Ensign Energy Services Inc. Reports 2022 Second Quarter Results

05.08.2022 | CNW

CALGARY, Aug. 5, 2022 -

SECOND QUARTER HIGHLIGHTS

- Revenue for the second quarter of 2022 was $344.1 million, a 62 percent increase from the second quarter of 2021 revenue of $212.3 million.
- Revenue by geographic area:
  - Canada - $78.7 million, 23 percent of total;
  - United States - $203.5 million, 59 percent of total; and
  - International - $61.9 million, 18 percent of total.
- Canadian drilling recorded 2,369 operating days in the second quarter of 2022, a 124 percent increase from 1,058 operating days in the second quarter of 2021. Canadian well servicing recorded 12,099 operating hours in the second quarter of 2022, a 51 percent increase from 8,027 operating hours in

the second quarter of 2021.

- United States drilling recorded 4,277 operating days in the second quarter of 2022, a 48 percent increase from 2,899 operating days in the second quarter of 2021. United States well servicing recorded 30,725 operating hours in the second quarter of 2022, a seven percent decrease from 33,080 operating hours in the second quarter of 2021.

- [illegible] be reactivated in Oman in the fourth quarter of 2022. As at June 30, 2022, 24 drilling rigs have be reactivated and upgraded.

- Long-term debt, net of cash, was reduced by $88.0 million since December 31, 2021. Since July 7, 2022, the Company reduced its Convertible Debentures by $37.0 million through the issuance of 21,142,857 common shares of the Company at a conversion price of $1.75 per share.

OVERVIEW

Revenue for the second quarter of 2022 was $344.1 million, an increase of 62 percent from revenue for the second quarter of 2021 of $212.3 million. Revenue for the six months ended June 30, 2022 was $676.8 million, an increase of 57 percent from revenue for the six months ended June 30, 2021 of $430.9 million.

Adjusted EBITDA totaled $68.3 million ($0.40 per common share) in the second quarter of 2022, 50 percent higher than Adjusted EBITDA of $45.6 million ($0.28 per common share) in the second quarter of 2021. For the first six months ended June 30, 2022, Adjusted EBITDA totaled $138.3 million ($0.83 per common share), 45 percent higher than Adjusted EBITDA of $95.5 million ($0.59 per common share) in the first six months ended June 30, 2021.

Net loss attributable to common shareholders for the second quarter of 2022 was $28.1 million ($0.17 per common share) compared to a net loss attributable to common shareholders of $52.3 million ($0.32 per common share) for the second quarter of 2021. Net loss attributable to common shareholders for the six months ended June 30, 2022 was $21.6 million ($0.13 per common share), compared to a net loss attributable to common shareholders of $95.8 million ($0.59 per common share) for the six months ended June 30, 2021.

Funds flow from operations increased 97 percent to $81.5 million ($0.47 per common share) in the second quarter of 2022 compared to $41.3 million ($0.25 per common share) in the second quarter of the prior year. Funds flow from operations increased 80 percent to $158.2 million ($0.94 per common share) for the six months ended June 30, 2022 compared to $87.9 million ($0.54 per common share) for the six months ended June 30, 2021.

The macro-economic conditions impacting the crude oil and natural gas industry continued to be positive for oilfield services. Strong global commodity prices continued to be supported by strengthening global crude oil demand and structural tightness in crude oil supply. OPEC+ nations continue to incrementally add supply to the market and are expected to eliminate coordinated production cuts in the coming months. In addition, US-based producers remain committed to moderate increases in production. The invasion of Ukraine by the Russian Federation and the resulting hostilities have further challenged global oil and natural gas markets with uncertainty regarding Russian oil and natural gas supply to the global market, putting further upward pressure on commodity prices. These factors and constructive industry fundamentals have resulted in increased demand for oilfield services, driving improved activity and drilling rig rates in the Company's North American segments year-over-year.

