our Canadian business will be well positioned for the entrance of new leadership anticipated through the reorganization to deliver upon a growth strategy that creates value for shareholders.

Consistent with the end of 2023, the outlook for the Corporation's PNG business in 2024 remains subdued. In the Drilling Services segment, Rig 103 realized full utilisation in Q1 2024 and will finish drilling activity during the second quarter, with relocation to suspend and cold-stack Rig 103 expected to be completed by the end of Q2 2024. The Ancillary Services segment's rental fleet of equipment continues to generate strong utilization and pricing and our manpower solutions continues to build momentum as we enhance service offerings and capabilities. With no additional wells for Rig 103, the Corporation expects associated PNG rental revenues to scale back in the second half of 2024.

In the longer term, High Arctic believes PNG is on the precipice of a new round of large-scale projects in the natural resources sector. The Papua LNG project headed up by French super-major TotalEnergies is anticipated to be the next major project and is now targeting a final investment decision in 2025. There is expectation for increased drilling activity through the latter half of this decade, not only to develop wells for the supply of gas to the Papua-LNG export facility, but also to explore for and appraise other discoveries. The recent signing of a fiscal stability agreement between the P'nyang gas field joint venture and the government of PNG is another positive signal for that project to follow Papua-LNG.

There are a number of other petroleum projects and substantive nation-building projects including infrastructure, electrification, telecommunications and defense projects planned for the development of PNG. These projects will require access to transport and material handling machinery, quality worksite and temporary road mats and a substantive amount of labour including skilled equipment operators, qualified tradespeople and engineers, geoscientists and other professionals. High Arctic's PNG business continues to position itself to be a meaningful supplier of services, equipment and manpower for this market.

The Corporation continues to pursue business opportunities in PNG, engage with potential customers for its services there and in the wider region and take actions to protect its capability to realize the future potential of the PNG business.

## NON-IFRS MEASURES

This press 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, 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; the impact of conflict in the middle east; 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 intended reorganization of the Corporation including spinoff of the PNG business to shareholders as a Canadian publicly listed company and the distribution of a return of capital to shareholders, and obtaining applicable regulatory and shareholder approvals; right sizing of the general and administrative infrastructure to align with the new corporate structure; expansion of Canadian oil and gas takeaway capacity to global markets; the performance of the Corporation's investment in Team Snubbing, and whether Team Snubbing can realize high utilization in it's Canadian operations and for its two snubbing packages in Alaska in 2024; strong demand for the Corporations Canadian rental equipment in 2024, Papua New Guinea being on the precipice of a new round of large-scale projects in the natural resources sector; if a final investment decision will be made on the Papua-LNG project in 2025; whether the development of the P'nyang gas field will follow Papua-LNG;Completion of Rig 103 cold stack by the end of Q2 2024; the Corporation's ability to position itself to be a significant supplier of services, equipment and manpower for other projects in PNG; deploying idle heli-portable drilling rigs 115 and 116; future work with other exploration companies in PNG; the success in pursuing business opportunities in PNG and in the wider region; the success of any actions taken to protect the Corporation's capability to realize the future potential of the PNG business; 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 and other oilfield equipment on a rental basis to exploration and production companies, from its bases in Whitecourt and Red Deer, Alberta.

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