Essential Energy Services Announces Third Quarter Financial Results

CALGARY, Alberta, Nov. 09, 2020 -- Essential Energy Services Ltd. (TSX: ESN) (“Essential” or the “Company”) announces third quarter results.

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Revenue	**$ 19,241**	$ 39,278	**$ 71,619**	$ 113,810
Gross margin	**5,314**	8,873	**14,608**	23,039
Gross margin %	**28%**	23%	**20%**	20%
EBITDAS (1)	**4,033**	6,294	**9,425**	15,246
Net (loss) income before impairment loss (1)	**(1,529)**	1,555	**(3,763)**	1,605
Per share - basic and diluted	**(0.01)**	0.01	**(0.03)**	0.01
Net (loss) income	**(1,529)**	1,555	**(12,584)**	1,605
Per share - basic and diluted	**(0.01)**	0.01	**(0.09)**	0.01
Operating hours				
Coil tubing rigs	**5,348**	11,098	**21,421**	31,642
Pumpers	**7,131**	13,449	**26,735**	38,879

	As at September 30, 2020	As at September 30, 2019
Working capital	**$ 46,706**	$ 54,378
Total assets	**163,188**	202,503
Cash	**6,625**	1,020
Long-term debt	**145**	10,782

1 Refer to “Non-IFRS Measures” section for further information.

INDUSTRY OVERVIEW

Third quarter 2020 drilling and well completion activity remained significantly below the same prior year period due to the continued disruptive impact of the COVID-19 pandemic, low oil prices and drastic spending cuts by exploration and production (“E&P”) companies. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin (“WCSB”), declined 70% compared to the third quarter of 2019, and declined 37% on a year-to-date basis compared to the same prior year period.

During the third quarter, the oilfield services sector experienced modest improvements since the exceptionally slow second quarter of 2020. The price of Western Texas Intermediate (“WTI”) hovered around US$40 per barrel during the third quarter, a significant improvement from the low, and even negative pricing, experienced in the second quarter. However, further recovery in oil demand is still required before the global oversupply of oil is brought back into balance and prices return to pre-COVID-19 levels.

HIGHLIGHTS

Revenue for the three months ended September 30, 2020 was $19.2 million, a 51% decrease from the third quarter of 2019. Essential Coil Well Service (“ECWS”) and Tryton both continued to see lower activity in the current quarter as a result of the COVID-19 pandemic and low oil prices.

EBITDAS(1) was $4.0 million in the third quarter, $2.3 million lower than the same prior year period. Although revenue declined in the quarter, significant cost reductions implemented earlier in the year, combined with $2.3 million of Canadian Emergency

Wage Subsidy ("CEWS") program benefits, helped to offset reduced activity.

At September 30, 2020, Essential was in a strong financial position with cash, net of long-term debt, of $6.5 million and working capital[(1)] of $46.7 million. Essential has been able to maintain a positive cash balance as the Company continues to focus on cost management and minimal capital spending. On November 9, 2020 Essential had $7.6 million of cash, net of long -term debt.

For the nine months ended September 30, 2020, Essential reported revenue of $71.6 million, $42.1 million lower than the prior year period due to lower activity across both segments. EBITDAS[(1)] was $9.4 million, a $5.8 million decline from the prior year mainly due to lower activity, partially offset by cost reductions implemented in 2020 and $4.9 million received under the CEWS program.

RESULTS OF OPERATIONS

Segment Results – *Essential Coil Well Service*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Revenue	**$ 9,909**	$ 22,609	**$ 40,564**	$ 64,684
Operating expenses	**6,505**	16,815	**29,849**	49,889
Gross margin	**$ 3,404**	$ 5,794	**$ 10,715**	$ 14,795
Gross margin %	**34%**	26%	**26%**	23%
Operating hours				
Coil tubing rigs	**5,348**	11,098	**21,421**	31,642
Pumpers	**7,131**	13,449	**26,735**	38,879
Active equipment fleet (i)				
Coil tubing rigs	**10**	16	**10**	16
Fluid pumpers	**9**	12	**9**	12
Nitrogen pumpers	**4**	6	**4**	6
Total equipment fleet (i)				
Coil tubing rigs	**29**	29	**29**	29
Fluid pumpers	**19**	19	**19**	19
Nitrogen pumpers	**8**	8	**8**	8

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.

