Essential Energy Services Announces Second Quarter Financial Results

CALGARY, Alberta, Aug. 10, 2020 (GLOBE NEWSWIRE) -- Essential Energy Services Ltd. (TSX: ESN) ("Essential" or the "Company") announces second quarter results.

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Revenue	**$ 10,955**	$ 27,086	**$ 52,378**	$ 74,532
Gross margin	**876**	3,607	**9,294**	14,166
Gross margin %	**8%**	13%	**18%**	19%
EBITDAS[(1)]	**(492)**	1,408	**5,392**	8,952
Net (loss) income before impairment loss[(1)]	**(6,030)**	(1,357)	**(2,232)**	50
Per share – basic and diluted	**(0.04)**	(0.01)	**(0.02)**	0.00
Net (loss) income	**(6,030)**	(1,357)	**(11,055)**	50
Per share – basic and diluted	**(0.04)**	(0.01)	**(0.08)**	0.00
Operating hours				
Coil tubing rigs	**3,060**	7,126	**16,073**	20,544
Pumpers	**3,712**	9,348	**19,604**	25,430

	As at June 30, **2020**	As at June 30, 2019
Working capital	**$ 44,408**	$ 47,662
Total assets	**161,531**	195,532
Cash	**5,664**	899
Long-term debt	**665**	7,451

[1] Refer to "Non-IFRS Measures" section for further information.

INDUSTRY OVERVIEW

Industry drilling and well completion activity was significantly below the same prior year period due to the disruptive impact of the COVID-19 pandemic, low oil prices and drastic spending cuts by exploration and production ("E&P") companies. From an oil perspective, the destructive impact of these factors caused the price of West Texas Intermediate ("WTI") to go into negative pricing for some days in April 2020. While recovering somewhat in early May, WTI reached US$35 per barrel in early June and hovered between US$35 per barrel and US$40 per barrel for the remainder of the second quarter, a level considered uneconomic for capital spending by many Canadian E&P companies.

While the second quarter is typically slow due to spring breakup, these macroeconomic issues have slowed activity even further. Second quarter drilling activity in the Western Canadian Sedimentary Basin was reportedly the lowest in over 35 years with an average of 22 active rigs.

HIGHLIGHTS

Essential was proactive in responding to market conditions in order to preserve cash and retain a low debt position. During April and May, a number of cost cutting initiatives were implemented including:

- Significant reduction in compensation for the Board of Directors and senior management;
- Salary, wage and headcount reductions throughout the organization; and

- The suspension of bonus, incentive and activity-based compensation programs.

Revenue for the three months ended June 30, 2020 was $11.0 million, a 60% decrease from the second quarter of 2019. Both Essential Coil Well Service (“ECWS”) and Tryton experienced a significant decrease in activity in the quarter as customers reduced spending or deferred work due to the combined effects of the COVID-19 pandemic and low oil prices.

EBITDAS(1) was $(0.5) million, $1.9 million lower than the same prior year period due to lower activity across both segments, offset by reduced expenses as a result of cost cutting initiatives and funding received from the Canadian Emergency Wage Subsidy (“CEWS”) program announced in response to the COVID-19 pandemic. The second quarter of 2020 included $2.6 million of CEWS program benefits. EBITDAS(1) was negatively impacted by $0.9 million of severance costs included in the second quarter of 2020.

During the second quarter, the provincial governments for each of Alberta, Saskatchewan and British Columbia initiated programs to incentivize E&P companies to spend on site rehabilitation programs (“Site Rehabilitation Programs”). Tryton initiated its applications under these programs in the second quarter. However, as the approval process has been slower than expected, Tryton did not perform any work in the second quarter but expects to begin work under these programs in the third quarter, continuing for the remainder of the year.

At June 30, 2020, Essential was in a strong financial position with cash, net of long-term debt, of $5.0 million and working capital(1) of $44.4 million. On August 10, 2020 Essential had $6.7 million of cash, net of long-term debt.

For the six months ended June 30, 2020, Essential reported revenue of $52.4 million, $22.2 million lower than the prior year period due to lower activity across both segments. EBITDAS(1) was $5.4 million, a $3.6 million decline from the prior year mainly due to lower activity, offset by cost cutting and benefits received under the CEWS program, as discussed above.

