Essential Energy Services Announces First Quarter Financial Results

CALGARY, Alberta, May 04, 2023 -- Essential Energy Services Ltd. (TSX: ESN) ("Essential" or the "Company") announces first quarter financial results.

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended March 31, 2023	2022
Revenue	**$ 45,862**	$ 37,741
Gross margin	**8,858**	6,021
Gross margin %	**19%**	16%
EBITDAS [1]	**5,823**	3,615
EBITDAS % [1]	**13%**	10%
Net income (loss)	**$ 2,035**	$ (3,921)
Per share - basic and diluted	**$ 0.02**	$ (0.03)
Operating hours		
Coiled tubing rigs	**9,654**	10,016
Pumpers	**12,392**	13,014

	As at March 31, 2023	2022
Working capital [1]	**$ 49,011**	$ 45,235
Cash	**1,778**	3,675
Long-term debt	**3,100**	2,600

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

INDUSTRY OVERVIEW

Commodity prices were significantly lower in the first quarter of 2023 compared to the same prior year quarter. The price of oil (Western Texas Intermediate "WTI") averaged US$76 per barrel in the first quarter of 2023, compared to an average of US$95 per barrel in the first quarter of 2022. Canadian natural gas prices ("AECO") averaged $3.09 per gigajoule during the first quarter of 2023, compared to an average of $4.54 per gigajoule during the comparative prior year quarter.

First quarter 2023 industry well completions in the Western Canadian Sedimentary Basin were 2%[a] ahead of the same prior year quarter. High inflation rates[b] continued to have a negative impact on cost structures in the oilfield services sector. The sector continued to be challenged by labour shortages during the first quarter of 2023.

HIGHLIGHTS

Essential's revenue for the three months ended March 31, 2023 was $45.9 million, 22% higher than the same prior year quarter. First quarter EBITDAS[1] was $5.8 million, $2.2 million higher than the same prior year quarter.

Key operating highlights included:

- Essential Coil Well Service ("ECWS") first quarter 2023 revenue was $26.4 million, 34% higher than the same prior year quarter due to improved customer pricing, offset partially by slightly lower activity. ECWS recorded gross margin of $5.5 million, $2.7 million higher than the same prior year quarter.
- Tryton first quarter 2023 revenue was $19.5 million, 8% higher than the same prior year quarter due to higher U.S. and Canadian conventional tool activity. Tryton recorded gross margin of $3.7 million, $0.3 million higher than the same prior year quarter.

During the first quarter of 2023, Essential acquired and cancelled 1,106,500 common shares (“Shares”) under its Normal Course Issuer Bid at a weighted average price of $0.38 per share for a total cost of $0.4 million.

Cash and Working Capital

At March 31, 2023, Essential continued to be in a strong financial position with long-term debt, net of cash[(1)] of $1.3 million and working capital[(1)] of $49.0 million. On May 4, 2023, Essential had $3.8 million of long-term debt, net of cash[(1)].

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, **2023**		2022
Revenue	**$**	**26,389**	$	19,679
Operating expenses		**20,873**		16,903
Gross margin	**$**	**5,516**	$	2,776
Gross margin %		**21%**		14%
Operating hours				
Coiled tubing rigs		**9,654**		10,016
Pumpers		**12,392**		13,014
Active equipment fleet[(i)]				
Coiled tubing rigs[(ii)]		**11**		12
Fluid pumpers		**11**		11
Nitrogen pumpers		**4**		4
Total equipment fleet[(i) (iii)]				
Coiled tubing rigs		**15**		25
Fluid pumpers		**11**		13
Nitrogen pumpers		**5**		6

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

(ii) Active equipment fleet was reduced in the first quarter of 2023 for one Generation I coiled tubing rig that was removed from service.

(iii) Total equipment fleet was reduced for equipment which was no longer expected to be reactivated or was sold.

First quarter 2023 ECWS revenue was $26.4 million, the highest since the third quarter of 2018 and 34% higher than the same prior year quarter. Customer price increases, combined with the nature of work performed, resulted in significantly higher revenue per operating hour when compared to the same prior year quarter. ECWS activity was slightly lower than the same prior year quarter due to a slow start in January. Industry well completions were only 2%[(a)] higher than the same prior year quarter.

