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## High Arctic Reports 2017 First Quarter Results

Calgary Alberta, May 10, 2017 – High Arctic Energy Services Inc. (TSX: HWO) – “High Arctic” or the “Corporation” is pleased to announce its 2017 first quarter.

Thomas Alford, High Arctic’s President and CEO stated: “Our contract drilling operations in Papua New Guinea continued to contribute a strong financial footing for High Arctic which was supplemented by the growth in our Canadian business operations. We are pleased with High Arctic’s performance in the quarter and are ready for the modest recovery that lies ahead. During the quarter the oilfield services industry in Canada experienced its highest levels of activity since the first quarter of 2015 providing some optimism that the extended downturn in the industry may be beginning to turn. I believe we are well positioned to benefit from this turn and we continue to seek opportunities to further leverage our position for further growth in a recovering industry.”

### Highlights

High Arctic’s expanded Canadian operations combined with its ongoing contractual drilling activity in PNG positively contributed to the Corporation’s financial results during the quarter:

- Revenue in the quarter increased 18% to \$64.8 million from \$54.7 million in the first quarter of 2016. This increase in revenue was driven by the growth in High Arctic’s Production Services segment through the Tervita Acquisition completed on August 31, 2016 combined with improved industry activity in Canada relative to the first quarter of 2016. The additional revenue contribution from the Production Services segment offset lower quarter over quarter revenue contribution from the Corporation’s Drilling Services segment which benefited from higher activity levels in the first quarter of 2016 versus the first quarter of 2017.
- Utilization for High Arctic’s registered Concord Well Serving rigs was 62% in the quarter versus industry utilization of 37% (source: Canadian Association of Oilwell Drilling Contractors “CAODC”).
- Increased contribution from High Arctic’s Production Services segment as well the Corporation’s contracted revenue in its Drilling Services segment allowed High Arctic to generate \$21.0 million in Adjusted EBITDA in the quarter which was in line with the \$21.8 million generated in the first quarter of 2016.
- Consistent with prior quarters, High Arctic declared \$2.6 million (\$0.05 per share) in dividends during the quarter which represents 15% of funds provided from operations in the quarter.

Funds provided from operations was \$17.0 million during the quarter versus \$18.9 million in the first quarter of 2016. As a result of the Bank of PNG’s review of U.S. Dollar accounts in PNG, a delay in the collection of the Corporation’s PNG accounts receivables occurred resulting in an increase in net debt to \$6.4 million at March 31, 2017 from a net positive cash position of \$3.3 million at December 31, 2016. Following the reapproval of the Corporation’s U.S. dollar bank account in late March, the Corporation recommenced collections of its outstanding accounts receivable, subsequent to quarter end, and also declared an intercompany dividend to repatriate cash from PNG to Canada in the amount of \$20.5 million less dividend withholding taxes of \$3.1 million.

As a result of the increased depreciation expense associated with the assets acquired in the Tervita Acquisition, net earnings declined to \$9.0 million (\$0.17 per share) in the quarter versus \$11.2 million (\$0.21 per share) in the first quarter of 2016.

High Arctic continues to maintain a strong balance sheet and continues to look for opportunities to expand its business operations in order to position itself for a future increase in industry activity levels.

## **Corporate Profile**

Headquartered in Calgary, Alberta, Canada, High Arctic provides oilfield services to exploration and production companies operating in Canada and Papua New Guinea (“PNG”). High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol “HWO”.

On August 31, 2016, High Arctic acquired Tervita's Production Services Division (the “Tervita Acquisition”). Through this acquisition, High Arctic added a fleet of 85 service rigs and related support equipment, a surface equipment rentals division and an abandonment and compliance consulting division. As a result of the expansion of the Corporation's service offering following the Tervita Acquisition, High Arctic has organized its business into three business segments: Drilling Services; Production Services; and Ancillary Services.

### **Drilling Services**

The Drilling Services segment consists of High Arctic's drilling services in PNG where the Corporation has operated since 2007. High Arctic currently operates the largest fleet of tier-1 heli-portable drilling rigs in PNG, with two owned rigs and two rigs managed under operating and maintenance contracts for one of the Corporation's customers.

### **Production Services**

The Production Services segment consists of High Arctic's well servicing and snubbing operations. These operations are primarily conducted in the Western Canadian Sedimentary Basin (“WCSB”) through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. In addition, High Arctic also provides work-over services in PNG with its heli-portable work-over rig.

### **Ancillary Services**

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG as well as its Canadian nitrogen and abandonment and compliance consulting services.