Renewal of Credit Facility

Effective July 9, 2020, Essential amended its June 26, 2018 credit facility agreement. The amended credit facility (the “Credit Facility”) provides Essential an extension of the maturity date to June 30, 2022, along with revisions to certain terms and conditions. The Credit Facility is expected to provide Essential with sufficient liquidity and financial flexibility through to the end of 2021 to navigate these uncertain times.

RESULTS OF OPERATIONS

Segment Results – *Essential Coil Well Service*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Revenue	**$ 6,116**	$ 16,006	**$ 30,655**	$ 42,075
Operating expenses	**4,618**	13,517	**23,344**	33,074
Gross margin	**$ 1,498**	$ 2,489	**$ 7,311**	$ 9,001
Gross margin %	**24%**	16%	**24%**	21%
Operating hours				
Coil tubing rigs	**3,060**	7,126	**16,073**	20,544
Pumpers	**3,712**	9,348	**19,604**	25,430
Active equipment fleet(i)				
Coil tubing rigs	**8**	16	**8**	16
Fluid pumpers	**8**	19	**8**	19
Nitrogen pumpers	**4**	8	**4**	8
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 June 30, 2020 was $6.1 million, a 62% decrease compared to the second quarter of 2019. The significant decline was due to the drastic reduction in activity as customers reduced spending as a result of the combined effects of the COVID-19 pandemic and the oil price decline. Revenue per hour decreased due to competitive pricing pressure. Historically, activity in June tends to increase after a seasonally slow April and May; however, this was not the case in June 2020.

In the second quarter of 2020, ECWS generated gross margin of $1.5 million as a result of proactive cost reduction initiatives implemented early in the quarter plus benefits received under the CEWS program. After assessing customer demand and their deep coil tubing and pumping requirements, ECWS reduced its active equipment and realized savings in several areas of its operations including labor, repairs and maintenance and logistics costs, offset by severance costs in the quarter.

Gross margin as a percentage of revenue of 24% for the second quarter of 2020 was higher than typical for the seasonably slow second quarter due to cost savings and CEWS program benefits. The government's decision to extend the CEWS program over the remainder of 2020 will continue to support gross margin. However, the impact of the CEWS program, as a percentage of revenue, is expected to diminish as revenue increases.

During the quarter, ECWS set a Canadian record depth with a Generation IV coil tubing rig reaching 7,760 meters on a horizontal well completion while conducting mill-out work.

On a year-to-date basis, ECWS revenue was $30.7 million, 27% lower than the six months ended June 30, 2019 and below the 19% decrease in industry well completions. Gross margin improved to 24%, compared to 21% in the prior year, due to cost management practices and CEWS program benefits.

Segment Results – *Tryton*

(in thousands of dollars, except percentages)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Revenue	**$ 4,839**	$ 11,080	**$ 21,723**	$ 32,457
Operating expenses	**5,085**	9,745	**19,059**	26,674
Gross margin	**$ (246)**	$ 1,335	**$ 2,664**	$ 5,783
Gross margin %	**(5%)**	12%	**12%**	18%
Tryton revenue – % of revenue				
Tryton MSFS®	**34%**	14%	**35%**	31%
Conventional Tools & Rentals	**66%**	86%	**65%**	69%

Tryton revenue for the second quarter of 2020 was $4.8 million, a decrease of 56% compared to the same quarter in 2019 due to the sharp decline in activity as a result of the COVID-19 pandemic and low oil prices. Tryton's Conventional Tools & Rentals revenue was below prior year as customers reduced production-related work and deferred site restoration work pending funding approvals under the Site Rehabilitation Programs. The review and approval process for these programs was much slower than anticipated and Tryton expects to begin work under these programs in the third quarter, continuing for the remainder of the year. Tryton Multi-Stage Fracturing System ("MSFS®") revenue remained consistent with the same prior year period.

Gross margin for the three months ended June 30, 2020 decreased as a result of lower activity in the quarter and severance costs, partially offset by significant cost cutting measures implemented early in the quarter and CEWS program benefits.

On a year-to-date basis, Tryton revenue was $21.7 million, a 33% decrease compared to the six months ended June 30, 2019 due to a sharp decline in activity as a result of the factors discussed above. Gross margin decreased to 12% as a result of fixed costs comprising a greater percentage of a significantly lower revenue base, offset by cost cutting initiatives and benefits received under the CEWS program.