Over the near term, there is considerable uncertainty regarding the impacts of the Russian invasion of Ukraine and the resulting ongoing hostilities on the global economy, recession risk in certain operating environments, and other factors that may impact the demand for crude oil and natural gas, commodity prices, and the demand for oilfield services.

The Company's operating days were higher in the three and six months ended June 30, 2022, when compared to the same period in 2021. Operations were positively impacted by improving industry conditions, driving activity improvements year-over-year. Furthermore, the acquisition of 35 land-based drilling rigs in Canada during the third quarter of 2021 helped further improve the Company's financial and operating results.

The average United States dollar exchange rate was $1.27 for the six months ended June 30, 2022 (2021 - $1.25) versus the Canadian dollar, an increase of two percent, compared to the same period of 2021.

Working capital at June 30, 2022 was a surplus of $102.8 million, compared to a surplus of $104.2 million at December 31, 2021. The Company's available liquidity, consisting of cash and available borrowings under its $900.0 million revolving credit facility (the "Credit Facility"), was $67.0 million at June 30, 2022.

This news release contains "forward-looking information and statements" within the meaning of applicable securities legislation. For a full disclosure of the forward-looking information and statements and the risks to which they are subject, see the "Advisory Regarding Forward-Looking Statements" later in this news release. This news release contains references to Adjusted EBITDA and Adjusted EBITDA per common share. These measures do not have any standardized meaning prescribed by IFRS and accordingly, may not be comparable to similar measures used by other companies. The non-GAAP measures included in this news release should not be considered as an alternative to, or more meaningful than, the IFRS measure from which they are derived or to which they are compared. See "Non-GAAP Measures" later in this news release.

FINANCIAL AND OPERATING HIGHLIGHTS

(Unaudited, in thousands of Canadian dollars, except per common share data and operating information)

	Three months ended June 30			Six months ended	
	2022	2021	% change	2022	2021
Revenue	$ 344,123	$ 212,306	62	$ 676,799	$ 430,8
Adjusted EBITDA [1]	68,332	45,645	50	138,297	95,543
Adjusted EBITDA per common share [1]					
Basic	$0.40	$0.28	43	$0.83	$0.59
Diluted	$0.44	$0.28	57	$0.82	$0.59
Net loss attributable to common shareholders	(28,138)	(52,292)	46	(21,551)	(95,84
Net loss attributable to common shareholders per common share					
Basic	$(0.17)	$(0.32)	47	$(0.13)	$(0.59)
Diluted	$(0.17)	$(0.32)	47	$(0.13)	$(0.59)
Cash provided by operating activities	99,520	53,185	87	154,076	80,022
Funds flow from operations	81,497	41,326	97	158,238	87,853
Funds flow from operations per common share					
Basic	$0.47	$0.25	88	$0.94	$0.54
Diluted	$0.52	$0.25	nm	$0.94	$0.54
Long-term debt, net of cash	1,357,537	1,313,837	3	1,357,537	1,313,8
Weighted average common shares - basic (000s)	171,646	162,295	6	167,456	162,48
Weighted average common shares - diluted (000s)	173,157	162,642	6	168,325	162,77
Drilling	2022	2021	% change	2022	2021

Number of marketed rigs [2]					
Canada [3]	123	92	34	123	92
United States	89	93	(4)	89	93
International [4]	34	42	(19)	34	42
Total	246	227	8	246	227
Operating days [5]					
Canada [3]	2,369	1,058	nm	6,097	2,904
United States	4,277	2,899	48	7,965	5,480
International [4]	1,030	844	22	1,903	1,703
Total	7,676	4,801	60	15,965	10,087
Well Servicing	2022	2021	% change	2022	2021
Number of rigs					
Canada	52	52	-	52	52
United States	48	48	-	48	48
Total	100	100	-	100	100
Operating hours					
Canada	12,099	8,027	51	23,359	17,117
United States	30,725	33,080	(7)	60,414	63,045
Total	42,824	41,107	4	83,773	80,162

nm - calculation not meaningful
1. Refer to Adjusted EBITDA calculation in Non-GAAP Measures
2. Total owned rigs: Canada - 137, United States - 126, International - 46 (2021 total owned rigs: Canada - 118, United States - 136, International - 53)
3. Excludes coring rigs.
4. Includes workover rigs.
5. Defined as contract drilling days, between spud to rig release.

