Essential Energy Services Announces First Quarter Financial Results

CALGARY, Alberta, May 13, 2020 (GLOBE NEWSWIRE) -- Essential Energy Services Ltd. (TSX: ESN) ("Essential" or the "Company") announces first quarter results.

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended March 31, **2020**		2019
Revenue	$	**41,423**	$ 47,446
Gross margin		**8,418**	10,559
Gross margin %		**20%**	22%
EBITDAS[(1)]		**5,884**	7,544
Net income before impairment loss[(1)]		**3,744**	1,407
Per share – basic and diluted		**0.03**	0.01
Net (loss) income	$	**(5,025)**	$ 1,407
Per share – basic and diluted	$	**(0.04)**	$ 0.01
Operating hours			
Coil tubing rigs		**13,013**	13,418
Pumpers		**15,892**	16,082
		As at March 31, **2020**	2019
Working capital	$	**53,514**	$ 53,808
Total assets		**183,999**	207,704
Long-term debt	$	**8,544**	$ 12,827

(1) Refer to "Non-IFRS Measures" section for further information.

INDUSTRY OVERVIEW

First quarter 2020 industry drilling and well completion activity remained below 2019 levels in Western Canada. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB") declined 9% compared to the first three months of 2019.

Near-term economic, political and social consequences of the COVID-19 pandemic and the extraordinary measures to contain its spread, started to evolve rapidly in March 2020. Demand destruction for oil intensified as the quarter progressed, as a result of the disruptive impact of the COVID-19 pandemic, concurrent with the effects of the price war between Russia and Saudi Arabia. West Texas Intermediate ("WTI") oil price dropped to U.S. $14 per barrel at the end of March, as excess oil in the market began raising fears about storage capacity limits being reached. The compounded effect created substantial uncertainty for North American exploration and production ("E&P") and oilfield service companies by the end of the first quarter 2020.

HIGHLIGHTS

Revenue for the three months ended March 31, 2020 was $41.4 million, a 13% decrease from the first quarter 2019. Both Essential Coil Well Service ("ECWS") and Tryton experienced a decrease in activity as customers opted to defer or reduce spending in response to worsening commodity prices and the onset of the COVID-19 pandemic. EBITDAS[(1)] was $5.9 million, $1.7 million lower compared to the same prior year period due primarily to lower revenue.

Key highlights included:

- ECWS revenue was $24.5 million, 6% lower than the first quarter 2019, in comparison to a 9% decline in industry well completions.

Management was pleased with gross margin of $5.8 million or 24%, consistent with the first quarter 2019, despite the decrease in revenue.

- Tryton revenue was $16.9 million, 21% lower compared to the first quarter 2019. Tryton Multi-Stage Fracturing System® ("MSFS®") sales experienced growth from both the third and fourth quarters 2019, as customers resumed spending on completion activities; however, activity remained below the first quarter 2019.

- In the face of the COVID-19 pandemic and the uncertainties surrounding it, Essential quickly adapted its operations and processes to remain focused on delivery of high-quality service to customers, in a safe work environment for employees. As the Company is deemed an essential service, staff continued to work while respecting the COVID-19 physical distancing parameters and Essential's occupational health and safety policies, as well as recommendations of health authorities and its customers.

Essential was in a strong financial position with long-term debt net of cash of $7.6 million and funded debt(1) to bank EBITDA(1) of 0.8x at March 31, 2020. Working capital(1) was $53.5 million on March 31, 2020, exceeding long-term debt by $45.0 million. On May 13, 2020 Essential had $1.0 million of long-term debt net of cash.

RESULTS OF OPERATIONS

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended March 31, **2020**	2019
Revenue	**$ 24,539**	$ 26,069
Operating expenses	**18,726**	19,557
Gross margin	**$ 5,813**	$ 6,512
Gross margin %	**24%**	25%
Operating hours		
Coil tubing rigs	**13,013**	13,418
Pumpers	**15,892**	16,082
Active equipment fleet(i)		
Coil tubing rigs	**16**	16
Fluid pumpers	**12**	19
Nitrogen pumpers	**6**	8
Total equipment fleet(i)		
Coil tubing rigs	**29**	29
Fluid pumpers	**19**	19
Nitrogen pumpers	**8**	8

(i) Fleet data represents the number of units at the end of the period.

