Essential Energy Services Announces First Quarter Financial Results

CALGARY, Alberta, May 08, 2018 -- Essential Energy Services Ltd. (TSX:ESN) (“Essential” or the “Company”) announces first quarter results.

SELECTED INFORMATION

(in thousands of dollars except per share, percentages, hours and fleet data)		Three months ended March 31, 2018		2017
Revenue	**$**	**60,134**	$	56,250
Gross margin		**12,470**		14,394
Gross margin %		**21%**		26%
EBITDAS[(1)] from continuing operations		**9,145**		10,206
Net income from continuing operations		**5,053**		3,480
Per share – basic and diluted		**0.04**		0.02
Net income		**5,053**		3,150
Per share – basic and diluted		**0.04**		0.02
Operating hours				
Coil tubing rigs		**16,170**		16,420
Pumpers		**20,439**		18,653

		As at March 31, 2018		2017
Total assets	**$**	**241,472**	$	227,646
Long-term debt		**31,943**		18,169
Equipment fleet[(i)]				
Coil tubing rigs		**30**		31
Pumpers		**26**		32

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

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

HIGHLIGHTS

Management is pleased with first quarter 2018 revenue and EBITDAS[(1)]. Revenue was $60.1 million, a 7% increase compared to the first quarter 2017, with strong activity experienced by Essential Coil Well Service (“ECWS”) and Tryton. EBITDAS[(1)] was $9.1 million, $1.1 million lower than the first quarter 2017 due primarily to margin compression in ECWS.

Key operating highlights include:

- ECWS revenue increased $3.9 million compared to the first quarter 2017. The revenue gains were offset by increased operating costs, specifically labour, fuel and repairs and maintenance costs, which could not be recovered through customer prices resulting in margin compression. Operating hours from the Generation III coil tubing rigs, quintuplex fluid pumpers and nitrogen pumpers increased compared to the first quarter 2017.

- ECWS gross margin as a percentage of revenue was 19%, a significant improvement compared to the sequential fourth quarter 2017.
- Tryton continued to experience strong demand for its conventional tools and Multi-Stage Fracturing System® ("MSFS®"). Conventional tools revenue for the three months ended March 31, 2018 exceeded the same prior year period due to maintenance work on existing producing wells and well abandonments as customers look for ways to reduce costs and improve cash flow.
- Tryton's Hybrid MSFS® was used to complete the deepest well drilled to-date in western Canada. The well, located in the Montney region of Alberta, had a measured depth of 7,848 metres including a 5,000 metre horizontal section.

At March 31, 2018, Essential's debt outstanding was $31.9 million and funded debt[(1)] to bank EBITDA[(1)] was 1.8x. Debt increased $14.0 million from December 31, 2017 to fund working capital[(1)], primarily an increase in accounts receivable due to higher first quarter activity. Debt is expected to decline through the second quarter as customers pay their accounts. Working capital[(1)] was $70.0 million on March 31, 2018, exceeding debt by $38.1 million. On May 8, 2018, there was $28.9 million of debt outstanding.

INDUSTRY OVERVIEW

First quarter 2018 activity in the Canadian oil and natural gas industry was similar to the first quarter 2017 even though the price of oil averaged approximately U.S. $63 per barrel (West Texas Intermediate ("WTI")) for the first quarter 2018, an increase from U.S. $52 per barrel WTI for the first quarter 2017. Many Canadian exploration and production ("E&P") companies did not fully realize this increase due to transportation constraints to move heavy oil to market. Canadian natural gas prices were also lower than the first quarter 2017 due to market access constraints. Well completions and wells drilled, key indicators of industry activity in the Western Canadian Sedimentary Basin ("WCSB") increased 9% and declined 2%, respectively, compared to the first quarter 2017.

RESULTS OF OPERATIONS

Segment Results – *Essential Coil Well Service*

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended March 31, **2018**	2017
Revenue	**$ 32,574**	$ 28,719
Operating expenses	**26,351**	21,354
Gross margin	**$ 6,223**	$ 7,365
Gross margin %	**19%**	26%
Operating hours		
Coil tubing rigs	**16,170**	16,420
Pumpers	**20,439**	18,653
Equipment fleet [(i)]		
Coil tubing rigs	**30**	31
Fluid pumpers	**19**	21
Nitrogen pumpers	**7**	11

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

ECWS revenue was $32.6 million, a 13% increase compared to the three months ended March 31, 2017. Increased revenue was due to higher revenue per hour and increased fluid pumping and nitrogen activity. Revenue per hour varies from period to period based on the type of equipment used and work being performed. Pricing for coil tubing rigs and pumpers has remained stable following price increases implemented during the first quarter 2017.