## Select Comparative Financial Information

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

\$ millions (except per share amounts)	Three months ended March 31		
	2017	2016	% Change
<b>Revenue</b>	<b>64.8</b>	54.7	18%
<b>EBITDA<sup>(1)</sup></b>	<b>21.0</b>	21.3	(1%)
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>21.0</b>	21.8	(4%)
<b>Adjusted EBITDA % of revenue</b>	<b>32%</b>	40%	(20%)
<b>Operating earnings</b>	<b>14.5</b>	15.7	(8%)
<b>Net earnings</b>	<b>9.0</b>	11.2	(20%)
per share (basic and diluted) <sup>(2)</sup>	<b>0.17</b>	0.21	(19%)
<b>Funds provided from operations<sup>(1)</sup></b>	<b>17.0</b>	18.9	(10%)
per share (basic and diluted) <sup>(2)</sup>	<b>0.32</b>	0.35	(9%)
<b>Dividends</b>	<b>2.6</b>	2.6	0%
per share <sup>(2)</sup>	<b>0.05</b>	0.05	0%
<b>Capital expenditures</b>	<b>2.6</b>	5.1	(49%)

  

	As At		
	March 31, 2017	December 31, 2016	% Change
<b>Working Capital<sup>(1)</sup></b>	<b>64.7</b>	28.6	126%
<b>Total assets</b>	<b>317.5</b>	305.1	4%
<b>Total non-current financial liabilities</b>	<b>29.4</b>	4.2	600%
<b>Net (debt) cash, end of period<sup>(1)</sup></b>	<b>(6.4)</b>	3.3	(294%)
<b>Shareholders' Equity</b>	<b>234.6</b>	230.2	2%
<b>Shares outstanding<sup>(2)</sup></b>	<b>53.2</b>	53.2	0%

(1) Readers are cautioned that EBITDA, Adjusted EBITDA, Funds provided from operations, net (debt) cash and working capital do not have standardized meanings prescribed by IFRS – see “non IFRS Measures” on page 10 for calculations of these measures.

(2) The incentive shares held by a trustee under the Executive and Director Incentive Share Plan (2010) are included in the shares outstanding. The number of shares used in calculating the net earnings per share amounts is determined differently as explained in the Financial Statements.

## Operating Segments

### Drilling Services

(\$ millions)	Three Months Ended March 31			
	2017	2016	Change	%
Revenue	<b>34.3</b>	41.0	(6.7)	(16%)
Oilfield services expense <sup>(1)</sup>	<b>18.6</b>	24.3	(5.7)	(23%)
Oilfield services operating margin <sup>(1)</sup>	<b>15.7</b>	<b>16.7</b>	<b>(1.0)</b>	<b>(6%)</b>
Operating margin (%)	<b>46%</b>	41%	5%	12%

(1) See 'non-IFRS Measures' on page 10

The Corporation owns two heli-portable drilling rigs (Rigs 115 and 116) which were added to High Arctic's fleet during 2015. These rigs are in addition to Rigs 103 and 104 which High Arctic operates on behalf of a major oil and gas exploration company in PNG.

First Quarter:

Rigs 104 and 115 were active throughout the quarter on their drilling assignments on Antelope-7 and Muruk-1, respectively. Rig 103 completed demobilization from its drilling assignment in the Western Province in January and was stacked at the Kiunga field base. Rig 116 remained on standby during the quarter generating its contract standby rate. As a result of Rig 103 being stacked for a portion of the quarter, Drilling Services revenue declined 16% in the quarter to \$34.3 million from \$41.0 million generated in the first quarter of 2016. The first quarter of 2016 benefited from revenue contribution from all four rigs throughout the quarter.

Operating margin as a percentage of revenue increased quarter over quarter to 46% versus 41% in the first quarter of 2016. Consistent with prior quarters, the standby revenue generated on Rig 116 skewed operating margins higher due to minimal operating costs being incurred while the rig is on standby. In addition, in compensation for the demobilization of Rig 103 to Kiunga rather than its contracted stacking location, High Arctic received a negotiated demobilization fee which also positively impacted operating margins. This alternative stacking location resulted in cost savings for the customer and allowed the rig to be placed in a favorable field location for potential future drilling assignments. Excluding the impact of the standby and onetime demobilization concession fee, operating margin as a percentage of revenue would have been 32% in the quarter versus 31% in the first quarter of 2016. In response to reduced activity levels experienced since the first quarter of 2016, High Arctic has also taken measures to reduce its fixed field support costs which has benefited operating margins. The stacking of Rig 103 also resulted in no rig lease costs being incurred for Rig 103, which positively impacted operating margin as a percentage of revenue in the quarter.

**Production Services**

(\$ millions)	Three Months Ended March 31			
	2017	2016	Change	%
Revenue	22.5	4.7	17.8	379%
Oilfield services expense <sup>(1)</sup>	18.7	2.8	15.9	568%
Oilfield services operating margin <sup>(1)</sup>	3.8	1.9	1.9	100%
Operating margin (%)	17%	40%	(23%)	(58%)

Operating Statistics:

Service rigs				
Average Fleet <sup>(2)</sup>	54	-	54	N/A
Utilization <sup>(3)</sup>	62%	-	62%	N/A
Operating hours	30,664	-	30,664	N/A
Revenue per hour	600	-	600	N/A
Snubbing rigs				
Average Fleet <sup>(4)</sup>	9	8	1	13%
Utilization <sup>(3)</sup>	37%	45%	(8%)	(18%)
Operating hours	3,054	3,290	(236)	(7%)

(1) See 'non-IFRS Measures' on page 10

(2) Average service rig fleet represents the average number of rigs registered with the CAODC during the period.