ECWS first quarter 2020 revenue was $24.5 million, a 6% decrease compared to the same prior year period, which was better than the 9% decrease in industry well completions in the same period. Activity was steady during the first three months of 2020, despite being disrupted by a prolonged cold stretch in January. Operating hours decreased only 2%, with customer demand for Essential's deeper Generation III and IV coil tubing rigs and high rate fluid pumpers consistent with the first quarter 2019. Revenue per hour declined slightly, primarily due to the mix of work.

Management was pleased with the ECWS gross margin of $5.8 million, or 24%, for the first quarter 2020. Due to continued strong cost management practices, gross margin percentage remained consistent with the same prior year period, despite the decline in revenue.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended March 31, **2020**	2019
Revenue	**$ 16,884**	$ 21,377
Operating expenses	**13,974**	16,929
Gross margin	**$ 2,910**	$ 4,448

Gross margin %	**17%**	21%

Tryton revenue – % of revenue		
Tryton MSFS®	**35%**	40%
Conventional Tools & Rentals	**65%**	60%

Tryton first quarter 2020 revenue decreased 21% compared to the same quarter 2019. Tryton MSFS® sales experienced growth from both the third and fourth quarters 2019, as customers resumed spending on completion activities, however activity remained below the first quarter 2019. MSFS® revenue also decreased as customers opted to use lower-cost completion techniques, including Tryton's composite bridge plugs, that generate lower revenue per job compared to Tryton's ball & seat systems. Tryton U.S. revenue increased slightly compared to the same prior year period, as customers increased spending on well maintenance and decommissioning work, particularly in the Permian Basin.

Gross margin in the first quarter 2020 decreased to 17% of revenue compared to 21% in the same prior year period, as fixed costs represented a greater portion of revenue.

IMPAIRMENT LOSS

	For the three months ended March 31,	
(in thousands of dollars)	**2020**	2019
Impairment loss	**$ 10,293**	$ -

International Financial Reporting Standards ("IFRS") requires the Company to assess the carrying value of assets in the cash generating units when there are impairment indicators. At March 31, 2020, the industry outlook had deteriorated since December 31, 2019 with the compounded impact of worldwide events, including the onset of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American E&P companies' 2020 drilling and completion budgets, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair value of Essential's ECWS and Tryton segments were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of \$10.3 million: \$5.2 million on ECWS equipment, \$1.4 million on Tryton rental assets and \$3.7 million on goodwill (2019 – nil).

EQUIPMENT EXPENDITURES

	For the three months ended March 31,	
(in thousands of dollars)	**2020**	2019
ECWS	**$ 739**	$ 314
Tryton	**566**	1,267
Corporate	**-**	84
Total equipment expenditures	**1,305**	1,665
Less proceeds on disposal of equipment	**(478)**	(957)
Net equipment expenditures(1)	**$ 827**	$ 708

Essential classifies its equipment expenditures as growth capital(1) and maintenance capital(1):

	For the three months ended March 31,	
(in thousands of dollars)	**2020**	2019
Growth capital(1)	**$ -**	$ 630
Maintenance capital(1)	**1,305**	1,035
Total equipment expenditures	**$ 1,305**	$ 1,665

Essential reduced its 2020 capital budget from \$5 million to \$2 million, in response to the combined effects of the reduction in demand for oil, the COVID-19 global health pandemic and the increase in global oil supply that resulted in a sharp decline in the price of oil. Essential's capital spending will focus on critical maintenance activities and is expected to be funded with cash from operations and its Credit Facility.

OUTLOOK

By now, the economic destruction, globally and locally, from the COVID-19 global health pandemic is well known. From an oil perspective, the combined effects of the reduction in the demand for oil due to COVID-19 and the increase in oil supply has resulted in a sharp price decline, to the point of negative WTI prices on some days in April 2020. Western Canadian Select fared even worse, trading below U.S.

