Essential Energy Services Announces First Quarter Financial Results

CALGARY, Alberta, May 12, 2022 (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, **2022**	2021
Revenue	**$ 37,741**	$ 30,150
Gross margin	**6,021**	6,738
Gross margin %	**16%**	22%
EBITDAS[(1)]	**3,615**	4,888
EBITDAS %[(1)]	**10%**	16%
Net loss	**$ (3,921)**	$ (2,593)
Per share - basic and diluted	**$ (0.03)**	$ (0.02)
Operating hours		
Coiled tubing rigs	**10,016**	8,629
Pumpers	**13,014**	11,603

	As at March 31, **2022**	2021
Working capital[(1)]	**$ 45,235**	$ 47,638
Cash, net of long-term debt[(1)]	**1,075**	6,198

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

INDUSTRY OVERVIEW

First quarter 2022 industry drilling and well completion activity in the Western Canadian Sedimentary Basin ("WCSB") was ahead of the same prior year period as higher commodity prices have led to increased exploration and production ("E&P") company spending.

The price of West Texas Intermediate ("WTI") averaged US$94.82 per barrel in the first quarter of 2022, with prices exceeding US$110 per barrel early in March 2022, compared to an average of US$58 per barrel in the first quarter of 2021. Canadian natural gas prices ("AECO") averaged $4.54 per gigajoule during the first quarter of 2022, compared to an average of $3.00 per gigajoule during the comparative prior year quarter.

Inflation rates in Canada during the first quarter of 2022 were the highest since the early 1990s[(a)] which increased overall cost structures. Oilfield service pricing showed modest signs of improvement; but rising costs continued to be a concern. The oilfield services sector was impacted by labor shortages during the first quarter as retaining and attracting personnel continued to be challenging.

HIGHLIGHTS

Revenue for the three months ended March 31, 2022 was $37.7 million, 25% higher than the same prior year quarter as a result of increased activity due to improved industry conditions. In the first quarter of 2022, Essential recorded $0.2 million of funding from Government Subsidy Programs[(b)], compared to $1.6 million in the first quarter of 2021. First quarter EBITDAS[(1)] was $3.6 million, $1.3 million lower than the same prior year period. Higher activity was offset by higher operating costs and lower funding received from Government Subsidy Programs.

Key operating highlights included:

- Essential Coil Well Service ("ECWS") first quarter 2022 revenue was $19.7 million, 24% higher than the same prior year period due to improved activity. Gross margin was $2.8 million, $0.9 million lower than the same prior year period as a result of higher operating costs and no funding from Government Subsidy Programs. With the larger labor force in ECWS, the Government Subsidy Programs had a greater impact on financial results, compared to Tryton. In the first quarter of 2021, ECWS received $0.9 million of funding from Government Subsidy Programs.

- Tryton first quarter 2022 revenue was $18.1 million, 26% higher than the same prior year period due to increased conventional tool activity. Gross margin was $3.4 million, an increase of $0.2 million compared to the same prior year period due to higher activity, offset by lower funding from Government Subsidy Programs and higher operating costs.

During the first quarter of 2022, Essential acquired and cancelled 1,659,516 common shares under its Normal Course Issuer Bid ("NCIB") with a weighted average price of $0.42 per share for a total cost of $0.7 million.

Cash and Working Capital[(1)]

At March 31, 2022, Essential continued to be in a strong financial position with cash, net of long-term debt[(1)] of $1.1 million and working capital[(1)] of $45.2 million. On May 12, 2022 Essential had $1.5 million of cash.

RESULTS OF OPERATIONS

Segment Results – *Essential Coil Well Service*

(in thousands of dollars, except percentages, hours and fleet data)		For the three months ended March 31, **2022**		2021
Revenue	**$**	**19,679**	$	15,856
Operating expenses		**16,903**		12,147
Gross margin	**$**	**2,776**	$	3,709
Gross margin %		**14%**		23%
Operating hours				
Coiled tubing rigs		**10,016**		8,629
Pumpers		**13,014**		11,603
Active equipment fleet (i) (ii)				
Coiled tubing rigs		**12**		12
Fluid pumpers		**11**		9
Nitrogen pumpers		**4**		4
Total equipment fleet (i) (iii)				
Coiled tubing rigs		**25**		29
Fluid pumpers		**13**		19
Nitrogen pumpers		**6**		8

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.
(ii) In January 2022, one additional quintuplex fluid pumper went into service.
(iii) Total equipment fleet was reduced in the third quarter of 2021 for shallow coiled tubing rigs and lower capacity pumpers which are no longer expected to be reactivated.