(3) Utilization is calculated on a 10 hour day.

(4) Average snubbing fleet represents the average number of rigs marketed during the period.

High Arctic's well servicing and snubbing operations are provided through its Production Services segment. These operations are primarily conducted in the WCSB through High Arctic's fleet of well servicing rigs, operating as Concord Well Servicing, and its fleet of stand-alone and rig assist snubbing units. The Concord Well Servicing operations were added to the Production Services segment through the Tervita Acquisition, which closed on August 31, 2016. The Production Services segment also provides heli-portable workover services in PNG, however, no workover services were provided in PNG during 2016 or year to date in 2017.

First Quarter:

The 379% increase in revenue quarter over quarter is due to the addition of the Concord Well Servicing operations added in the third quarter of 2016. The Concord Well Servicing operations contributed \$18.4 million in revenue during the quarter with the Corporation's snubbing operations contributing \$4.1 million in revenue. Favorable cold weather conditions during the first quarter allowed the Concord rigs to generate 30,664 operating hours for a 62% utilization of the 54 registered rigs. The Corporation's expansion into Grande Prairie also positively impacted operating hours as there was an average of seven Concord rigs relocated to the Corporation's Grande Prairie base during the quarter.

Concord's 62% utilization compares favorably to the 37% utilization generated by the industry's well servicing rigs in the first quarter of 2017 (source: CAODC). The industry utilization was the highest since the first quarter of 2015. Despite the increase in activity levels, pricing remains competitive resulting in Concord's average revenue per hour remaining at \$600/hour which is consistent with the fourth quarter of 2016.

Activity for the Corporation's snubbing rigs declined 7% quarter over quarter to 3,054 hours in the first quarter of 2017. This decline in activity was due to the Corporation's core snubbing customers directing their efforts towards completing fracturing programs during the quarter. Snubbing services are typically provided subsequent to fracturing of a well, therefore, the high fracturing activity in the quarter is anticipated to result in increased demand for the Corporation's snubbing services in upcoming quarters.

As a result of the increased revenue, operating margin increased to \$3.8 million from \$1.9 million in the first quarter of 2016. Competitive pricing and increased fixed operating costs associated with the growth of the Production Services segment contributed to operating margin as a percentage of revenue declining to 17% from 40% in the first quarter of 2016. In addition, higher initial start-up and maintenance costs were incurred during the quarter to reactivate previously idle rigs as well as initial start-up costs associated with the establishment of its Concord Well Servicing Grande Prairie operation.

Increasing activity has resulted in some early indications of potential pricing increases which should benefit future margins. In addition, management continues to progress on the implementation of various operational synergies identified through the integration of the Tervita Acquisition which are expected to result in reduced fixed operating costs.

**Ancillary Services**

(\$ millions)	Three Months Ended March 31			
	2017	2016	Change	%
Revenue <sup>(1)</sup>	8.8	9.0	(0.2)	(2%)
Oilfield services expense <sup>(2)</sup>	2.8	2.1	0.7	33%
Oilfield services operating margin <sup>(2)</sup>	6.0	6.9	(0.9)	(13%)
Operating margin (%)	68%	77%	(9%)	(12%)

(1) Revenue includes inter-segment revenue charged to Production Services from Ancillary Services division of \$0.8 million for the quarter. No inter-segment revenue was charged in comparative periods in 2016.

(2) See 'non-IFRS Measures' on page 10

The Ancillary Services segment consists of High Arctic's oilfield rental equipment in Canada and PNG as well as its Canadian nitrogen and abandonment and compliance consulting services, acquired in the Tervita Acquisition.

First Quarter:

Lower equipment rental activity in PNG was largely offset by the additional revenue contribution from rental and compliance consulting services added through the Tervita Acquisition. In addition, strong demand was experienced for the segment's nitrogen services due to increased industry fracturing activity in the quarter. The first quarter of 2016 also benefited from \$1.0 million in non-recurring income for damaged and lost mats upon a contract expiry.

Operating margin as a percentage of revenue declined to 68% in the quarter versus 77% in the first quarter of 2016. This decline is associated with the increased contribution from lower margin service lines in the quarter. In addition, the \$1.0 million non-recurring income from the damaged and lost mats skewed the 2016 first quarter operating margins higher. Without this revenue, the 2016 first quarter operating margin would have been 74%. Overall, operating margins for the Ancillary Services segment benefited from lower operating costs incurred on the segment's mat and equipment rentals. In addition, operating costs do not include high depreciation costs associated with the rental equipment.

## General and Administration

(\$ millions)	Three Months Ended March 31			
	2017	2016	Change	%
<b>General and administration</b>	<b>4.5</b>	3.7	0.8	22%
Percent of revenue	<b>7%</b>	7%	0%	0%

General and administrative costs increased to \$4.5 million in the quarter from \$3.7 million in the first quarter of 2016. The increase in general and administrative costs was largely due to additional support infrastructure added following the Tervita Acquisition. As a percentage of revenue, general and administrative costs remained constant at 7% of revenue.

