Essential Energy Services Announces First Quarter Financial Results

CALGARY, Alberta, May 04, 2021 (GLOBE NEWSWIRE) -- 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,			
		2021		2020
Revenue	**$**	**30,150**	$	41,423
Gross margin		**6,738**		8,418
Gross margin %		**22%**		20%
EBITDAS [1]		**4,888**		5,884
EBITDAS %		**16%**		14%
Net loss[i]	**$**	**(2,593)**	**$**	(5,025)
Per share - basic and diluted	**$**	**(0.02)**	**$**	(0.04)
Operating hours				
Coil tubing rigs		**8,629**		13,013
Pumpers		**11,603**		15,892

	As at March 31,			
		2021		2020
Working capital [1]	**$**	**47,638**	$	53,514
Cash		**6,251**		959
Long-term debt		**53**		8,544

(i) The three months ended March 31, 2020 includes an impairment of $10.3 million.

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

INDUSTRY OVERVIEW

First quarter 2021 industry drilling and well completion activity was below the same prior year period, as the first quarter of 2020 was largely unaffected by the disruptive impact of the COVID-19 pandemic and the impact of lower oil prices on customer spending prevalent during most of 2020. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin (“WCSB”), declined 30% in the quarter, compared to the first quarter of 2020.

Although industry activity in the first quarter remained below the same prior year period, commodity prices have improved. The price of West Texas Intermediate (“WTI”) oil was US$59 per barrel at the end of the first quarter 2021, a US$11 per barrel increase from the end of the fourth quarter 2020. Canadian natural gas prices (“AECO”) during the first quarter of 2021 averaged just under $3.00 per gigajoule, well above 2020 and 2019 prices.

HIGHLIGHTS

Revenue for the three months ended March 31, 2021 was $30.2 million, a 27% decline from the first quarter of 2020 mainly due to lower activity and lower pricing. 2021 activity continued to be negatively impacted by COVID-19 and reduced customer spending, compared to the prior year, where the first quarter of 2020 was largely unaffected by the onset of COVID-19 and lower oil prices.

First quarter EBITDAS[1] was $4.9 million, a decline of 17%, compared to the comparative prior year period. Lower activity and lower pricing in the current period resulted in lower EBITDAS[1]. However, cost reductions implemented subsequent to the first quarter of 2020, combined with $1.6 million of benefits received under the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and the Employee Retention Tax Credit program in the U.S., (collectively, “Government Subsidy Programs”), helped to improve EBITDAS[1] as a percentage of revenue. For the first quarter of 2021, EBITDAS[1] percentage improved to 16% compared to 14% in the first quarter of 2020.

Cash and long-term debt

At March 31, 2021, Essential was in a strong financial position with cash, net of long-term debt, of $6.2 million and working capital[(1)] of $47.6 million. During the first quarter, Essential continued to manage to a net cash position through operational and financial discipline, including managing capital spending to within cash provided by operating activities. On May 4, 2021 Essential had $7.1 million of cash, net of long-term debt.

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, **2021**	2020
Revenue	**$ 15,856**	$ 24,539
Operating expenses	**12,147**	18,726
Gross margin	**$ 3,709**	$ 5,813
Gross margin %	**23%**	24%
Operating hours		
Coil tubing rigs	**8,629**	13,013
Pumpers	**11,603**	15,892
Active equipment fleet [(i)]		
Coil tubing rigs	**12**	16
Fluid pumpers	**9**	12
Nitrogen pumpers	**4**	6
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. Crewed equipment is less than active equipment.

Essential Coil Well Service ("ECWS") revenue for the first quarter of 2021 was $15.9 million, a 35% decrease compared to the same prior year period due to lower activity and lower revenue per operating hour. Operating hours declined 30%, compared to the first quarter of 2020, in line with the industry well completions decline of 30%. Revenue per operating hour declined by 8%, compared to the first quarter of 2020, due to a combination of mix of work and competitive pricing pressure. Although activity in the first quarter of 2021 was steady and continued through to the end of March, the first quarter of 2020 was largely unaffected by the onset of COVID-19 and the impact of lower oil prices on customers' capital spending, prevalent during most of 2020. First quarter 2021 activity was also negatively impacted by the prolonged cold experienced in February, which disrupted work.

Gross margin for the first quarter of 2021 was $3.7 million, lower than the same prior year period due to the decline in revenue and higher operating expenses. The prolonged cold stretch in February increased costs for down time and repairs. Cost reductions implemented subsequent to the first quarter of 2020 and benefits received under Government Subsidy Programs allowed ECWS to preserve gross margin. ECWS gross margin percentage for the first quarter of 2021 was 23%, consistent with 24% in the first quarter of 2020.