Gross margin for the first quarter of 2023 was $5.5 million, $2.7 million higher than the same prior year quarter due to improved customer pricing, partially offset by higher operating costs. Cost inflation related to wages, repairs & maintenance and inventory resulted in higher operating costs. Gross margin percentage was 21%, a significant improvement compared to 14% in the same prior year quarter.

Segment Results – *Tryton*

(in thousands of dollars, except percentages)		For the three months ended March 31, **2023**		2022
Revenue	**$**	**19,473**	$	18,062
Operating expenses		**15,791**		14,680

Gross margin	$	**3,682**	$	3,382
Gross margin %		**19%**		19%

Tryton revenue - % of revenue		
Conventional Tools & Rentals	**76%**	73%
Tryton MSFS®	**24%**	27%

First quarter 2023 Tryton revenue was $19.5 million, an 8% increase compared to the same prior year quarter due to increased conventional tool activity in the U.S. and Canada. Conventional tool revenue was stronger than the same prior year quarter due to improved customer spending on production-related and wellsite restoration activities. Multi-stage fracturing system ("MSFS®") activity was in line with the same prior year quarter.

First quarter gross margin was $3.7 million, $0.3 million higher than the same prior year quarter due to increased U.S. and Canadian conventional tool activity, partially offset by higher operating costs as a result of inflation. Gross margin percentage for the quarter was 19%, in line with the same prior year quarter.

Purchase of Property and Equipment

(in thousands of dollars)	For the three months ended March 31,			
		2023		2022
ECWS	$	**1,490**	$	565
Tryton		**466**		796
Purchase of property and equipment	$	**1,956**	$	1,361
Less: proceeds on disposal of equipment		**(614)**		(165)
Net equipment expenditures [(1)]	$	**1,342**	$	1,196

For the three months ended March 31, 2023, Essential's capital spending was entirely related to maintenance capital[(1)] related to the ECWS active fleet and replacement pickups in both ECWS and Tryton.

Essential's 2023 capital budget for the purchase of property and equipment remains unchanged at $8 million and relates entirely to maintenance capital[(1)]. Essential will continue to monitor fleet activity and industry opportunities and adjust its spending as appropriate. The 2023 capital budget is expected to be funded with cash, operational cashflow and, if needed, its credit facility.

OUTLOOK

During the first quarter of 2023, the price of WTI was relatively stable but has recently shown some volatility. The decrease in natural gas prices so far in 2023 continue to be a concern. However, despite recent commodity prices, the Company still generally expects that the oilfield service sector will see a modest increase in activity in 2023 compared to 2022, but there could be risk to E&P capital spending for the remainder of the year. For the longer-term outlook, there is positive optimism coming from the Blueberry River First Nations Implementation Agreement and continued progress on the LNG Canada project.

For 2023, the Canadian oilfield service sector is expected to continue to be affected by labour shortages, cost inflation and supply chain issues. As well, the economic implications of recession risk remain uncertain. Oilfield service company activity may be somewhat resilient to recessionary concerns given ongoing reservoir declines and Canadian E&P strategic objectives. A low ratio of E&P cash flow allocated to capital spending is expected for 2023, which reflects the capital discipline already built into E&P capital budgets and may limit the influence that commodity price volatility and recessionary concerns could have on E&P capital spending plans.

ECWS has one of the industry's largest active deep coiled tubing fleets. Early in the second quarter of 2023, in order to optimize operational efficiency given difficulty in expanding crews, two Generation III coiled tubing rigs and two fluid pumpers were removed from the active fleet. As of May 1, 2023, ECWS's active fleet includes 9 coiled tubing rigs and 9 quintuplex 1,000 horsepower fluid pumpers. The fluid pumpers support ECWS's deep-capacity Generation III and Generation IV coiled tubing rigs. ECWS historically had not been crewing its entire active fleet. As E&P customers continue to require greater pumping fluid capacity and pressure capability, the Company believes that ECWS's current active fleet remains suitable to meet customer demand. Certain inactive equipment can be reactivated relatively quickly to meet future demand when required.

Tryton conventional tool activity in both Canada and the U.S. improved in the first quarter of 2023 mainly due to increased customer spending on production-related activities and wellsite restoration spending. Modest growth of production-related E&P capital spending and continuation of wellsite restoration activity is expected for the remainder of 2023.