## Depreciation

As a result of the \$64.0 million in operating assets added through the Tervita Acquisition in the third quarter of 2016, depreciation expense increased to \$6.4 million in the quarter from \$5.8 million in the comparative quarter. The Corporation also amended its depreciation estimate for non-rig assets in the quarter to straight-line depreciation methodology from declining balance. Management believes this change in depreciation methodology provides a more accurate reflection of the pattern in which the Corporation's asset's future economic benefits are expected to be consumed. Additional details on this change in depreciation methodology can be found in note 3 of the March 31, 2017 unaudited condensed consolidated financial statements. Had the Corporation continued to depreciate its assets using declining balance, depreciation expense would have been approximately \$6.7 million for the first quarter of 2017 versus the \$6.4 million recorded under the adopted straight-line depreciation methodology.

## Share-based Compensation

The decrease in share-based compensation expense to \$0.1 million from \$0.3 million in the first quarter of 2016, is a result of less stock options being granted in the first quarter of 2017 as well as higher costs associated with options granted in prior years which had been fully amortized prior to the first quarter of 2017.

## Foreign Exchange Transactions

The Corporation has exposure to the U.S. dollar and other currencies such as the PNG Kina through its international operations. As a result, the Corporation is exposed to foreign exchange gains and losses through the settlement of foreign denominated transactions as well as the conversion of the Corporation's U.S. dollar based subsidiaries into Canadian dollars for financial reporting purposes.

Gains and losses recorded by the Canadian parent on its U.S. denominated cash accounts, receivables, payables and intercompany balances are recognised as a foreign exchange gain or loss in the statement of earnings.

High Arctic is further exposed to foreign currency fluctuations through its net investment in foreign subsidiaries. The value of these net investments will increase or decrease based on fluctuations in the U.S. dollar relative to the Canadian dollar. These gains and losses are unrealized until such time that High Arctic divests of its investment in a foreign subsidiary and are recorded in other comprehensive income as foreign currency translation gains or losses for foreign operations.

The U.S. dollar remained strong relative to the Canadian dollar, with an average exchange rate of 1.323 during the quarter (2016 – 1.374). This strong U.S. dollar benefited the Corporation as the majority of the Corporation's PNG business is conducted in U.S. dollars.

As at March 31, 2017, the U.S. dollar exchange rate was 1.331 versus 1.343 as at December 31, 2016. This decline in exchange rate has resulted in a translation loss of \$1.4 million recorded in other comprehensive income for the quarter.

The fluctuation in exchange rates during the quarter also resulted in a \$0.1 million foreign exchange gain recorded on various foreign exchange transactions. The Corporation did not enter into any foreign currency hedges during the quarter.

## Interest and Finance Expense

During the quarter the Corporation had an average debt balance outstanding of \$24.8 million resulting in \$0.4 million being incurred in interest costs. In the third quarter of 2016 High Arctic utilized \$40.0 million of its debt facility to fund the closing of the Tervita Acquisition, which was subsequently paid down from the Corporation's available cash resources.

## Income Taxes

(\$ millions)	Three Months Ended March 31			
	2017	2016	Change	%
<b>Net earnings before income taxes</b>	<b>14.2</b>	15.4	(1.2)	(8%)
Current income tax expense	3.4	2.8	0.6	21%
Deferred income tax expense	1.8	1.4	0.4	29%
<b>Total income tax expense</b>	<b>5.2</b>	4.2	1.0	24%
Effective tax rate	37%	27%	10%	37%

The Corporation recorded \$5.2 million in income tax provisions in the quarter representing a 37% effective tax rate versus 27% in the first quarter of 2016. The increase in effective tax is largely due to an increase in certain foreign tax rates implemented effective January 1, 2017 as well as increased tax expense associated with withholding tax on anticipated dividend payments from PNG. As at March 31, 2017 High Arctic had \$94.4 million in unrecognized tax pools, including capital loss pools of \$37.2 million, which may be utilized to offset future taxable earnings generated by the Corporation's Canadian business operations.

## Other Comprehensive Income

As discussed above under Foreign Exchange Transactions, the Corporation recorded a \$1.4 million foreign currency translation loss in other comprehensive income during the quarter. This compares to a \$9.4 million loss recorded in the first quarter of 2016 which closed with a strong increase in the Canadian dollar during the quarter.

During the three months ended March 31, 2017, the Corporation recognized a \$0.7 million loss on its strategic investments. Contributing to the loss was the disposition of investments, which had an original cost of \$0.9 million for proceeds of \$0.6 million.

## Liquidity and Capital Resources

(\$ millions)	Three Months Ended March 31		
	2017	2016	Change
Cash provided by (used in):			
Operating activities	(4.9)	21.1	(26.0)
Investing activities	(1.9)	(5.1)	3.2
Financing activities	(1.3)	(9.1)	7.8
Effect of exchange rate changes	(0.1)	(1.9)	1.8
Increase (decrease) in cash and cash equivalents	(8.2)	5.0	(13.2)
	As At		
	March 31, 2017	December 31, 2016	Change
Working capital <sup>(1)</sup>	64.7	28.6	36.1
Working capital ratio <sup>(1)</sup>	2.5:1	1.5:1	1:1
Net cash (debt) <sup>(1)</sup>	(6.4)	3.3	(9.7)
Undrawn availability under debt facilities	19.5	21.0	(1.5)

(1) See 'non-IFRS Measures' on page 10

As at March 31, 2017, High Arctic had \$25.5 million outstanding on its debt facilities, and \$19.1 million in cash. The debt drawings were utilized to fund the Tervita Acquisition, while the cash proceeds were primarily located in the Corporation's PNG business operations.