$10.00 per barrel and into negative territory in mid-April. This is having a negative effect on current and forecasted drilling and completion activity in Canada and the United States and has decreased the demand for oilfield services by E&P companies.

At Essential, activity in April softened but results have come in reasonably close to management's expectations. While it is typically a slow month due to spring breakup, the macroeconomic issues have slowed activity even further. For the remainder of the year, Essential is anticipating demand for its services will decrease relative to 2019. The extent of the decrease, however, is difficult to predict.

It became apparent in mid-March that significant cost cutting initiatives would be required to preserve positive operational cash flow generation in 2020. Despite Essential's exceptionally low debt and financial position, early and significant cost reductions were necessary to preserve these advantages. During April and May, the following initiatives were implemented:

- A 50% reduction in Board of Director compensation;
- A 50% reduction in the salary of the President and Chief Executive Officer;
- Salary and wage reductions through most levels of the organization, with senior level staff taking more significant reductions than junior roles;
- Bonus programs and most incentive and activity-based compensation programs were suspended;
- Reduction of certain employee benefit plans;
- Staff headcount reductions including permanent and temporary layoffs; and
- Other cost saving initiatives throughout the organization, including inventory reduction initiatives.

In addition to the significant cost reductions implemented, Essential's headcount has been reduced from 380 employees at January 1, 2020 to 245 employees at May 13, 2020.

In mid-April, ECWS announced its intention to reduce its active fleet from 16 coil tubing and pumping packages to 8 packages. The inactive equipment will be parked but can be available to re-enter service as market demand dictates. The smaller active fleet allows ECWS to maintain a smaller group of assets and, as a result, the Company's 2020 capital spending forecast is only $2 million. One bright spot for ECWS occurred during April, as a depth record was set by it for coil tubing in the WCSB. Rig 2050, a Generation IV retrofit rig, reached 7,760 meters on a horizontal well completion while conducting mill-out work.

In anticipation of similar activity reductions in Tryton, wage reductions and part-time work arrangements were implemented to reduce costs and preserve the employee base. On April 17, 2020, the federal government announced $1.7 billion of funding for orphan and inactive wells. On May 1, 2020, the Alberta government provided a framework for its $1 billion allotment of those funds with the Alberta Site Rehabilitation Plan. With Tryton being a primarily Alberta-based supplier of downhole tools and abandonment expertise, it is actively pursuing these opportunities and hopes to be successful with a number of projects.

Essential expects to benefit from the Canada Emergency Wage Subsidy program. Funds are expected to be available to the Company in the second and third quarter of 2020.

While the price of oil and oil-related activity has been especially hard hit, there may be a reason for optimism with natural gas-related work. The price of AECO has been trading higher, and with less volatility to-date in 2020, compared to most of 2019. As Essential's services are suitable for oil and natural gas-related work, an improvement in natural gas activity would be a welcome change, albeit, gas-related activity has had a small role in the WCSB in recent years.

The value and importance of Essential's low-debt strategy over the past few years has never been more apparent than it is now. At the end of March, Essential's funded debt to bank EBITDA covenant was only 0.8x. Essential anticipates being covenant compliant through the remainder of 2020. This is an enviable position at this point in the cycle. On May 13, 2020, long-term debt, net of cash, was $1.0 million.

The Management's Discussion and Analysis and Financial Statements for the quarter ended March 31, 2020 are available on Essential's website at www.essentialenergy.ca and on SEDAR at www.sedar.com.

[1]Non-IFRS Measures

Throughout this news release, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net loss and net loss per share as calculated in accordance with IFRS.

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, including the equity cure, excluding severance costs and excluding the impact of IFRS 16, for the most recent trailing twelve months.

EBITDAS – EBITDAS is earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, write-down of assets, impairment loss, foreign exchange gains or losses, and share-based compensation, which includes both equity-settled and cash-settled transactions. These adjustments are relevant as they provide another measure which is considered an indicator of Essential's results from its principal business activities.