Essential is well-positioned to participate in improving oilfield service activity as the industry is anticipated to experience modest growth. Essential's strengths include its well-trained workforce, industry leading coiled tubing fleet, value-adding downhole tool technologies and sound financial footing. Essential will continue to focus on obtaining appropriate pricing for its services including the pursuit of cost inflation pass-through. Essential is committed to meeting the demands of its key customers, efficient and safe operations, a continued focus on ESG and maintaining its strong financial position. On May 4, 2023, Essential had long-term debt, net of cash[(1)] of $3.8 million. Essential believes its ongoing financial stability is a strategic advantage.

The first quarter 2023 Management's Discussion and Analysis ("MD&A") and Financial Statements are available on Essential's website at www.essentialenergy.ca and on SEDAR at www.sedar.com.

[(1)]Non-IFRS and Other Financial Measures

Certain specified financial measures in this news release, including "EBITDAS", "EBITDAS %", "maintenance capital", "net equipment expenditures", "working capital" and "long-term debt, net of cash", do not have a standardized meaning as prescribed under International Financial Reporting Standards ("IFRS"). These measures should not be used as an alternative to IFRS measures because they may not be comparable to similar financial measures used by other companies. These specified financial measures used by Essential are further explained in the Non-IFRS and Other Financial Measures section of the MD&A (available on the Company's profile on SEDAR at www.sedar.com), which section is incorporated by reference herein.

EBITDAS and EBITDAS % – EBITDAS and EBITDAS % are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other companies. Management believes that in addition to net income (loss), the most directly comparable IFRS measure, EBITDAS is a useful measure to enhance investors' understanding of Essential's results from its principal business activities prior to consideration of how those activities are financed, how the results are taxed and how the results are impacted by non-cash charges. EBITDAS is generally defined as earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, foreign exchange gains or losses, and share-based compensation. These adjustments are relevant as they provide another measure which is considered an indicator of Essential's results from its principal business activities. EBITDAS % is a non-IFRS ratio and is calculated as EBITDAS divided by total revenue. It is used as a supplemental financial measure by management to evaluate cost efficiency.

The following table reconciles EBITDAS to net income (loss):

(in thousands of dollars)	For the three months ended March 31, **2023**	2022
EBITDAS	**$ 5,823**	$ 3,615
Share-based compensation (recovery) expense	**(237)**	3,039
Other (income) expense	**(265)**	93
Depreciation and amortization	**4,063**	4,186
Finance costs	**227**	218
Net income (loss)	**$ 2,035**	$ (3,921)

The following table calculates EBITDAS %:

(in thousands of dollars, except percentages)	For the three months ended March 31, **2023**	2022
EBITDAS	**$ 5,823**	$ 3,615
Revenue	**$ 45,862**	$ 37,741
EBITDAS %	**13%**	10%

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

(in thousands of dollars)	**As at March 31, 2023**	As at December 31, 2022
Assets		
Current		

Cash	$	**1,778**	$	2,063
Trade and other accounts receivable		**33,216**		27,085
Inventory		**36,564**		34,617
Prepayments and deposits		**1,807**		2,264
		73,365		66,029
Non-current				
Property and equipment		**74,567**		76,180
Right-of-use lease assets		**7,721**		8,317
		82,288		84,497
Total assets	$	**155,653**	$	150,526
Liabilities				
Current				
Trade and other accounts payable	$	**19,333**	$	14,307
Share-based compensation		**1,235**		2,721
Income taxes payable		**31**		30
Current portion of lease liabilities		**3,755**		4,237
		24,354		21,295
Non-current				
Share-based compensation		**4,162**		5,357
Long-term debt		**3,100**		950
Long-term lease liabilities		**5,045**		5,542
		12,307		11,849
Total liabilities		**36,661**		33,144
Equity				
Share capital		**254,282**		256,409
Deficit		**(156,327)**		(158,362)
Other reserves		**21,037**		19,335
Total equity		**118,992**		117,382
Total liabilities and equity	$	**155,653**	$	150,526