The Bank of PNG policy continues to encourage the local market in PNG Kina. In the fourth quarter, the Bank of PNG commenced a review of all foreign currency accounts in PNG to ensure they had a legitimate business purpose. Due to High Arctic's requirement to transact with international suppliers and customers, High Arctic received approval to continue to maintain its U.S. dollar account within the conditions of the Bank of PNG currency regulations. The Corporation has taken steps to increase its use of PNG Kina for local transactions when practical. Included in the Bank of PNG's conditions, is for future PNG drilling contracts to be settled in PNG Kina. However, the Corporation will continue to seek Bank of PNG approval for customer contracts to be settled in U.S. Dollars on a contract by contract basis. 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 required to be settled in PNG Kina which would expose the Corporation to exchange rate fluctuations related to the PNG Kina. In addition, this may delay the Corporation's ability to receive U.S. Dollars which may impact the Corporation's ability to settle U.S. Dollar denominated liabilities and repatriate funds from PNG on a timely basis. The Corporation is evaluating various alternatives to help mitigate its exposure to these currency controls.



During the Bank of PNG's review of foreign currency accounts, the collection of PNG accounts receivables were delayed. With the recent approval of the Corporation's U.S. Dollar account, the Corporation recommenced collections of its outstanding accounts receivable balances in PNG and declared an intercompany dividend to repatriate cash from PNG in the amount of \$20.5 million less dividend withholding taxes of \$3.1 million.

### **Operating Activities**

Consistent with the decrease in Adjusted EBITDA during the quarter, funds provided from operations decreased 10% to \$17.0 million from \$18.9 million in the first quarter of 2016. After working capital adjustments, net cash generated from operating activities during 2017 was negative \$4.9 million compared to positive \$21.1 million for 2016. The decrease in funds provided from operations for the quarter relates mainly to an increase in accounts receivable due to the ongoing currency restrictions in PNG which has resulted in the Bank of PNG limiting the approval of the flow of foreign currency funds in PNG other than for the importation of goods and services, which has resulted in the delay of AR collections. Subsequent to the quarter end and in conjunction with the approval of the Corporation's U.S. Dollar account, High Arctic received \$31.8 million in collections of its total March 31, 2017 accounts receivable balance, of which \$20.3 million related to PNG.

### **Investing Activities**

High Arctic incurred \$2.6 million in capital expenditures during the quarter primarily related to maintenance capital and upgrades to the Corporation's well servicing rigs to enhance the efficiencies and marketability of rigs in the Corporation's various operating areas. Further capital investment and rig enhancements will be made as driven by customer demand and operating requirements.

During the quarter, the Corporation generated \$0.6 million in cash from the sale of a portion of its short-term investments.

### **Financing Activities**

The \$1.3 million in funds used in financing activities during the first three months of 2017 primarily relate to the net debt draw of \$1.5 million, \$2.6 million in dividend payments and \$0.2 million in capital lease obligation payments. The Corporation did not renew the NCIB that expired on January 11, 2017.

### **Credit Facility**

In the first quarter of 2017 High Arctic renewed its existing credit facility. As at March 31, 2017, High Arctic's credit facility consisted of a \$45.0 million revolving loan facility which matures on August 31, 2019. The facility is renewable with the lender's consent and is secured by a general security agreement over the Corporation's assets.

The available amount under the \$45.0 million revolving loan facility is limited to 60% of the net book value of the Canadian fixed assets plus 75% of acceptable accounts receivable (85% for investment grade receivables), plus 90% of insured receivables, less priority payables as defined in the loan agreement. As at March 31, 2017, approximately \$25.5 million was drawn on the facility and total credit available to draw was approximately \$19.5 million.

The Corporation's loan facilities are subject to three financial covenants, which are reported to the lender on a quarterly basis: Funded Debt to EBITDA (to be less than 2.50 to 1.00); Fixed Charge Coverage Ratio (to be greater than 1.25 to 1.00); and Current Ratio, which excludes the current portion of long-term debt (to be greater than 1.25 to 1.00). There have been no changes to these financial covenants subsequent to March 31, 2017 and the Corporation remains in compliance with the financial covenants under its credit facility as at March 31, 2017.

### **Outlook**

The ongoing contribution from High Arctic's PNG operations combined with the recent expansion of the Corporation's Canadian operations has provided High Arctic with the financial ability to continue to seek growth opportunities. With the early signs of a recovering market in the WCSB, High Arctic continues to look for opportunities to position itself to benefit from this long-awaited industry recovery. Drilling rig activity in the WCSB nearly doubled in the first quarter of 2017 versus the first quarter of 2016 and industry well servicing hours in the quarter were the highest since the first quarter of 2015 (source: CAODC).