FINANCIAL POSITION AND CAPITAL EXPENDITURES HIGHLIGHTS

As at ($ thousands)	June 30 2022	December 31 2021	June 30 2021
Working capital[1, 2]	102,830	104,228	89,919
Cash	38,994	13,305	19,532
Long-term debt	1,396,531	1,453,884	1,333,369
Long-term debt, net of cash	1,357,537	1,440,579	1,313,837
Total long-term financial liabilities [2]	1,408,706	1,465,858	1,344,412
Total assets	3,011,267	2,977,054	2,857,832
Long-term debt to long-term debt plus equity ratio	0.53	0.55	0.52

[1] See Non-GAAP Measures section.

[2] Comparative working capital and total long-term financial liabilities has been revised to conform with current year's presentation

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Capital expenditures						
Upgrade/growth	28,495	4,043	nm	36,586	7,595	nm
Maintenance	25,784	9,544	nm	49,644	16,744	nm
Proceeds from disposals of property and equipment	(4,189)	(1,808)	nm	(46,936)	(2,982)	nm
Net capital expenditures	50,090	11,779	nm	39,294	21,357	84

nm - calculation not meaningful

REVENUE AND OILFIELD SERVICES EXPENSE

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Revenue						
Canada	78,684	31,411	150	189,950	84,967	124
United States	203,507	130,815	56	370,330	246,226	50
International	61,932	50,080	24	116,519	99,657	17
Total revenue	344,123	212,306	62	676,799	430,850	57
Oilfield services expense	263,582	157,793	67	515,403	317,236	62

Revenue for the three months ended June 30, 2022 totaled $344.1 million, an increase of 62 percent from the second quarter of 2021 $212.3 million. Revenue for the six months ended June 30, 2022 totaled $676.8 million, a 57 percent increase from the six months ended June 30, 2021.

The increase in total revenue during the second quarter of 2022 was primarily due to the global economic recovery and more favourable industry conditions due to increasing oil and natural gas commodity prices. Increased demand for oilfield services and the acquisition of 35 land-based drilling rigs in Canada during the third quarter of 2021, also contributed to the increase in revenue. The positive foreign exchange translation impact further contributed to the increase in revenue reported in Canadian currency.

CANADIAN OILFIELD SERVICES

Revenue increased by $47.3 million to $78.7 million for the three months ended June 30, 2022 from $31.4 million for the three months ended June 30, 2021. The Company recorded revenue of $190.0 million in Canada for the six months ended June 30, 2021, an increase of $105.0 million from $85.0 million recorded for the six months ended June 30, 2021.

Canadian revenue accounted for 23 percent of the Company's total revenue in the second quarter of 2022 (2021 - 15 percent) and 28 percent (2021 - 20 percent) for the first half of 2022.

The Company's Canadian drilling operations recorded 2,369 operating days in the second quarter of 2022, compared to 1,058 operating days for the second quarter of 2021, an increase of 1,311 operating days. For the six months ended June 30, 2022, the Company recorded 6,097 operating days compared to 2,904 drilling days for the six months ended June 30, 2021, an increase of 3,193 operating days. Canadian well servicing hours increased by 51 percent to 12,099 operating hours in the second quarter of 2022 compared to 8,027 operating hours in the corresponding period of 2021. For the six months ended June 30, 2022, well servicing hours increased by 36 percent to 23,359 operating hours compared with 17,117 operating hours for the six months ended June 30, 2021.