First quarter 2022 ECWS revenue was $19.7 million, an increase of 24% compared to the same prior year quarter. Improved industry conditions resulted in a 14% increase in operating hours when compared to the first quarter of 2021. Revenue per operating hour was higher than the same prior year period, mainly attributed to the nature of the work performed and a revenue surcharge for fuel, which allowed ECWS to offset some inflationary cost increases.

Gross margin for the first quarter of 2022 was $2.8 million, $0.9 million lower than the same prior year period due to inflationary cost increases and no funding from Government Subsidy Programs. Cost inflation was significant in the first quarter of 2022 and resulted in higher operating costs related to wages, fuel and repairs & maintenance ("R&M"). ECWS had no Government Subsidy Program benefits in the first quarter of 2022, compared to $0.9 million of funding in the prior year quarter. Although revenue per operating hour increased in the quarter, it was insufficient to cover increased operating costs and lower government funding. With the larger labor force in ECWS, the Government Subsidy Programs had a greater impact on financial results, compared to Tryton. Gross margin percentage was 14% in the current period, compared to 23% in the same prior year quarter.

Segment Results – *Tryton*

(in thousands of dollars, except percentages)		For the three months ended March 31, **2022**		2021
Revenue	**$**	**18,062**	$	14,294
Operating expenses		**14,680**		11,106

Gross margin	$	**3,382**	$	3,188
Gross margin %		**19%**		22%

Tryton revenue - % of revenue		
Tryton MSFS®	**27%**	34%
Conventional Tools & Rentals	**73%**	66%

First quarter 2022 Tryton revenue was $18.1 million, an increase of 26% compared to the same prior year quarter. Conventional tool activity in Canada and the U.S. improved compared to the prior year quarter as stronger industry conditions resulted in higher customer spending on production and abandonment work. Tryton Multi-Stage Fracturing System (“MSFS®”) activity remained consistent with 2021 as drilling rig delays for certain customers resulted in slower MSFS® activity than expected. Pricing continued to be competitive during the quarter.

First quarter gross margin was $3.4 million, $0.2 million higher than the prior year quarter due to an increase in activity, offset by lower funding from Government Subsidy Programs and higher operating costs related to inventory and wages. Tryton received $0.2 million of funding from the Employee Retention Tax Credit program in the U.S. in the first quarter of 2022 compared to $0.5 million of Government Subsidy Program benefits in the same prior year quarter. As pricing remained competitive during the quarter, Tryton was unable to recover increased operating costs from customers through higher prices. Gross margin percentage was 19% in the current quarter, compared to 22% in the same prior year quarter.

Purchase of Property and Equipment

(in thousands of dollars)	For the three months ended March 31,			
		2022		2021
ECWS	$	**565**	$	2,180
Tryton		**796**		64
Purchase of property and equipment		**1,361**		2,244
Less proceeds on disposal of equipment	$	**(165)**	$	(303)
Net equipment expenditures [1]	$	**1,196**	$	1,941

Essential classifies its purchase of property and equipment as growth capital[1] and maintenance capital[1]:

(in thousands of dollars)	For the three months ended March 31,			
		2022		2021
Growth capital [1]	$	**-**	$	1,663
Maintenance capital [1]		**1,361**		581
Purchase of property and equipment	$	**1,361**	$	2,244

For the three months ended March 31, 2022, Essential’s maintenance capital spending was focused on costs incurred to maintain the ECWS active fleet and replace pickup trucks in Tryton.

Essential’s 2022 capital budget remains unchanged at $6 million and is focused on the purchase of property and equipment for maintenance activities and the replacement of pickup trucks for each of ECWS and Tryton. Essential will continue to monitor activity and industry opportunities and adjust its spending as appropriate. The 2022 capital budget is expected to be funded with cash, operational cashflow and, if needed, its credit facility.

OUTLOOK

During the first quarter of 2022, commodity prices continued to strengthen and forward curve expectations improved over December 31, 2021. With these strong commodity prices, the outlook for industry drilling and completion activity in 2022 and beyond is quite optimistic. The Company expects strong commodity prices, combined with the constant degradation effect of well declines, to drive an increase in spending on drilling and completions for the remainder of 2022 and suggests the start of a strong multi-year performance cycle.