With the completion of the integration of the Tervita Acquisition into High Arctic, efforts are now focused on implementing growth and operational synergies identified as part of the acquisition. This has been demonstrated through the expansion of the Concord Well Servicing operations into Grande Prairie during the quarter, which has allowed for previously idle equipment to be reactivated. During the second quarter the Corporation has commenced efforts to consolidate its field operating bases allowing for the reduction of overlapping support costs and the repositioning of equipment and personnel into areas to allow for improved efficiencies and the ability to better serve High Arctic's customers.

The recent increase in activity levels has been a positive sign for the industry, however, the prolonged downturn may limit the industry's ability to quickly respond to increased activity levels as staffing reductions and reduced maintenance capital expenditures has limited the available industry fleet capacity. In order to capitalize on these potential capacity shortages, High Arctic continues to evaluate further opportunities to expand its Canadian operations both organically through the marketing and reallocation of its existing equipment fleet, and also through potential acquisitions.

In PNG, Rig 104 remains active on its drilling program with Rig 115 preparing for demobilization to Port Moresby following the completion of its drilling assignment on Antelope-7. Rig 103 is currently stacked in Kiunga with an anticipated drilling assignment commencing in the third quarter of 2017. Rig 116 remains on standby in Port Moresby generating standby revenue under its existing take-or-pay contract.

High Arctic continues to progress discussions with its customer over long-term extensions for the contracts for Rigs 103 and 104 which are scheduled to expire on July 31, 2017. With the recent closing of the ExxonMobil acquisition of InterOil, the Corporation has commenced initial discussions with ExxonMobil regarding their requirements for Rigs 115 and 116 and the associated contracts. High Arctic continues to believe that PNG is well positioned for further growth and long-term development of its natural gas resources, which is expected to provide ongoing demand for the Corporation's drilling rigs in PNG. However, the current low commodity price environment as well as the resulting economic challenges in PNG may curtail industry activity levels in PNG over the short term. Similar to the global oilfield service industry, these lower activity levels in PNG may result in lower pricing for contract renewals.

While PNG continues to be a strong contributor to High Arctic's financial performance, management continues to focus on its strategy to balance High Arctic's global business operations. As part of this strategy, management continues to seek opportunities to position the Corporation to benefit from an anticipated recovery in the North American oilfield services sector. Additional markets may also be considered in order to leverage off High Arctic's existing international presence and redeploy underutilized assets into new markets.

## **Business Risks and Uncertainties**

In addition to the financial risks discussed above under "Financial Risk Management" in the Corporation's March 31, 2017 Management Discussion and Analysis ("MD&A"), below under "Forward Looking Statements" and elsewhere in this Press Release, High Arctic is exposed to a number of business risks and uncertainties that could have a material impact on the Corporation. Readers of the Corporation's Press Release should carefully consider the risks described under the heading "Risk Factors" in the Corporation's recently filed Annual Information Form for the year ended December 31, 2016 (the "AIF"), which are specifically incorporated by reference herein. The AIF and MD&A are available on SEDAR at [www.sedar.com](http://www.sedar.com), a copy of which can be obtained on request, without charge, from the Corporation.

## **Non-IFRS Measures**

This Press Release contains references to certain financial measures that do not have a standardized meaning prescribed by 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 the following:

## EBITDA

Management believes that, in addition to net earnings reported in the consolidated statement of earnings and comprehensive income, EBITDA (earnings before interest, taxes, depreciation and amortization) is a useful supplemental measure of the Corporation's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

## Adjusted EBITDA

Adjusted EBITDA is calculated based on EBITDA (as referred to above) prior to the effect of share-based compensation, gains or losses on sales or purchases of assets or investments, business acquisition costs, excess of insurance proceeds over costs and foreign exchange gains or losses. Management believes the addback for these items provides a more comparable measure of the Corporation's operational financial performance between periods. Adjusted EBITDA as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of consolidated net earnings to EBITDA and Adjusted EBITDA for the three months ended March 31:

\$ millions	Three Months Ended March 31	
	2017	2016
<b>Net earnings for the period</b>	<b>9.0</b>	11.2
Add:		
Interest and finance expense	<b>0.4</b>	0.1
Income taxes	<b>5.2</b>	4.2
Depreciation	<b>6.4</b>	5.8
<b>EBITDA</b>	<b>21.0</b>	21.3
Adjustments to EBITDA:		
Share-based compensation	<b>0.1</b>	0.3
Gain on sale of assets	-	(0.1)
Foreign exchange (gain) loss	<b>(0.1)</b>	0.3
<b>Adjusted EBITDA</b>	<b>21.0</b>	21.8

## Adjusted Net Earnings

Adjusted net earnings is calculated based on net earnings prior to the effect of gains and transaction costs incurred for acquisitions. Management utilizes Adjusted net earnings to present a measure of financial performance that is more comparable between periods. Adjusted net earnings as presented is not intended to represent net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted net earnings per share and Adjusted net earnings per share – diluted are calculated as Adjusted net earnings divided by the number of weighted average basic and diluted shares outstanding, respectively. The following tables provide a quantitative reconciliation of net earnings to Adjusted net earnings for the three months and year ended March 31:

\$ millions	Three Months Ended March 31	
	2017	2016
<b>Net earnings for the period</b>	<b>9.0</b>	11.2
Adjustments to net earnings:		
Gain on acquisition	-	-
Acquisition costs expensed	-	-
<b>Adjusted net earnings</b>	<b>9.0</b>	11.2

### Oilfield Services Operating Margin

Oilfield services operating margin is used by management to analyze overall operating performance. Oilfield services operating margin is not intended to represent operating income nor should it be viewed as an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Oilfield services operating margin is calculated as revenue less oilfield services expense.