ECWS revenue for the three months ended September 30, 2020 was $9.9 million, a 56% decrease compared to the same prior year period, but ahead of the 70% decline in industry well completions. Activity in the third quarter of 2020 remained below the prior year quarter due to the combined impact of the COVID-19 pandemic and sustained low oil prices which continue to impact customer spending. Revenue per hour decreased year-over-year due to a combination of mix of work and competitive pricing pressure.

In the third quarter of 2020, ECWS generated gross margin of $3.4 million, a decrease of 41% compared to same prior year period. Although revenue and gross margin were significantly lower than the prior year period, cost reduction initiatives, combined with benefits received under the CEWS program, helped to improve gross margin as a percentage of revenue to 34%, compared to 26% in the same prior year period. Realized savings related to several areas of ECWS's operations including labor, repairs and maintenance and logistics costs.

After an exceptionally slow second quarter, ECWS experienced more consistent levels of activity in the third quarter which supported the reactivation of two coil tubing rigs and one fluid pumper.

On a year-to-date basis, ECWS revenue was $40.6 million, 37% lower than the nine months ended September 30, 2019 and consistent with the 37% decrease in industry well completions. Gross margin improved to 26%, compared to 23% in the prior year, due to the significant 2020 cost reductions and CEWS program benefits.

Segment Results – *Tryton*

	For the three months ended September 30,	For the nine months ended September 30,

(in thousands of dollars, except percentages)		**2020**		2019		**2020**		2019
Revenue	**$**	**9,332**	$	16,669	**$**	**31,055**	$	49,126
Operating expenses		**6,943**		13,048		**26,002**		39,722
Gross margin	**$**	**2,389**	$	3,621	**$**	**5,053**	$	9,404
Gross margin %		**26%**		22%		**16%**		19%
Tryton revenue - % of revenue								
Tryton MSFS®		**40%**		29%		**36%**		30%
Conventional Tools & Rentals		**60%**		71%		**64%**		70%

Tryton revenue for the third quarter of 2020 was $9.3 million, a decrease of 44% compared to the same quarter in 2019, due to lower activity as a result of the COVID-19 pandemic and continued low oil prices. Although activity was below the comparative prior year period, for the third quarter, Tryton performed better than the 70% decline in industry well completions. Tryton's conventional tools revenue was below prior year as customers continued to defer site restoration work pending government funding approvals under the site rehabilitation programs (the "Site Rehabilitation Programs"). Tryton's Multi-Stage Fracturing System ("MSFS®") operations declined in the quarter, compared to the prior year, but performed better than management anticipated with stronger activity than the second quarter of 2020 due to work performed for key customers in the quarter.

For the three months ended September 30, 2020, gross margin was $2.4 million, a decrease of 34% compared to the prior year period due to lower activity. Although activity declined in the current quarter, Tryton achieved a gross margin of 26%, compared to 22% in the prior year period. Cost reduction initiatives, combined with benefits received under the CEWS program in Canada and forgivable loan benefits under the U.S. Paycheck Protection Program ("PPP Loans") contributed to improved third quarter gross margin as a percentage of revenue.

On a year-to-date basis, Tryton revenue was $31.1 million, a 37% decrease compared to the nine months ended September 30, 2019, due to the decline in activity. Gross margin was below the prior year due to lower activity, partially offset by cost reduction initiatives, benefits received under the CEWS program and forgivable amounts related to the PPP Loans received during the year.

Equipment Expenditures

	For the three months ended September 30,				For the nine months ended September 30,			
(in thousands of dollars)		**2020**		2019		**2020**		2019
ECWS	**$**	**191**	$	1,651	**$**	**1,001**	$	2,769
Tryton		**27**		443		**605**		2,569
Corporate		**19**		47		**49**		138
Total equipment expenditures		**237**		2,141		**1,655**		5,476
Less proceeds on disposal of equipment	**$**	**(723)**	$	(574)	**$**	**(2,034)**	$	(2,403)
Net equipment (proceeds) expenditures [1]	**$**	**(486)**	$	1,567	**$**	**(379)**	$	3,073

Essential classifies its equipment expenditures as growth capital[1] and maintenance capital[1]:

	For the three months ended September 30,				For the nine months ended September 30,			
(in thousands of dollars)		**2020**		2019		**2020**		2019
Growth capital [1]	**$**	**-**	$	79	**$**	**-**	$	798
Maintenance capital [1]		**237**		2,062		**1,655**		4,678
Total equipment expenditures	**$**	**237**	$	2,141	**$**	**1,655**	$	5,476

Essential's 2020 capital forecast remains unchanged at $2 million and is focused on critical maintenance activities. Capital spending is expected to be funded through proceeds on sale of surplus assets and cash from operations.