To date in 2022, E&P company surplus cash flow has generally been applied to debt reduction and returning funds to shareholders through dividends and share repurchases. General industry expectations suggest that as E&P companies continue to significantly reduce debt, capital investment may increase as they shift their focus back to incremental growth and drilling and completion spending.

During the first quarter of 2022, cost inflation in Canada was significant and continued to impact expenses such as wages, fuel, inventory and R&M. Supply chain disruptions could further increase costs in the oilfield services sector for the remainder of 2022. The oilfield services sector in Canada is experiencing labor shortages and retaining and attracting personnel to the oilfield services sector is a challenge in today's market.

ECWS has one of the industry's largest active and total deep coiled tubing fleets. ECWS's active fleet includes 12 coiled tubing rigs and 11 fluid pumpers. ECWS is not crewing this entire active fleet. Maintenance of an active fleet above what is currently crewed allows customers to have access to preferred, efficient equipment for differing completion techniques and formation/well pad needs. As the industry continues to recover, ECWS has additional equipment available for reactivation. An anticipated shift in E&P company capital spending for the second half of 2022 and beyond, combined with the tightening of crewed-equipment available, is expected to drive demand for ECWS services towards the latter half of 2022.

To date in 2022, Tryton MSFS® activity has been slower than anticipated largely due to drilling rig delays for certain customers. With an expected increase in E&P company drilling and completion spending, Tryton anticipates increased demand for its MSFS® completion downhole tools in later 2022. As E&P companies seek growth through increased production, it is expected that Tryton's conventional downhole tool business in Canada and the U.S. will benefit from increased activity. Tryton's ability to expand in a strengthening industry environment could also be impacted by a tight labor market, but that is not currently anticipated to be a constraint.

In the first quarter of 2022, pricing for Essential's services was not sufficient to offset inflationary cost increases. For ECWS, conversations are currently underway in conjunction with primary E&P customer requests for future pricing and service commitments. ECWS is targeting price increases with a premium in excess of inflationary cost. To date, responses from ECWS's primary customers to the price increases have been positive. These price increases will go into effect during the second quarter, with the expected benefit being reflected in ECWS's third and subsequent quarters' results. In addition, commencing in May, service requests from non-primary customers are expected to be priced at a further premium. The ECWS price increase strategy is expected to increase gross margin in the second half of 2022. Unfortunately, for Tryton, intense competition in the downhole tools and rentals markets is expected to preclude Tryton from implementing service price increases in the near term.

Essential is well positioned to benefit from the anticipated oilfield service sector recovery cycle. Essential's strengths include its well-trained workforce, industry leading coiled tubing fleet, value-adding downhole tool technologies and sound financial footing. As industry activity improves, Essential will focus on obtaining appropriate pricing for its services. Essential is committed to meeting the growing demands of its key customers, the continued focus on Environmental, Social and Governance initiatives, maintaining its strong financial position and developing its cash flow generating businesses. On May 12, 2022, Essential had cash of $1.5 million. Essential's ongoing financial stability is a strategic advantage as the industry continues to transition into a period of expected growth.

The first quarter 2022 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 %", "growth capital", "maintenance capital", "net equipment expenditures", "cash, net of long-term debt" and "working capital", 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 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, 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. 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[1] to net loss:

(in thousands of dollars)	For the three months ended March 31,	
	2022	2021
EBITDAS	**$ 3,615**	$ 4,888
Share-based compensation expense	**3,039**	2,309
Other expense	**93**	127
Depreciation and amortization	**4,186**	4,813
Finance costs	**218**	231
Loss before income tax	**$ (3,921)**	$ (2,592)
Income tax expense	**-**	1
Net loss	**$ (3,921)**	$ (2,593)

The following table calculates EBITDAS %:

(in thousands of dollars, except percentages)		For the three months ended March 31, 2022		2021
EBITDAS	$	**3,615**	$	4,888
Revenue	$	**37,741**	$	30,150
EBITDAS %		**10%**		16%