### Oilfield Services Operating Margin %

Oilfield services operating margin % is used by management to analyze overall operating performance. Oilfield services operating margin % is calculated as oilfield services operating margin divided by revenue.

	Three Months Ended March 31	
\$ millions	2017	2016
<b>Revenue</b>	<b>64.8</b>	54.7
Less:		
Oilfield services expense	<b>39.3</b>	29.2
<b>Oilfield Services Operating Margin</b>	<b>25.5</b>	25.5
<b>Oilfield Services Operating Margin (%)</b>	<b>39%</b>	47%

### Percent of Revenue

Certain figures are stated as a percent of revenue and are used by management to analyze individual components of expenses to evaluate the Corporation's performance from prior periods and to compare its performance to other companies.

### Funds Provided from Operations

Management believes that, in addition to net cash generated from operating activities as reported in the consolidated statements of cash flows, cash flow from operating activities before working capital adjustments (funds provided from operations) is a useful supplemental measure as it provides an indication of the funds generated by High Arctic's principal business activities prior to consideration of changes in items of working capital.

This measure is used by management to analyze funds provided from operating activities prior to the net effect of changes in items of non-cash working capital, and is not intended to represent net cash generated from operating activities as calculated in accordance with IFRS.

The following tables provide a quantitative reconciliation of net cash generated from operating activities to funds provided from operations for the three months ended March 31:

	Three Months Ended March 31	
\$ millions	2017	2016
<b>Net cash generated from operating activities</b>	<b>(4.9)</b>	21.1
Less:		
Net changes in items of non-cash working capital	<b>21.9</b>	(2.2)
<b>Funds provided from operations</b>	<b>17.0</b>	18.9

### Working capital

Working capital is used by management as another measure to analyze the operating liquidity available to the Corporation. It is defined as current assets less current liabilities and is calculated as follows:

\$ millions	As At	
	March 31, 2017	December 31, 2016
<b>Current assets</b>	<b>107.8</b>	90.7
Less:		
<b>Current liabilities</b>	<b>(43.1)</b>	(62.1)
<b>Working capital</b>	<b>64.7</b>	28.6

### Net (debt) cash

Net (debt) cash is used by management to analyze the amount by which cash and cash equivalents exceed the total amount of long-term debt and bank indebtedness or vice versa. The amount, if any, is calculated as cash and cash equivalents less total long-term debt. The following tables provide a quantitative reconciliation of cash and cash equivalents to net (debt) cash as follows:

\$ millions	As At	
	March 31, 2017	December 31, 2016
<b>Cash and cash equivalents</b>	<b>19.1</b>	27.3
Less:		
Long-term debt	<b>(25.5)</b>	(24.0)
<b>Net (debt) cash</b>	<b>(6.4)</b>	3.3

**High Arctic Energy Services Inc.**  
Consolidated Statements of Financial Position  
As at March 31, 2017 and December 31, 2016  
Unaudited - Canadian \$ Millions

	March 31, 2017	December 31, 2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	19.1	27.3
Accounts receivable	75.5	49.1
Short term investments	3.5	4.8
Inventory	9.2	8.8
Prepaid expenses	0.5	0.7
	<u>107.8</u>	<u>90.7</u>
<b>Non-current assets</b>		
Property and equipment	204.4	209.2
Deferred tax asset	5.3	5.2
	<u>5.3</u>	<u>5.2</u>
<b>Total assets</b>	<b><u>317.5</u></b>	<b><u>305.1</u></b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	36.2	33.8
Income taxes payable	2.6	0.1
Dividend payable	0.9	0.9
Capital lease obligation	1.6	1.7
Current portion of deferred revenue	1.8	1.6
Current portion of long-term debt	-	24.0
	<u>43.1</u>	<u>62.1</u>
<b>Non-current liabilities</b>		
Deferred revenue	0.6	0.9
Unfavourable lease liability	3.3	3.3
Long-term debt	25.5	-
Deferred tax liability	10.4	8.6
	<u>10.4</u>	<u>8.6</u>
<b>Total liabilities</b>	<b><u>82.9</u></b>	<b><u>74.9</u></b>
<b>Shareholders' equity</b>	<b><u>234.6</u></b>	<b><u>230.2</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>317.5</u></b>	<b><u>305.1</u></b>