Segment Results – *Tryton*

(in thousands of dollars, except percentages)	For the three months ended March 31, **2021**	2020
Revenue	**$ 14,294**	$ 16,884
Operating expenses	**11,106**	13,974
Gross margin	**$ 3,188**	$ 2,910
Gross margin %	**22%**	17%
Tryton revenue - % of revenue		
Tryton MSFS®	**34%**	35%
Conventional Tools & Rentals	**66%**	65%

First quarter 2021 Tryton revenue was $14.3 million, a decrease of 15% compared to the same prior year period due to lower activity and competitive pricing pressure, as first quarter 2020 was largely unaffected by the onset of COVID-19 and the impact of lower oil prices on customers' capital spending. Tryton Multi-Stage Fracturing System ("MSFS®") activity declined in the current quarter, compared to the same prior year quarter, due to reduced customer spending. Canadian conventional tools revenue was consistent with the same prior year quarter due to increased activity under the federally funded site rehabilitation programs. U.S. conventional tools revenue declined in the current quarter, compared to the same prior year period, mainly due to the unusually cold weather experienced in the southern states in February 2021.

First quarter 2021 gross margin was $3.2 million, an increase of $0.3 million when compared to 2020. Cost reductions implemented subsequent to the first quarter of 2020 and benefits received under Government Subsidy Programs resulted in an improved gross margin percentage of 22% in the current period, compared to 17% in the same prior year period.

Equipment Expenditures

(in thousands of dollars)	For the three months ended March 31, 2021	2020
ECWS	**$ 2,180**	$ 739
Tryton	**64**	566
Corporate	**-**	-
Total equipment expenditures	**2,244**	1,305
Less proceeds on disposal of equipment	**$ (303)**	$ (478)
Net equipment expenditures(1)	**$ 1,941**	$ 827

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

(in thousands of dollars)	For the three months ended March 31, 2021	2020
Growth capital (1)	**$ 1,663**	$ -
Maintenance capital (1)	**581**	1,305
Total equipment expenditures	**$ 2,244**	$ 1,305

During the first quarter, Essential acquired two quintuplex pumpers, which will be refurbished and are expected to go into service early in the second half of 2021. The remaining equipment expenditures were focused on maintenance activities on the active fleet.

Essential's 2021 capital budget remains at $5.4 million. The 2021 capital budget is expected to be funded with cash, operational cash flow and, if needed, its credit facility (the "Credit Facility").

OUTLOOK

Current and near-term expected oil and natural gas commodity prices are supportive of improved oilfield services activity in the WCSB. With the increasing distribution of COVID-19 vaccines in the coming months, general economic activity is also expected to improve. That, combined with the extension of ongoing government subsidies and support programs, is expected to have a positive impact on the demand for oilfield services in the second half of 2021.

The price of WTI has been trading near, or higher than, U.S. $60 per barrel since mid-February 2021. Canadian natural gas prices continue to show strength as storage levels currently sit below the five-year average. The price of AECO natural gas has generally been trading between $2.50 and $3.00 per gigajoule since the beginning of 2021, boding well for natural gas activity. The current forward curves for WTI and AECO are supportive of improved activity in the WCSB in 2021, compared to 2020. Some exploration and production ("E&P") companies have announced modest increases in their capital spending programs as a result of the duration and growing confidence in stronger commodity prices.

Commodity price-driven E&P cash flow increases are significant and have generally been applied to strengthen balance sheets, return cash to shareholders and facilitate mergers and acquisitions. This is expected to continue in the near-term. E&P capital reinvestment ratios (capital spending as a percentage of cash flow) are setting up to be much lower in 2021 than the past ten years. Given the current and anticipated strength of commodity prices in 2021 compared to the severe oil price weakness in April to October 2020, industry analysts and associations expect an eventual increase in Canadian E&P spending compared to 2020 as the year progresses. This would benefit oilfield service activity, including for Essential.

Low service prices continue to be an issue for the oilfield services sector. The current business landscape is such that E&P customers are reluctant to support pricing increases despite recent rising costs, and years of depressed oilfield service pricing since the commencement of the downturn in 2015. At current industry drilling and completion levels, sufficient crewed equipment and inventory is typically available.

As industry conditions improve in the second half of the year, however, and into 2022, current oilfield service pricing may not be sufficient to support the expansion of active equipment and crews. Essential is optimistic that a portion of improved E&P cash flow will translate into improved pricing for oilfield services, which can then be re-invested into equipment upgrades and fleet expansion, crew additions and important environmental, social and governance ("ESG") initiatives.

ECWS added to its total fleet with the acquisition of two used quintuplex fluid pumpers in March 2021. These fluid pumpers are being refurbished and are expected to be field-ready and included in the active fleet early in the second half of 2021. Essential plans to pair these higher-capacity fluid pumpers with its industry leading long-reach deep coil tubing fleet, to meet the ever-increasing demands of complex horizontal well completions. ECWS has been experiencing good demand for this type of high-rate pumper. With these additions, ECWS's active fleet will include 12 coil tubing rigs and 11 fluid pumpers. This allows each customer to have access to preferred, efficient equipment for differing completion techniques and regional needs. There are fewer crewed packages than active. ECWS continues to monitor anticipated activity and adjust crew counts, as required.