Coil tubing rig operating hours were strong and consistent with the prior year period as Generation III coil tubing rigs continued to experience high demand, with activity weighted towards long-reach horizontal well completions in the Duvernay and

Montney regions. Pumper activity increased due to demand for quintuplex fluid pumpers, which were often paired with the Generation III coil tubing rigs. Increased nitrogen pumper activity was due to supporting coil tubing rigs on customer completions where well conditions required more nitrogen to enhance well performance.

Gross margin was 19% for the first quarter 2018 compared to 26% for the first quarter 2017. Gross margin compression was due to the inability to increase customer pricing to offset higher labour, fuel and repairs and maintenance costs. Higher labour costs were due to wage increases implemented during 2017 to retain employees and an increase in the number of employees to meet customer demand. Increased fuel prices and consumption resulted in higher fuel costs. Prior year gross margin was higher due to lower operating costs at a time when industry activity began to improve from the lows reached in 2016.

First quarter 2018 gross margin showed significant improvement from the sequential fourth quarter 2017 as ECWS was well prepared for first quarter activity following the investment made during the fourth quarter 2017 to re-activate equipment and recruit and train a larger workforce.

Segment Results – *Tryton*

	Three months ended March 31,	
(in thousands of dollars, except percentages)	**2018**	2017
Revenue	**$ 27,560**	$ 27,531
Operating expenses	**20,713**	20,055
Gross margin	**$ 6,847**	$ 7,476
Gross margin %	**25%**	27%
Tryton revenue – % of revenue		
Tryton MSFS®	**47%**	59%
Conventional Tools & Rentals	**53%**	41%

Tryton experienced strong demand in its Canadian and U.S. operations in the first quarter 2018. Revenue was $27.6 million, consistent with the same period in 2017. In Canada, conventional tools revenue increased compared to the first quarter 2017 as Tryton's customers increased spending on producing wells and well abandonment activities. MSFS® activity continued to be strong during the first quarter 2018; however, MSFS® revenue was lower compared to 2017 due to the nature of the MSFS® work completed during the quarter. During the first quarter 2018, Tryton successfully used its Hybrid MSFS® (Ball & Seat at the toe of the wellbore and composite bridge plugs closer to the heel of the horizontal well) to complete two 90-stage MSFS® jobs in the Montney region including completing the deepest well ever drilled in western Canada, with a measured depth of 7,848 metres and a 5,000 metre horizontal section. In addition, Tryton used its V-Sleeve system to complete a 53-stage job in a single tool run in the Cardium region. Tryton U.S. revenue doubled compared to the first quarter 2017 and continued to show higher quarter-over-quarter activity, particularly in Texas, with a broader customer base. Tryton Rentals revenue was lower than the first quarter 2017 primarily due to lower activity from a key customer.

Tryton continued to generate strong margins with gross margin of 25% for the three months ended March 31, 2018. The decline in gross margin percentage from the first quarter 2017 was due to lower activity for the higher margin rentals business in the first quarter 2018 compared to the same period in 2017.

Equipment Expenditures

	Three months ended March 31,	
(in thousands of dollars)	**2018**	2017
Essential Coil Well Service	**$ 3,624**	$ 4,288
Tryton	**657**	1,514
Corporate	**181**	35
Total equipment expenditures	**4,462**	5,837

Less proceeds on disposal of property and equipment		**(1,816)**		(306)
Net equipment expenditures[(1)]	**$**	**2,646**	$	5,531

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

(in thousands of dollars)		Three months ended March 31, **2018**		2017
Growth capital[(1)]	**$**	**1,929**	$	3,854
Maintenance capital[(1)]		**2,533**		1,983
Total equipment expenditures	**$**	**4,462**	$	5,837

Essential's 2018 capital forecast is $15 million, comprised of $5 million of growth capital and $10 million of maintenance capital. Growth capital consists of costs to retrofit one Generation IV coil tubing rig, the addition of one nitrogen pumper, coil support equipment and costs to complete the two quintuplex fluid pumpers started in 2017.