Equipment Expenditures

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
ECWS	**$ 71**	$ 804	**$ 810**	$ 1,118
Tryton	**12**	859	**578**	2,126
Corporate	**30**	7	**30**	91
Total equipment expenditures	**113**	1,670	**1,418**	3,335
Less proceeds on disposal of equipment	**(833)**	(872)	**(1,311)**	(1,829)
Net equipment (proceeds) expenditures[1]	**$ (720)**	$ 798	**$ 107**	$ 1,506

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

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019

Growth capital[1]	**$ -**	$ 89	**$ -**	$ 719
Maintenance capital[1]	**113**	1,581	**1,418**	2,616
Total equipment expenditures	**$ 113**	$ 1,670	**$ 1,418**	$ 3,335

Essential's 2020 capital forecast is unchanged at $2 million and is focused on critical maintenance activities. Capital spending is expected to be funded with cash from operations and the Credit Facility.

OUTLOOK

Third quarter industry drilling and completion activity continued to be slow during the month of July. Wet weather and the same issues faced by the industry in the second quarter, including COVID-19 social and economic disruption, high North American oil inventory and a sub-economic oil price, continued to overshadow the industry. Improved pricing for liquids and a lower differential on Canadian oil has generally improved E&P company cash flows, but further recovery in oil demand is required before the global oversupply of oil is brought back into balance and prices return to pre-COVID-19 levels. There continues to be some optimism for natural-gas related work. The price of AECO is trading relatively high and with less volatility than occurred through most of 2019. In aggregate, however, these factors are expected to continue to decrease oilfield services spending by E&P companies in the third quarter of 2020, compared to the prior year.

Consistent with industry trends, Essential's activity in July was slower than the prior year. For the remainder of the third quarter, Essential is anticipating lower demand for its services. Essential's services are suitable for both oil and natural-gas focused work. As in the second quarter, ECWS expects to continue to maintain an active fleet of eight coil tubing and pumping packages to ensure suitable equipment is available for differing customer and regional needs. This contrasts with an active fleet of 16 packages in the first quarter of 2020. ECWS crew counts in the third quarter will be maintained to operate up to five packages. The active and crewed fleet can be adjusted to meet changing customer needs.

Tryton has submitted applications to provide downhole tool work under the Site Rehabilitation Programs to restore and decommission inactive and orphan wells. Approved work under these programs, initially announced in April 2020, has been slow to occur as rules and processes are established by the provincial governments. Tryton continues to work closely with the industry groups, government agencies and customers to monitor changing rules and secure funding approvals. Tryton expects to be awarded work under the Alberta and Saskatchewan programs in the third and fourth quarters. The Site Rehabilitation Programs are expected to evolve and increase activity as 2020 progresses when additional phases to the programs are introduced. The Site Rehabilitation Programs are expected to benefit Tryton, and possibly ECWS, into 2021 and 2022.

During this challenging time, Essential has managed to a net cash position, with cash exceeding long-term debt by $6.7 million on August 10, 2020. Operational and financial discipline includes significant compensation reductions, employee layoffs, cost cutting, redundant asset sales and modest capital spending. Essential expects to continue to benefit from the CEWS program until the conclusion of the program on December 21, 2020. 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 June 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.

Funds Flow – Funds flow is generally defined as net cash provided by operating activities before changes in non-cash operating working capital. Funds flow is presented on the Consolidated Interim Statements of Cash Flows.

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. 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 (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.

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 June 30, 2020		As at December 31, 2019
Assets				
Current				
Cash	$	**5,664**	$	846
Trade and other accounts receivable		**10,768**		24,543
Income taxes receivable		**2**		-
Inventory		**34,065**		36,616
Prepayments and deposits		**2,398**		1,789
		52,897		63,794
Non-current				
Property and equipment		**97,338**		111,141
Right-of-use lease asset		**11,078**		12,600
Intangible assets		**218**		295
Goodwill		**-**		3,565
		108,634		127,601
Total assets	$	**161,531**	$	191,395
Liabilities				
Current				
Trade and other accounts payable	$	**4,697**	$	11,513
Share-based compensation		**442**		1,189
Income taxes payable		**-**		32
Current portion of lease liability		**3,350**		3,909
		8,489		16,643
Non-current				
Share-based compensation		**1,250**		2,740
Long-term debt		**665**		6,563
Deferred tax liability		**496**		2,624
Long-term lease liability		**11,061**		12,154
		13,472		24,081
Total liabilities		**21,961**		40,724
Equity				
Share capital		**272,732**		272,732
Deficit		**(139,455)**		(128,400)
Other reserves		**6,293**		6,339
Total equity		**139,570**		150,671
Total liabilities and equity	$	**161,531**	$	191,395