Tryton expects to experience ongoing improvement in conventional downhole tool activity related to the federally funded site rehabilitation programs in the remainder of 2021 and into 2022. Combined with E&P funded work and programs for the Alberta and Saskatchewan orphan well associations, Tryton expects to see growth in wellsite restoration services. From an ESG perspective, Essential is pleased to be providing Tryton's downhole tools and service expertise to the ongoing clean-up of the industry's legacy environmental footprint.

Essential is in a strong financial position. On May 4, 2021, cash, net of long-term debt, was $7.1 million. The value and importance of Essential's ongoing low/zero debt position is a strategic advantage as the industry transitions into a period of expected growth. Essential's net cash position and its Credit Facility are 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 first quarter ended March 31, 2021 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.

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, 2021**	As at December 31, 2020
Assets		
Current		
Cash	**$ 6,251**	$ 6,082
Trade and other accounts receivable	**26,799**	22,026
Inventory	**31,587**	32,157
Prepayments and deposits	**1,456**	1,625
	66,093	61,890
Non-current		
Property and equipment	**87,469**	89,460
Right-of-use lease asset	**7,721**	8,513
	95,190	97,973
Total assets	**$ 161,283**	$ 159,863

Liabilities				
Current				
Trade and other accounts payable	**$**	**12,444**	$	8,905
Share-based compensation		**1,714**		1,369
Income taxes payable		**25**		25
Current portion of lease liability		**4,272**		4,089
		18,455		14,388
Non-current				
Share-based compensation		**4,364**		3,443
Long-term debt		**53**		53
Long-term lease liability		**6,758**		7,801
		11,175		11,297
Total liabilities		**29,630**		25,685
Equity				
Share capital		**272,732**		272,732
Deficit		**(147,803)**		(145,210)
Other reserves		**6,724**		6,656
Total equity		**131,653**		134,178
Total liabilities and equity	**$**	**161,283**	$	159,863

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

	For the three months ended March 31,			
(in thousands of dollars, except per share amounts)		**2021**		2020
Revenue	**$**	**30,150**	$	41,423
Operating expenses		**23,412**		33,005
Gross margin		**6,738**		8,418
General and administrative expenses		**1,850**		2,534
Depreciation and amortization		**4,813**		3,914
Share-based compensation expense		**2,309**		(1,680)
Impairment loss		**-**		10,293
Other expense (income)		**127**		(1,587)
Operating loss		**(2,361)**		(5,056)
Finance costs		**231**		394
Loss before taxes		**(2,592)**		(5,450)
Current income tax expense		**1**		1
Deferred income tax recovery		**-**		(426)
Income tax expense (recovery)		**1**		(425)
Net loss		**(2,593)**		(5,025)
Unrealized foreign exchange gain (loss)		**66**		(269)
Comprehensive loss	**$**	**(2,527)**	$	(5,294)
Net loss per share				
Basic and diluted	**$**	**(0.02)**	$	(0.04)
Comprehensive loss per share				
Basic and diluted	**$**	**(0.02)**	$	(0.04)

ESSENTIAL ENERGY SERVICES LTD.

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands of dollars)	For the three months ended March 31, **2021**	2020
Operating Activities:		
Net loss	**$ (2,593)**	$ (5,025)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization	**4,813**	3,914
Deferred income tax recovery	**-**	(426)
Share-based compensation	**2**	6
(Recovery) provision for impairment of trade receivable	**(50)**	150
Finance costs	**231**	394
Impairment loss	**-**	10,293
Gain on disposal of assets	**(29)**	(168)
Funds flow	**2,374**	9,138
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(4,638)**	(6,817)
Inventory	**556**	274
Income taxes payable	**-**	7
Prepayments and deposits	**168**	410
Trade and other accounts payable	**3,490**	222
Share-based compensation	**1,265**	(2,765)
Net cash provided by operating activities	**3,215**	469
Investing Activities:		
Purchase of property, equipment and intangible assets	**(2,244)**	(1,305)
Non-cash trade and other accounts payable in working capital	**51**	(154)
Proceeds on disposal of equipment	**303**	478
Net cash used in investing activities	**(1,890)**	(981)
Financing Activities:		
Increase in long-term debt	**-**	1,950
Finance costs paid	**(61)**	(130)
Payments of lease liability	**(1,081)**	(1,225)
Net cash (used in) provided by financing activities	**(1,142)**	595
Foreign exchange (loss) gain on cash held in a foreign currency	**(14)**	30
Net increase in cash	**169**	113
Cash, beginning of period	**6,082**	846
Cash, end of period	**$ 6,251**	$ 959

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”, “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 budget, expectations of how it will be funded and in-service timing; the current and potential impacts of the COVID-19 pandemic; general economic activity; oil and natural gas industry and oilfield services sector activity and outlook, including the impact of E&P cashflow increases, the potential for E&P capital spending increases and the potential benefits to Essential; oilfield service pricing, including the potential for improvement and the implications; 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, cost structure, active and inactive equipment, crew counts, cost cutting measures and their implications; benefits under the federally funded site rehabilitation programs, including the anticipated work for Tryton arising from the programs and the timing of the same; 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.

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