OUTLOOK

The price of oil continued to improve averaging approximately U.S. $63 per barrel (WTI) for the first quarter and has remained above this level to date in the second quarter 2018. Activity in the second half of 2018 will depend on E&P spending and activity is generally expected to be similar to 2017. Above average moisture in the WCSB during the winter may extend spring breakup conditions.

The Canadian oil and natural gas industry is challenged by political and regulatory uncertainty. The inability to build pipelines and liquefied natural gas facilities to access markets is impacting industry cash flow and investor confidence. As a result, heavy oil and natural gas prices are heavily discounted compared to U.S. prices, limiting improvement in E&P cash flows and increased oilfield service activity.

ECWS expects activity to remain strong in the second half of 2018 for its Generation III coil tubing rigs and quintuplex fluid pumpers used for long-reach horizontal well completions in the Montney and Duvernay regions. Limited improvement in industry activity and excess equipment is expected to continue to restrict the ability to increase prices and cover higher operating costs.

Tryton activity is also expected to be strong for the second half of 2018 as customer spending on well completion, maintenance and abandonment work is expected to continue. Through its expanded MSFS® service offering, Tryton remains well positioned to meet customer demand for cost effective solutions for increased stage counts when completing longer reach horizontal wells.

Essential's 2018 capital forecast is $15 million, comprised of $5 million of growth capital and $10 million of maintenance capital. One quintuplex fluid pumper was delivered in the first quarter, and a second quintuplex fluid pumper and the retrofitted Generation IV coil tubing rig will be delivered in the second and third quarters 2018, respectively.

With long-term debt at May 8, 2018 of $28.9 million, Essential believes it is financially well-positioned to meet its working capital[(1)] and capital spending requirements. Essential expects its debt to decline through to the end of the second quarter 2018 as customer payments are received for work completed in the first quarter.

The Management's Discussion and Analysis ("MD&A") and Financial Statements for the quarter ended March 31, 2018 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 in IFRS are used to analyze Essential's operations. In addition to the primary measures of net income and net income 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 income and net income per share as calculated in accordance with IFRS.

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS from continuing operations, including the equity cure, excluding onerous lease contract expense and severance costs.

EBITDAS (Earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal of equipment, 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.

Funded debt – Funded debt is generally defined in Essential's credit facility as long-term debt, including current portion of long -term debt plus deferred financing costs and bank indebtedness, net of cash.

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 previously acquired equipment. Such additions do not provide incremental revenue.

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 the financing of Essential's capital program.

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, 2018**	As at December 31, 2017
Assets		
Current		
Cash	**$ -**	$ 46
Trade and other accounts receivable	**54,923**	35,919
Inventories	**39,561**	35,683
Income taxes receivable	**1,119**	1,129
Prepayments and deposits	**1,827**	2,106
	97,430	74,883
Non-current		
Property and equipment	**139,322**	139,734
Intangible assets	**1,181**	1,387
Goodwill	**3,539**	3,444
	144,042	144,565
Total assets	**$ 241,472**	$ 219,448
Liabilities		
Current		
Trade and other accounts payable	**$ 25,737**	$ 22,504
Share-based compensation	**1,046**	1,498
Current portion of onerous lease contract	**688**	710
	27,471	24,712
Non-current		
Long-term onerous lease contract	**3,203**	3,432
Share-based compensation	**3,095**	4,397
Long-term debt	**31,943**	17,975
Deferred tax liabilities	**9,867**	8,129
	48,108	33,933

Total liabilities		**75,579**		58,645
Equity				
Share capital		**272,732**		272,732
Deficit		**(112,903)**		(117,956)
Other reserves		**6,064**		6,027
Total equity		**165,893**		160,803
Total liabilities and equity	**$**	**241,472**	$	219,448