OUTLOOK

The issues faced by the oil industry since March 2020, continue to take a toll on oilfield services activity. The industry is overshadowed by COVID-19 social and economic disruption, high North American oil inventory and sub-economic oil prices.

While oil inventory levels have started to decline, further recovery in demand is required before the global oversupply of oil is brought back in balance and prices return to more economic levels. These factors are expected to continue to depress oilfield service spending by E&P companies in the fourth quarter of 2020.

Looking into 2021, some industry analysts and associations are projecting E&P spending in the WCSB will be similar to, or modestly higher than, 2020. While the current forward strip for WTI is only slightly higher than the current price, natural gas prices have been trending stronger and there may be a more constructive outlook for natural gas-related activity. Essential's services are equally suited for oil and natural gas-related work. The outlook for 2021 will become clearer as E&P capital budgets are released. The federal government recently extended the CEWS program to June 2021, which is positive for Essential and its customers. Essential expects to continue to benefit from this program, although to a lesser extent than 2020.

For Essential, activity levels experienced in September continued into October. However, activity is expected to slow as the fourth quarter progresses and customers complete their 2020 capital programs. With more consistent activity in the third quarter, relative to the second quarter, ECWS reactivated two more coil tubing rigs and one fluid pumper. The active fleet now includes 10 coil tubing rigs and nine fluid pumpers. This ensures suitable equipment is available for differing customer and regional needs. There are fewer crewed packages than active. The active and crewed fleet can be adjusted to meet changing customer requirements.

Tryton has submitted applications to provide downhole tool work under the Site Rehabilitation Programs to restore and decommission inactive wells. Government approvals for work under these programs has been slow and complex. Tryton has received some approvals and started work under the Alberta and Saskatchewan programs. The Site Rehabilitation Programs are expected to benefit Tryton into 2021 and 2022.

During this challenging time, Essential has managed to a net cash position, with cash exceeding long-term debt by $7.6 million on November 9, 2020. Operational and financial discipline includes significant compensation reductions, employee layoffs, cost efficiency and capital spending funded entirely with proceeds from asset sales. Essential believes that with the steps taken earlier in 2020, it has right-sized the Company for this prolonged downturn.

The value and importance of Essential's low-debt strategy over the past few years has never been more apparent than it is now. When industry activity increases, Essential expects to have the credit capacity to fund working capital requirements. Essential's credit facility is expected to provide sufficient liquidity and financial flexibility to meet financial needs through to the end of 2021.

The Management's Discussion and Analysis and Financial Statements for the quarter ended September 30, 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 under International Financial Reporting Standards ("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.

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.

Growth capital – Growth capital is capital spending which is intended to result in incremental revenue.

Maintenance capital – Maintenance capital is capital spending that is 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 (loss) 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. For the nine months ended September 30, 2020, net (loss) income before impairment loss is calculated as loss before income taxes of $15.2 million adjusted for impairment loss of $10.3 million and deferred income tax recovery of $1.1 million.

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 September 30, 2020**	As at December 31, 2019
Assets		
Current		
Cash	**$ 6,625**	$ 846
Trade and other accounts receivable	**18,372**	24,543
Inventory	**32,704**	36,616
Prepayments and deposits	**2,031**	1,789
	59,732	63,794
Non-current		
Property and equipment	**92,991**	111,141
Right-of-use lease asset	**10,254**	12,600
Intangible assets	**211**	295
Goodwill	**-**	3,565
	103,456	127,601
Total assets	**$ 163,188**	$ 191,395
Liabilities		
Current		
Trade and other accounts payable	**$ 8,968**	$ 11,513
Share-based compensation	**488**	1,189
Income taxes payable	**-**	32
Current portion of lease liability	**3,570**	3,909
	13,026	16,643
Non-current		
Share-based compensation	**1,794**	2,740
Long-term debt	**145**	6,563
Deferred tax liability	**-**	2,624
Long-term lease liability	**10,062**	12,154
	12,001	24,081
Total liabilities	**25,027**	40,724
Equity		
Share capital	**272,732**	272,732
Deficit	**(140,984)**	(128,400)
Other reserves	**6,413**	6,339
Total equity	**138,161**	150,671
Total liabilities and equity	**$ 163,188**	$ 191,395