The operating and financial results for the Company's Canadian operations in the first half year of 2022 were positively impacted by improved industry conditions that increased both drilling and well servicing activity. In addition, operational activity increased as a result of the Company's acquisition of 35 land-based drilling rigs during the third quarter of 2021. Offsetting the increase was the elimination of the Canada Emergency Wage Subsidy ("CEWS") program in 2021 by the Government of Canada, of which $5.1 million and $9.8 million were received by the Company in the second quarter and the first half of 2021 respectively.

During the first half of 2022, the Company transferred four under-utilized drilling rigs into its Canadian operations reserve fleet.

UNITED STATES OILFIELD SERVICES

The Company's United States operations recorded revenue of $203.5 million in the second quarter of 2022, an increase of 56 percent from the $130.8 million recorded in the corresponding period of the prior year. During the six months ended June 30, 2022, revenue of $370.3 million was recorded, an increase of 50 percent from the $246.2 million recorded in the corresponding period of the prior year.

The Company's United States operations accounted for 59 percent of the Company's revenue in the second quarter of 2022 (2021 - 62 percent) and 55 percent of the Company's revenue in the first six months of 2022 (2021 - 57 percent).

Drilling rig operating days increased by 48 percent to 4,277 operating days in the second quarter of 2022 from 2,899 operating days in the second quarter of 2021, and increased by 45 percent to 7,965 operating days in the first six months of 2022 from 5,480 operating days in the first six months of 2021. United States well servicing hours decreased by seven percent in the second quarter of 2022 to 30,725 operating hours from 33,080 operating hours in the second quarter of 2021. For the first half of 2022, well servicing activity decreased four percent to 60,414 operating hours from 63,045 operating hours in the first half of 2021.

Overall operating and financial results for the Company's United States operations reflect improving industry conditions, increasing drilling activity and rig revenue rates in addition to steady well servicing rig utilization. The financial results from the Company's United States operations were further positively impacted on the currency translation, as the United States dollar strengthened relative to the Canadian dollar for the first six months of 2022.

During the first six months of 2022, the Company sold one cold stacked drilling rig from its United States operations and transferred three under-utilized drilling rigs into its United States reserve fleet.

INTERNATIONAL OILFIELD SERVICES

The Company's international operations recorded revenue of $61.9 million in the second quarter of 2022, a 24 percent increase from the $50.1 million recorded in the corresponding period of the prior year. International revenues for the six months ended June 30, 2022, increased 17 percent to $116.5 million from $99.7 million recorded in the six months ended June 30, 2021.

The Company's international operations contributed 18 percent of the total revenue in the second quarter of 2022 (2021 - 23 percent) and 17 percent of the Company's revenue in the first six months of 2022 (2021 - 23 percent).

International operating days for the three months ended June 30, 2022 totaled 1,030 operating days compared to 844 operating days in the same period of 2021, an increase of 22 percent. For the six months ended June 30, 2022, international operating days totaled 1,903 operating days compared to 1,703 operating days for the six months ended June 30, 2021, an increase of 12 percent.

Operating and financial results from the international operations reflect a steady and incrementally positive operating environment as COVID-19 related disruptions continued to dissipate.

During the first six months of 2022, the Company sold two cold-stacked drilling rigs located in Mexico for US $34.0 million and transferred six under-utilized drilling rigs into its international operations reserve fleet.

DEPRECIATION

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Depreciation	68,692	69,756	(2)	138,672	140,733	(1)

Depreciation expense totaled $68.7 million for the second quarter of 2022 compared with $69.8 million for the second quarter of 2021, a decrease of two percent. Depreciation expense for the first six months of 2022 decreased by one percent, to $138.7 million compared with $140.7 million in the first six months of 2021. The decrease in depreciation is due to certain operating assets having become fully depreciated in which case no further depreciation expense will be incurred on such assets. Offsetting the decrease to the depreciation expense is the negative foreign exchange translation on converting USD denominated depreciation expense.