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash. It does not include the lease liability.

Growth capital – Growth capital is capital spending which is intended to result in incremental revenue. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenue to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish, replace or extend the life of existing equipment.

Net equipment expenditures – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to managing Essential's property and equipment.

Net income before impairment loss – This measure is net (loss) income before impairment loss, net of taxes. Management believes it is a relevant measure as it provides an indication of Essential's results from its principal business activities.

Working capital – Working capital is calculated as current assets less current liabilities.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(in thousands of dollars)		**As at March 31, 2020**		As at December 31, 2019
Assets				
Current				
Cash	**$**	**959**	$	846
Trade and other accounts receivable		**30,689**		24,543
Inventory		**36,225**		36,616
Prepayments and deposits		**1,379**		1,789
		69,252		63,794
Non-current				
Property and equipment		**102,768**		111,141
Right-of-use lease asset		**11,754**		12,600
Intangible assets		**225**		295
Goodwill		**-**		3,565
		114,747		127,601
Total assets	**$**	**183,999**	$	191,395
Liabilities				
Current				
Trade and other accounts payable	**$**	**11,581**	$	11,513
Share-based compensation		**273**		1,189
Income taxes payable		**39**		32
Current portion of lease liability		**3,845**		3,909
		15,738		16,643
Non-current				
Share-based compensation		**891**		2,740
Long-term debt		**8,544**		6,563
Deferred tax liability		**2,197**		2,624
Long-term lease liability		**11,246**		12,154
		22,878		24,081
Total liabilities		**38,616**		40,724
Equity				
Share capital		**272,732**		272,732
Deficit		**(133,425)**		(128,400)
Other reserves		**6,076**		6,339
Total equity		**145,383**		150,671
Total liabilities and equity	**$**	**183,999**	$	191,395

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME
(Unaudited)

		For the three months ended March 31,		
(in thousands of dollars, except per share amounts)		**2020**		2019
Revenue	**$**	**41,423**	$	47,446
Operating expenses		**33,005**		36,887
Gross margin		**8,418**		10,559

General and administrative expenses		**2,534**		3,015
Depreciation and amortization		**3,914**		4,302
Share-based compensation (recovery) expense		**(1,680)**		446
Impairment loss		**10,293**		-
Other (income) expense		**(1,587)**		388
Operating (loss) income		**(5,056)**		2,408
Finance costs		**394**		496
(Loss) income before taxes		**(5,450)**		1,912
Current income tax expense		**1**		32
Deferred income tax (recovery) expense		**(426)**		473
Income tax (recovery) expense		**(425)**		505
Net (loss) income		**(5,025)**		1,407
Unrealized foreign exchange (loss) gain		**(269)**		33
Comprehensive (loss) income	**$**	**(5,294)**	$	1,440
Net (loss) income per share				
Basic and diluted	**$**	**(0.04)**	$	0.01
Comprehensive (loss) income per share				
Basic and diluted	**$**	**(0.04)**	$	0.01

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

		For the three months ended March 31,		
(in thousands of dollars)		**2020**		2019
Operating activities:				
Net (loss) income	**$**	**(5,025)**	$	1,407
Non-cash adjustments to reconcile net (loss) income to operating cash flow:				
Depreciation and amortization		**3,914**		4,302
Deferred income tax (recovery) expense		**(426)**		473
Share-based compensation		**6**		6
Provision for impairment of trade accounts receivable		**150**		100
Finance costs		**394**		496
Impairment loss		**10,293**		-
Gain on disposal of assets		**(168)**		(145)
Operating cash flow before changes in non-cash operating working capital		**9,138**		6,639
Changes in non-cash operating working capital:				
Trade and other accounts receivable before provision		**(6,817)**		1,044
Inventory		**274**		3,085
Income taxes payable		**7**		36
Prepayments and deposits		**410**		578
Trade and other accounts payable		**222**		1,844
Share-based compensation		**(2,765)**		(387)
Net cash provided by operating activities		**469**		12,839
Investing activities:				
Purchase of property, equipment and intangible assets		**(1,305)**		(1,665)
Non-cash investing working capital in trade and other accounts payable		**(154)**		(1,523)
Proceeds on disposal of equipment		**478**		957
Net cash used in investing activities		**(981)**		(2,231)
Financing activities:				
Increase (decrease) in long-term debt		**1,950**		(8,593)
Net finance costs paid		**(130)**		(199)
Payments of lease liability		**(1,225)**		(1,246)
Net cash provided by (used in) financing activities		**595**		(10,038)