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

		For the three months ended		March 31,
(in thousands of dollars, except per share amounts)		**2018**		2017
Revenue	**$**	**60,134**	$	56,250
Operating expenses		**47,664**		41,856
Gross margin		**12,470**		14,394
General and administrative expenses		**3,325**		4,188
Depreciation and amortization		**3,852**		4,001
Share-based compensation (recovery) expense		**(848)**		1,544
Other income		**(938)**		(25)
Operating income from continuing operations		**7,079**		4,686
Finance costs		**281**		347
Income before income taxes from continuing operations		**6,798**		4,339
Current income tax expense		**8**		512
Deferred income tax expense		**1,737**		347
Income tax expense		**1,745**		859
Net income from continuing operations		**5,053**		3,480
Loss from discontinued operations, net of tax		**-**		(330)
Net income		**5,053**		3,150
Unrealized foreign exchange (loss) gain from continuing operations		**(41)**		10
Other comprehensive (loss) gain		**(41)**		10
Comprehensive income	**$**	**5,012**	$	3,160
Net income per share from continuing operations				
Basic and diluted	**$**	**0.04**	$	0.02
Net income per share				
Basic and diluted	**$**	**0.04**	$	0.02

Comprehensive income per share		
Basic and diluted	**$ 0.04**	$ 0.02

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

(in thousands of dollars)	For the three months ended March 31, **2018**	2017
Operating activities:		
Net income from continuing operations	**$ 5,053**	$ 3,480
Non-cash adjustments to reconcile net income for the period to operating cash flow:		
Depreciation and amortization	**3,852**	4,001
Deferred income tax expense	**1,737**	347
Share-based compensation	**78**	116
Provision for impairment of trade accounts receivable	**100**	150
Finance costs	**281**	347
Gain on disposal of assets	**(565)**	(155)
Operating cash flow before changes in non-cash operating working capital	**10,536**	8,286
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(19,279)**	(18,552)
Inventories	**(3,878)**	(1,376)
Income taxes receivable	**9**	502
Prepayments and deposits	**280**	66
Trade and other accounts payable	**3,117**	7,988
Onerous lease contract	**(264)**	(125)
Share-based compensation	**(1,755)**	976
Net cash used in operating activities from continuing operations	**(11,234)**	(2,235)
Investing activities:		
Purchase of property, equipment and intangible assets	**(4,462)**	(5,837)
Non-cash investing working capital in trade and other accounts payable	**120**	623
Proceeds on disposal of equipment	**1,816**	306
Net cash used in investing activities from continuing operations	**(2,526)**	(4,908)
Financing activities:		
Increase in long-term debt	**13,950**	6,919
Net finance costs paid	**(249)**	(347)
Net cash provided by financing activities from continuing operations	**13,701**	6,572
Foreign exchange gain on cash held in a foreign currency	**13**	10
Net decrease in cash	**(46)**	(561)
Net increase in cash, discontinued operations	**-**	643
Cash, beginning of period	**46**	143
Cash, end of period	**$ -**	$ 225
Supplemental cash flow information		
Cash taxes received	**$ -**	$ 10
Cash interest and standby fees paid	**$ 240**	$ 345

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", "projects", "forecasts", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This news release contains forward-looking statements, pertaining to, among other things, the following: the Company's ability to generate cash from operations; Essential's capital forecast and in-service timing for equipment; oil and natural gas industry activity; political and regulatory uncertainty; Essential's activity levels; pricing of oilfield services and Essential's services; Essential's competitive position and outlook and the demand for Essential's services; Essential's financial position and ability to meet its working capital and capital spending requirements; and the expectation that debt will decline through to the end of the second quarter 2018.

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 (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 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; 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; risks and uncertainty related to distribution and pipeline constraints; 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.

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.

2018 FIRST QUARTER RESULTS CONFERENCE CALL AND WEBCAST

Essential has scheduled a conference call and webcast at 10:00 am MT (12:00 pm ET) on May 9, 2018.

The conference call dial in numbers are 416-340-2217 or 800-806-5484, passcode 9490435.

An archived recording of the conference call will be available approximately one hour after completion of the call until May 23, 2018 by dialing 905-694-9451 or 800-408-3053, passcode 3617687.

A live webcast of the conference call will be accessible on Essential's website at www.essentialenergy.ca by selecting "Investors" and "Events and Presentations". Shortly after the live webcast, an archived version will be available for approximately 30 days.

ABOUT ESSENTIAL

Essential provides oilfield services to oil and natural gas producers, primarily in western Canada. Essential offers completion, production and abandonment 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 the largest coil tubing fleet 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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