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

		For the three months ended June 30,				For the six months ended June 30,		
(in thousands of dollars, except per share amounts)		**2020**		2019		**2020**		2019
Revenue	$	**10,955**	$	27,086	$	**52,378**	$	74,532
Operating expenses		**10,079**		23,479		**43,084**		60,366
Gross margin		**876**		3,607		**9,294**		14,166
General and administrative expenses		**1,368**		2,199		**3,902**		5,214
Depreciation and amortization		**5,653**		3,890		**9,567**		8,192
Share-based compensation expense (recovery)		**615**		438		**(1,065)**		884
Impairment loss		**-**		-		**10,293**		-
Other expense (income)		**516**		197		**(1,071)**		585
Operating loss		**(7,276)**		(3,117)		**(12,332)**		(709)

Finance costs		**454**		430		**848**	926
Loss before income taxes		**(7,730)**		(3,547)		**(13,180)**	(1,635)
Current income tax expense		**1**		35		**2**	67
Deferred income tax recovery		**(1,701)**		(2,225)		**(2,127)**	(1,752)
Income tax recovery		**(1,700)**		(2,190)		**(2,125)**	(1,685)
Net (loss) income		**(6,030)**		(1,357)		**(11,055)**	50
Unrealized foreign exchange gain (loss)		**212**		32		**(57)**	65
Comprehensive (loss) income	**$**	**(5,818)**	$	(1,325)	**$**	**(11,112)**	$ 115
Net (loss) income per share							
Basic and diluted	**$**	**(0.04)**	$	(0.01)	**$**	**(0.08)**	$ 0.00
Comprehensive (loss) income per share							
Basic and diluted	**$**	**(0.04)**	$	(0.01)	**$**	**(0.08)**	$ 0.00

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

		For the six months ended June 30,	
(in thousands of dollars)		**2020**	2019
Operating activities:			
Net (loss) income	**$**	**(11,055)**	$ 50
Non-cash adjustments to reconcile net (loss) income to operating cash flow:			
Depreciation and amortization		**9,567**	8,192
Deferred income tax recovery		**(2,127)**	(1,752)
Share-based compensation		**11**	34
Provision for impairment of trade accounts receivable		**400**	150
Finance costs		**848**	926
Impairment loss		**10,293**	-
Gain on disposal of assets		**(264)**	(281)
Funds flow		**7,673**	7,319
Changes in non-cash operating working capital:			
Trade and other accounts receivable before provision		**13,115**	12,436
Inventory		**2,416**	3,398
Income taxes payable (receivable)		**(34)**	35
Prepayments and deposits		**(609)**	(654)
Trade and other accounts payable		**(6,538)**	(2,019)
Share-based compensation		**(2,237)**	(35)
Net cash provided by operating activities		**13,786**	20,480
Investing activities:			
Purchase of property, equipment and intangible assets		**(1,418)**	(3,335)
Non-cash investing working capital in trade and other accounts payable		**(278)**	(1,631)
Proceeds on disposal of equipment		**1,311**	1,829
Net cash used in investing activities		**(385)**	(3,137)
Financing activities:			
Decrease in long-term debt		**(6,085)**	(14,000)
Net finance costs paid		**(208)**	(333)
Payments of lease liability		**(2,301)**	(2,528)
Net cash used in financing activities		**(8,594)**	(16,861)
Foreign exchange gain on cash held in a foreign currency		**11**	7

Net increase in cash		**4,818**		489
Cash, beginning of period		**846**		410
Cash, end of period	**$**	**5,664**	$	899
Supplemental cash flow information				
Cash taxes paid	**$**	**45**	$	29
Cash interest and standby fees paid	**$**	**209**	$	308

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 arising from the programs and the timing of the same; benefits under the CEWS Program, the timing of the same and the impact on gross margin as a percent of revenue; 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; 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.

For further information, please contact:

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