Foreign exchange gain on cash held in a foreign currency		**30**		8
Net increase in cash		**113**		578
Cash, beginning of period		**846**		410
Cash, end of period	**$**	**959**	$	988
Supplemental cash flow information				
Cash taxes (received) paid	**$**	**(3)**	$	6
Cash interest and standby fees paid	**$**	**142**	$	195

FORWARD-LOOKING STATEMENTS AND INFORMATION

This news release contains “forward-looking statements” and “forward-looking information” (collectively referred to herein as “forward-looking statements”) within the meaning of applicable securities legislation. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to a number of material factors, assumptions, risks and uncertainties, many of which are beyond the control of the Company.

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “continues”, “future”, “forecasts”, “potential”, “budget”, “hope”, “outlook” and similar expressions, or are events or conditions that “will”, “would”, “may”, “likely”, “could”, “should”, “can”, “typically”, “traditionally” or “tends to” occur or be achieved. This news release contains forward-looking statements, pertaining to, among other things, the following: Essential’s capital spending forecast and expectations of how it will be funded; oil and natural gas industry and oilfield services sector activity and outlook; the Company’s capital management strategy and financial position; Essential’s outlook, activity levels, active and inactive equipment, cost cutting and its implications and outcomes and expectations for covenant compliance; the Alberta Site Rehabilitation Plan and the Canada Emergency Wage Subsidy Program.

The forward-looking statements contained in this news release reflect several material factors and expectations and assumptions of Essential including, without limitation: that Essential will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Essential's capital and operating requirements as needed; and certain cost assumptions.

Although the Company believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements are made, undue reliance should not be placed on the forward-looking statements because the Company can give no assurances that such statements and information will prove to be correct and such statements are not guarantees of future performance. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual performance and results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: known and unknown risks, including those set forth in the Company’s Annual Information Form (“AIF”) (a copy of which can be found under Essential’s profile on SEDAR at www.sedar.com); a significant expansion of COVID-19 and the impacts thereof; the risks associated with the oilfield services sector, including demand, pricing and terms for oilfield services; current and expected oil and natural gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety, market and environmental risks; integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation including, but not limited to, tax laws, royalties, incentive programs and environmental regulations; stock market volatility and the inability to access sufficient capital from external and internal sources; the ability of the Company’s subsidiaries to enforce legal rights in foreign jurisdictions; general economic, market or business conditions including those in the event of an epidemic, natural disaster or other event; global economic events; changes to Essential’s financial position and cash flow; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; potential industry developments; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive and should refer to “Risk Factors” set out in the AIF.

Statements, including forward-looking statements, contained in this news release are made as of the date they are given and the Company disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Additional information on these and other factors that could affect the Company’s operations and financial results are included in reports on file with applicable securities regulatory authorities and may be accessed under Essential’s profile on SEDAR at www.sedar.com.

ABOUT ESSENTIAL

Essential provides oilfield services to oil and natural gas producers, primarily in western Canada. Essential offers completion, production and decommissioning services to a diverse customer base. Services are offered with coil tubing, fluid and nitrogen pumping and the sale and rental of downhole tools and equipment. Essential offers one of the largest coil tubing fleets in Canada. Further information can be found at www.essentialenergy.ca.

MSFS® is a registered trademark of Essential Energy Services Ltd.

The TSX has neither approved nor disapproved the contents of this news release.

For further information, please contact:

Garnet K. Amundson
President and CEO
Phone: (403) 513-7272
service@essentialenergy.ca