## High Arctic Energy Services Inc.

### Consolidated Statements of Earnings and Comprehensive Income

For the three months ended March 31, 2017 and 2016

Unaudited - Canadian \$ Millions, except per share amounts

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
<b>Revenue</b>	64.8	54.7
<b>Expenses</b>		
Oilfield services	39.3	29.2
General and administration	4.5	3.7
Depreciation	6.4	5.8
Share-based compensation	0.1	0.3
	50.3	39.0
<b>Operating earnings</b>	<b>14.5</b>	<b>15.7</b>
Foreign exchange (gain) loss	(0.1)	0.3
Gain on sale of property and equipment	-	(0.1)
Interest and finance expense	0.4	0.1
<b>Net earnings before income taxes</b>	<b>14.2</b>	<b>15.4</b>
Current income tax expense	3.4	2.8
Deferred income tax expense	1.8	1.4
	5.2	4.2
<b>Net earnings for the period</b>	<b>9.0</b>	<b>11.2</b>
<b>Earnings per share:</b>		
Basic	0.17	0.21
Diluted	0.17	0.21
	<b>Three Months Ended March 31, 2017</b>	<b>Three Months Ended March 31, 2017</b>
<b>Net earnings for the period</b>	9.0	11.2
<b>Other comprehensive income:</b>		
<b>Items that may be reclassified to profit or loss:</b>		
Foreign currency translation losses for foreign operations	(1.4)	(9.4)
<b>Items that will not be reclassified to profit or loss:</b>		
Gains (losses) on short term investments, net of tax	(0.7)	1.3
<b>Comprehensive income for the period</b>	<b>6.9</b>	<b>3.1</b>

# High Arctic Energy Services Inc.

Consolidated Statements of Cash Flows  
For the three months ended March 31, 2017 and 2016  
Unaudited - Canadian \$ Millions

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
<b>Net earnings for the period</b>	9.0	11.2
<b>Adjustments for non-cash items:</b>		
Depreciation	6.4	5.8
Provision for onerous lease	(0.1)	-
Share-based compensation	-	0.3
Gain on sale of property and equipment	-	(0.1)
Foreign exchange (gain) loss	(0.1)	0.3
Deferred income tax expense	1.8	1.4
	17.0	18.9
Net changes in items of working capital	(21.9)	2.2
<b>Net cash generated from operating activities</b>	(4.9)	21.1
<b>Investing activities</b>		
Additions of property and equipment	(2.6)	(5.1)
Disposal of short term investments	0.6	-
Disposal of property and equipment	0.1	-
<b>Net cash used in investing activities</b>	(1.9)	(5.1)
<b>Financing activities</b>		
Long-term debt proceeds	7.6	-
Long-term debt repayments	(6.1)	(4.0)
Dividend payments	(2.6)	(2.6)
Purchase of common shares for cancellation	-	(2.4)
Issuance of common shares, net of costs	-	0.2
Capital lease obligation payments	(0.2)	(0.3)
<b>Net cash used in financing activities</b>	(1.3)	(9.1)
<b>Effect of exchange rate changes</b>	(0.1)	(1.9)
<b>Net change in cash and cash equivalents</b>	(8.2)	5.0
<b>Cash and cash equivalents - beginning of year</b>	27.3	15.5
<b>Cash and cash equivalents - end of period</b>	19.1	20.5
<b>Cash paid for:</b>		
Interest	0.4	0.1
Income taxes	0.8	1.4



## 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, among other things, impact demand for and market prices for the Corporation’s services; expectations regarding the Corporation’s ability to raise capital and manage its debt obligations; the Corporation’s future discussions with its customer regarding long-term extensions for drilling and related services contracts for Rigs 103 and 104; future acquisitions and growth opportunities; the impact of the Tervita Acquisition on the Corporation’s financial and operational performance and growth activities; commodity prices and the impact that they have on industry activity; estimated capital expenditure programs for fiscal 2017 and subsequent periods; 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 major customers; treatment under governmental regulatory regimes and political uncertainty and civil unrest; and the Corporation’s ability to repatriate excess funds from PNG as approval is received from the Bank of PNG.

With respect to forward-looking statements contained in this Press Release, the Corporation has made assumptions regarding, among other things, its ability to: obtain equity and debt financing on satisfactory terms; market successfully to current and new customers; the general continuance of current or, where applicable assumed industry conditions; activity and pricing; assumptions regarding commodity prices, in particular oil and gas; the Corporation’s primary objectives, and the methods of achieving those objectives; obtain equipment from suppliers; construct property and equipment according to anticipated schedules and budgets; remain competitive in all of its operations; and attract and retain skilled employees.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth above and elsewhere in this Press Release, along with the risk factors set out in the most recent Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

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

High Arctic is a publicly traded company listed on the Toronto Stock Exchange under the symbol “HWO”. The Corporation’s principal focus is to provide drilling and specialized well completion services, equipment rentals and other services to the oil and gas industry.

High Arctic’s largest operation is in Papua New Guinea where it provides drilling and specialized well completion services and supplies rig matting, camps and drilling support equipment on a rental basis. The Canadian operation provides well servicing, snubbing services, nitrogen supplies and equipment on a rental basis to a large number of oil and natural gas exploration and production companies operating in Western Canada.

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