GENERAL AND ADMINISTRATIVE

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
General and administrative	12,209	8,868	38	23,099	18,071	28
% of revenue	3.5	4.2		3.4	4.2	

General and administrative expense increased 38 percent to $12.2 million (3.5 percent of revenue) for the second quarter of 2022 compared to $8.9 million (4.2 percent of revenue) for the second quarter of 2021. For the six months ended June 30, 2022, general and administrative expense totaled $23.1 million (3.4 percent of revenue) compared to $18.1 million (4.2 percent of revenue) for the six months ended June 30, 2021. General and administrative expenses increased in support of increased operational activity, the end of the CEWS program ($0.9 million and $1.5 million received during the second quarter and the first half of 2021 respectively), and the full reinstatement of salary roll-backs and annual wage increases. Further increasing the general and administrative expense is the negative foreign exchange translation on converting USD denominated general and administrative expense.

FOREIGN EXCHANGE AND OTHER LOSS

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Foreign exchange and other loss	4,047	6,313	(36)	2,702	12,627	(79)

Included in this amount is the impact of foreign currency fluctuations in the Company's subsidiaries that have functional currencies other than the Canadian dollar.

GAIN ON ASSET SALE

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Gain on asset sale	(1,354)	-	nm	(31,296)	-	nm

nm - calculation not meaningful

During the first half of 2022, the Company finalized the sale of two drilling rigs that were cold-stacked in Mexico and other unrelated equipment. The net cash proceeds received for two drilling rigs were US $33.1 million, resulting in a gain of US $23.9 million or Canadian $29.9 million.

INTEREST EXPENSE

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Interest expense	27,563	23,576	17	52,747	47,033	12

Interest expense was incurred on the Company's $900.0 million Credit Facility, US $417.5 million Senior Notes, $37.0 million subordinate convertible debentures (the "Convertible Debentures") prior to conversion, and capital lease obligations.

Interest expense increased by 17 percent for the second quarter of 2022 compared to the second quarter of 2021. Interest expense increased by 12 percent for the first six months of 2022 compared to the same period of 2021. The increase for the three and six months of 2022 is the result of higher overall borrowing and higher interest rates. The negative translational impact on United States dollar-denominated debt further increased interest expense for the quarter.

The Company's blended interest rate on its outstanding debt for the 2022 year will be approximately eight percent. The current capital structure primarily consisting of the Credit Facility and the Senior Notes allows the Company to utilize funds flow generated to reduce debt in the near term with greater flexibility than a more non-callable weighted capital structure.

INCOME TAXES (RECOVERY)

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Current income taxes (recovery)	(92)	476	nm	(1,762)	526	nm
Deferred taxes income recovery	(8,124)	(11,428)	(29)	(19,656)	(20,772)	(5)
Total income taxes recovery	(8,216)	(10,952)	(25)	(21,418)	(20,246)	6
Effective income tax rate (%)						

22.6

18.1

25

49.9

17.9

nm

nm - calculation not meaningful

The effective income tax rate for the three months ended June 30, 2022 was 22.6 percent compared to 18.1 percent for the three months ended June 30, 2021. The effective income tax rate for the six months ended June 30, 2022 was 49.9 percent compared to 17.9 percent for the six months ended June 30, 2021. The effective income tax rate in the first six months of the current year was higher than the effective income tax rate in the same period of 2021 due to activity levels, gains on disposal of assets and tax recoveries in foreign tax jurisdictions.