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

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands of dollars, except per share amounts)	**2020**	2019	**2020**	2019
Revenue	**$ 19,241**	$ 39,278	**$ 71,619**	$ 113,810
Operating expenses	**13,927**	30,405	**57,011**	90,771
Gross margin	**5,314**	8,873	**14,608**	23,039
General and administrative expenses	**1,281**	2,579	**5,183**	7,793
Depreciation and amortization	**4,845**	3,876	**14,412**	12,068
Share-based compensation expense (recovery)	**636**	142	**(429)**	1,026
Impairment loss	**-**	-	**10,293**	-

Other expense (income)	**267**	(92)	**(804)**	493
Operating (loss) income	**(1,715)**	2,368	**(14,047)**	1,659
Finance costs	**310**	429	**1,158**	1,355
(Loss) income before taxes	**(2,025)**	1,939	**(15,205)**	304
Current income tax expense	**1**	-	**3**	67
Deferred income tax (recovery) expense	**(497)**	384	**(2,624)**	(1,368)
Income tax (recovery) expense	**(496)**	384	**(2,621)**	(1,301)
Net (loss) income	**(1,529)**	1,555	**(12,584)**	1,605
Unrealized foreign exchange gain (loss)	**114**	(21)	**57**	44
Comprehensive (loss) income	**$ (1,415)**	$ 1,534	**$ (12,527)**	$ 1,649
Net (loss) income per share				
Basic and diluted	**$ (0.01)**	$ 0.01	**$ (0.09)**	$ 0.01
Comprehensive (loss) income per share				
Basic and diluted	**$ (0.01)**	$ 0.01	**$ (0.09)**	$ 0.01

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

	For the nine months ended September 30	
(in thousands of dollars)	**2020**	2019
Operating Activities:		
Net (loss) income	**$ (12,584)**	$ 1,605
Non-cash adjustments to reconcile net (loss) income to operating cash flow:		
Depreciation and amortization	**14,412**	12,068
Deferred income tax recovery	**(2,624)**	(1,368)
Share-based compensation	**17**	58
Provision for impairment of trade receivable	**700**	450
Finance costs	**1,158**	1,355
Impairment loss	**10,293**	-
Gain on disposal of assets	**(317)**	(141)
Funds flow	**11,055**	14,027
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**5,353**	2,545
Inventory	**3,703**	3,418
Income taxes payable (receivable)	**(34)**	35
Prepayments and deposits	**(242)**	3
Trade and other accounts payable	**(2,285)**	(667)
Share-based compensation	**(1,647)**	25
Net cash provided by operating activities	**15,903**	19,386
Investing Activities:		
Purchase of property, equipment and intangible assets	**(1,655)**	(5,476)
Non-cash investing working capital in trade and other accounts payable	**(261)**	(665)
Proceeds on disposal of equipment	**2,034**	2,403
Net cash provided by (used in) investing activities	**118**	(3,738)
Financing Activities:		
Decrease in long-term debt	**(6,433)**	(10,700)
Finance costs paid	**(479)**	(468)
Payments of lease liability	**(3,336)**	(3,879)
Net cash used in financing activities	**(10,248)**	(15,047)

Foreign exchange gain on cash held in a foreign currency	**6**	9
Net increase in cash	**5,779**	610
Cash, beginning of period	**846**	410
Cash, end of period	**$ 6,625**	$ 1,020

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”, “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; near-term impacts from the COVID-19 pandemic; oil and natural gas industry and oilfield services sector activity and outlook; the Company’s capital management strategy and financial position; the impact of governmental and Company measures implemented in response to the COVID-19 pandemic; Essential’s outlook, activity levels, active and inactive equipment, crew counts, cost cutting and its implications; benefits under the Site Rehabilitation Programs, including the anticipated work for Essential and Tryton arising from the programs and the timing of the same; benefits under the CEWS program and the timing of the same; benefits under the PPP Loans; Essential’s belief that it has right-sized the Company for this prolonged downturn; and Essential’s credit capacity, liquidity and ability to meet its financial needs through to the end of 2021.

The forward-looking statements contained in this news release reflect several material factors and expectations and assumptions of Essential including, without limitation: the COVID-19 pandemic, unprecedented economic slow down and low oil prices, and the duration and impact thereof; 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 pandemic 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, and the higher degree of uncertainty related to the estimates and judgements made in the preparation of financial statements; 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 wellsite restoration 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.

PDF available: http://ml.globenewswire.com/Resource/Download/20e7c78c-ea9f-46d0-92bd-07e374b44028

For further information, please contact:

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