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

	For the three months ended March 31,			
(in thousands of dollars, except per share amounts)		**2023**		2022
Revenue	$	**45,862**	$	37,741
Operating expenses		**37,004**		31,720
Gross margin		**8,858**		6,021
General and administrative expenses		**3,035**		2,406
Depreciation and amortization		**4,063**		4,186
Share-based compensation (recovery) expense		**(237)**		3,039
Other (income) expense		**(265)**		93
Operating income (loss)		**2,262**		(3,703)
Finance costs		**227**		218
Net income (loss)		**2,035**		(3,921)
Unrealized foreign exchange gain		**4**		64
Comprehensive income (loss)	$	**2,039**	$	(3,857)
Net income (loss) per share				
Basic and diluted	$	**0.02**	$	(0.03)
Comprehensive income (loss) per share				

Basic and diluted	**$ 0.02**	$ (0.03)

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

	For the three months ended March 31,	
(in thousands of dollars)	**2023**	2022
Operating Activities:		
Net income (loss)	**$ 2,035**	$ (3,921)
Non-cash adjustments to reconcile net income (loss) to operating cash flow:		
Depreciation and amortization	**4,063**	4,186
Provision (recovery) of trade accounts receivable	**30**	(100)
Finance costs	**227**	218
Gain on disposal of assets	**(300)**	(82)
Funds flow	**6,055**	301
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(6,159)**	(1,273)
Inventory	**(1,947)**	(2,353)
Prepayments and deposits	**457**	223
Trade and other accounts payable	**5,028**	3,618
Share-based compensation	**(2,682)**	(2,520)
Changes in non-cash operating working capital	**(5,303)**	(2,305)
Net cash provided by (used in) operating activities	**752**	(2,004)
Investing Activities:		
Purchase of property and equipment	**(1,956)**	(1,361)
Non-cash investing working capital in trade and other accounts payable	**-**	(9)
Proceeds on disposal of equipment	**614**	165
Net cash used in investing activities	**(1,342)**	(1,205)
Financing Activities:		
Increase in long-term debt	**2,150**	2,600
Shares repurchased and cancelled under normal course issuer bid	**(429)**	(706)
Finance costs paid	**(90)**	(46)
Payments of lease liabilities	**(1,328)**	(1,417)
Net cash provided by financing activities	**303**	431
Foreign exchange gain (loss) on cash held in a foreign currency	**2**	(9)
Net decrease in cash	**(285)**	(2,787)
Cash, beginning of period	**2,063**	6,462
Cash, end of period	**$ 1,778**	$ 3,675

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”, “anticipates”, “budget”, “believes”, “strategy”, “intends”, “estimates”, “committed”, “continues”, “future”, “opportunity”, “outlook”, “ongoing”, “plans” and similar expressions, or are events or conditions that “will”, “would”, “may”, “might”, “likely”, “could”, “can”, “typically”, “traditionally” or “tends to” occur or be achieved. This news release contains forward-looking statements, pertaining to, among other things, the following: the carrying values of Essential’s assets and liabilities, including future Share-based compensation; Essential’s capital spending budget, expectations of how it will be funded and continued monitoring; oil and natural gas prices, oil and natural gas industry outlook; oilfield services sector activity and outlook; E&P capital spending; recession risk and implications; the Company’s capital management strategy and financial position; Essential’s pricing, including continued focus on appropriate pricing; Essential’s commitments, strategic position, strengths, focus, outlook and activity levels; the impact of inflation; supply chain implications; active and inactive equipment, suitability of equipment and potential reactivation of equipment; market share; ability to optimize operational efficiency; demand for Essential's services; crewing and labor markets; non-IFRS and other financial measures; and Essential's financial stability as a strategic advantage.

The forward-looking statements contained in this news release reflect several material factors and expectations and assumptions of Essential including, without limitation: supply chain disruptions; oil and natural gas industry exploration and development and the geographic region of such activity; 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); 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, climate 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 uncertainty related to the estimates and judgements made in the preparation of financial statements; the availability of qualified personnel, management or other key inputs; cost increases of 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 coiled tubing, fluid and nitrogen pumping and the sale and rental of downhole tools and equipment. Essential offers one of the largest active coiled tubing fleets in Canada. Further information can be found at www.essentialenergy.ca.

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

Notes:

(a) Source: Daily Oil Bulletin – May 3, 2023.
(b) Source: Bank of Canada – Consumer Price Index.

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

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