FUNDS FLOW FROM OPERATIONS AND WORKING CAPITAL

($ thousands, except per common share data)	Three months ended June 30			Six months ended June 30		
	2022	2021	% change	2022	2021	% change
Cash provided by operating activities	99,520	53,185	87	154,076	80,022	93
Funds flow from operations	81,497	41,326	97	158,238	87,853	80
Funds flow from operations per common share	$0.47	$0.25	88	$0.94	$0.54	74
Working capital [1]	102,830	104,228	(1)	102,830	104,228	(1)

[1] Comparative figure as at December 31, 2021

During the three months ended June 30, 2022, the Company generated funds flow from operations of $81.5 million ($0.47 per common share) compared to funds flow from operations of $41.3 million ($0.25 per common share) for the three months ended June 30, 2021, an increase of 97 percent. For the six months ended June 30, 2022, the Company generated funds flow from operations of $158.2 million ($0.94 per common share) an increase of 80 percent from $87.9 million ($0.54 per common share) for the six months ended June 30, 2021. The increase in funds flow from operations for six months ended June 30, 2022 compared to the same period of 2021 is largely due to the increase in activity compared to the prior period as a result of the oil and natural gas industry's improving operating environment.

At June 30, 2022, the Company's working capital was a surplus of $102.8 million, compared to a working capital surplus of $104.2 million at December 31, 2021. The Company currently expects funds generated by operations, combined with current and future credit facilities, to fully support the Company's current operating and capital requirements. The Company's Credit Facility provides for total borrowings of $900.0 million, of which $28.1 million was undrawn and available at June 30, 2022.

INVESTING ACTIVITIES

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Purchase of property and equipment	(54,279)	(13,587)	nm	(86,230)	(24,339)	nm
Proceeds from disposals of property and equipment	4,189	1,808	nm	46,936	2,982	nm
Distribution to non-controlling interest	(1,852)	-	nm	(1,852)	-	nm
Net change in non-cash working capital	3,205	4,041	(21)	8,902	1,003	nm
Cash used in investing activities	(48,737)	(7,738)	nm	(32,244)	(20,354)	58

nm - calculation not meaningful

Net purchases of property and equipment for the second quarter of 2022 totaled $50.1 million (2021 - $11.8 million). Net purchases of property and equipment during the first six months of 2022 totaled $39.3 million (2021 - $21.4 million). The purchase of property and equipment for the first six months of 2022 consists of

$36.6 million in upgrade capital and $49.6 million in maintenance capital.

FINANCING ACTIVITIES

	Three months ended June 30			Six months ended June 30		
($ thousands)	2022	2021	% change	2022	2021	% change
Proceeds from long-term debt	26,705	29,935	(11)	28,605	38,531	(26)
Repayments of long-term debt	(23,460)	(50,799)	(54)	(65,394)	(66,563)	(2)
Lease obligation principal repayments	(2,291)	(1,746)	31	(4,189)	(3,227)	30
Interest paid	(41,434)	(34,318)	21	(53,887)	(49,851)	8
Issuance of common shares under share option plan	-	-	nm	36	-	nm
Purchase of common shares held in trust	(405)	(224)	81	(780)	(484)	61
Cash used in financing activities	(40,885)	(57,152)	(28)	(95,609)	(81,594)	17

nm - calculation not meaningful

The Company's available bank facilities consist of a $900.0 million Credit Facility, of which $28.1 million was available and undrawn as of June 30, 2022. In addition, the Company has available US $50.0 million secured letter of credit facility, of which US $1.2 million was available as of June 30, 2022.

On May 31, 2022, the Company settled its Convertible Debentures of $37.0 million through the issuance of 21,142,857 common shares of the Company at conversion price of $1.75. The holders' elections to convert the Convertible Debentures were made following the issue of notice by the Company, on April 8, 2022, of its intention to redeem all issued and outstanding Convertible Debentures on June 7, 2022.

The Company may at any time and from time to time acquire Senior Notes for cancellation by means of open market repurchases or negotiated transactions. The Company is limited in the acquisition and cancellation of the Senior Notes up to $25.0 million under applicable covenants. Senior Notes may be repurchased for redemption in excess of $25.0 million if certain criteria are met. No such repurchases occurred during the first half of 2022.