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

(in thousands of dollars)		**As at March 31, 2022**		As at December 31, 2021
Assets				
Current				
Cash	$	**3,675**	$	6,462
Trade and other accounts receivable		**30,794**		29,341
Inventory		**33,444**		31,111
Prepayments and deposits		**1,603**		1,826
		69,516		68,740
Non-current				
Property and equipment		**79,550**		81,532
Right-of-use lease assets		**8,937**		8,814
		88,487		90,346
Total assets	$	**158,003**	$	159,086
Liabilities				
Current				
Trade and other accounts payable	$	**18,008**	$	14,399
Share-based compensation		**1,464**		4,115
Income taxes payable		**23**		23
Current portion of lease liabilities		**4,786**		4,913
		24,281		23,450
Non-current				
Share-based compensation		**6,319**		6,188
Long-term debt		**2,600**		-
Long-term lease liabilities		**6,540**		6,622
		15,459		12,810
Total liabilities		**39,740**		36,260
Equity				
Share capital		**269,542**		272,732
Deficit		**(160,528)**		(156,607)
Other reserves		**9,249**		6,701
Total equity		**118,263**		122,826
Total liabilities and equity	$	**158,003**	$	159,086

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

(in thousands of dollars, except per share amounts)		For the three months ended March 31, **2022**		2021
Revenue	$	**37,741**	$	30,150

Operating expenses		**31,720**	23,412
Gross margin		**6,021**	6,738
General and administrative expenses		**2,406**	1,850
Depreciation and amortization		**4,186**	4,813
Share-based compensation expense		**3,039**	2,309
Other expense		**93**	127
Operating loss		**(3,703)**	(2,361)
Finance costs		**218**	231
Loss before taxes		**(3,921)**	(2,592)
Current income tax expense		**-**	1
Income tax expense		**-**	1
Net loss		**(3,921)**	(2,593)
Unrealized foreign exchange gain		**64**	66
Comprehensive loss	**$**	**(3,857)** $	(2,527)
Net loss per share			
Basic and diluted	**$**	**(0.03)** $	(0.02)
Comprehensive loss per share			
Basic and diluted	**$**	**(0.03)** $	(0.02)

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

		For the three months ended March 31,	
(in thousands of dollars)		**2022**	2021
Operating Activities:			
Net loss	**$**	**(3,921)** $	(2,593)
Non-cash adjustments to reconcile net loss to operating cash flow:			
Depreciation and amortization		**4,186**	4,813
Share-based compensation		**-**	2
Recovery of impairment of trade accounts receivable		**(100)**	(50)
Finance costs		**218**	231
Gain on disposal of assets		**(82)**	(29)
Funds flow		**301**	2,374
Changes in non-cash operating working capital:			
Trade and other accounts receivable before provision		**(1,273)**	(4,638)
Inventory		**(2,353)**	556
Prepayments and deposits		**223**	168
Trade and other accounts payable		**3,618**	3,490
Share-based compensation		**(2,520)**	1,265
Net cash (used in) provided by operating activities		**(2,004)**	3,215
Investing Activities:			
Purchase of property and equipment		**(1,361)**	(2,244)
Non-cash investing working capital in trade and other accounts payable		**(9)**	51
Proceeds on disposal of equipment		**165**	303
Net cash used in investing activities		**(1,205)**	(1,890)
Financing Activities:			

Increase in long-term debt	**2,600**	-
Repurchase of shares under normal course issuer bid	**(706)**	-
Finance costs paid	**(46)**	(61)
Payments of lease liabilities	**(1,417)**	(1,081)
Net cash provided by (used in) financing activities	**431**	(1,142)
Foreign exchange loss on cash held in a foreign currency	**(9)**	(14)
Net (decrease) increase in cash	**(2,787)**	169
Cash, beginning of period	**6,462**	6,082
Cash, end of period	**$ 3,675**	$ 6,251

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", "believes", "forward", "intends", "estimates", "continues", "future", "outlook", "opportunity", "budget", "ongoing" and similar expressions, or are events or conditions that "will", "would", "may", "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: Essential's capital spending budget and expectations of how it will be funded; oil and natural gas prices; oil and natural gas industry outlook, industry drilling and completion activity and outlook and oilfield services sector activity and outlook; the impact of E&P surplus cashflow, the deployment of cash flow and E&P capital spending; the Company's capital management strategy and financial position; Essential's pricing, including timing of and benefit from increases; Essential's commitments, strategic position, strengths, focus, outlook, activity levels, impact of inflation, supply chain implications, active and inactive equipment, market share and crew counts; demand for Essential's services; labor markets; 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: the potential impact of the COVID-19 pandemic on Essential; 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); 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, 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 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; 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 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: Bank of Canada – Consumer Price Index
(b) Government subsidy programs include the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and the Employee Retention Tax Credit program and Paycheque Protection Program in the U.S. (collectively, "Government Subsidy Programs")

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

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