Covenants

The following is a list of the Company's currently applicable covenants and the calculations as at June 30, 2022:

	Covenant	June 30, 2022
The Credit Facility		
Consolidated EBITDA[1]	> 140.0 million	258,414
Consolidated EBITDA to Consolidated Interest Expense[1,2]	? 2.25	2.57
Consolidated Senior Debt to Consolidated EBITDA[1,3]	? 3.25	3.22

[1] Please refer to Non-GAAP Measures for Consolidated EBITDA definition.
[2] Consolidated Interest Expense is defined as all interest expense calculated on twelve month rolling consolidated basis and excluding Senior Notes interest in repurchase.
[3] Consolidated Senior Debt is defined as Consolidated Total Debt minus Subordinated Debt.

As at June 30, 2022, the Company was in compliance with all covenants related to the Credit Facility.

The Credit Facility

The Credit Facility agreement, available on SEDAR including amendments, requires that the Company comply with certain covenants including minimum Consolidated EBITDA requirements, Consolidated EBITDA to Consolidated Interest Expense ratio and a Consolidated Senior Debt to Consolidated EBITDA ratio as detailed above.

The Credit Facility also contains certain covenants that place restrictions on the Company's ability to repurchase or redeem Senior Notes and Convertible Debentures; to create, incur or assume additional indebtedness; change the Company's primary business; enter into mergers or amalgamations; and dispose of property. In the most recent amendment and restatement of the credit agreement, dated December 17, 2021, permitted encumbrances are limited to $25.0 million.

The Senior Notes

The note indenture governing the Senior Notes, available on SEDAR, contains certain restrictions and exemptions on the Company's ability to pay dividends, purchase and redeem shares and subordinated debt of the Company, and make certain restricted investments. Limitations on these restrictions are tempered by the existence of a number of exceptions to the general prohibition, including baskets allowing for restricted payments.

The note indenture also restricts the ability to incur additional indebtedness if the Fixed Charge Coverage Ratio determined on a pro forma basis for the most recently ended four fiscal quarter period for which internal financial statements are available is not at least 2.0 to 1.0. As of June 30, 2022, the Company has not incurred additional indebtedness that would require the Fixed Charge Coverage Ratio to be calculated. As is the case with restricted payments, there are a number of exceptions to this prohibition on the incurrence of indebtedness, including the incurrence of debt under credit facilities up to the greater of $900.0 million or 22.5 percent of the Company's consolidated tangible assets and of additional secured debt subordinated to the credit facilities up to the greater of US $125.0 million or four percent of the Company's consolidated tangible assets.

NEW BUILDS AND MAJOR RETROFITS

During the first six months ended June 30, 2022, the Company transferred four, three and six under-utilized drilling rigs to its Canadian, United States and international operations reserve fleet respectively. In addition, the Company sold one cold stacked drilling rig from its United States operations and two cold-stacked drilling rigs from its international operations. The Company's projected capital expenditures in 2022 are expected to be approximately $165.0 million of which $40.0 million relates to growth capital. As at June 30, 2022, 24 drilling rigs have be reactivated and upgraded.

OUTLOOK

Industry Overview

The outlook for oilfield services continues to be positive with strong industry market fundamentals. Steady oil and natural gas demand and structural tightness in supply continue to support improved commodity prices, strengthening demand for oilfield services year-over-year.

OPEC+ nations continue to add moderated supply to the market in addition to United States based producers' modest increases in production. The invasion of Ukraine by the Russian Federation and the ongoing hostilities coupled with international community responses and sanctions, have further impacted global oil and natural gas markets while creating uncertainty regarding Russian oil and natural gas exports. Despite strong supply and demand fundamentals in oil markets, inflationary concerns generally continue to prompt a tightening of monetary policy and a rise in interest rates. Rising interest rates largely resulting from efforts to quell rising high inflation have subsequently led to uncertainty in financial markets regarding recession risk. These factors continue to impact global commodity prices and have led to a recent pullback in commodity prices. The average benchmark price of West Texas Intermediate ("WTI") was US $110/bbl in May 2022 and decreased to US $102/bbl in July 2022.

However, we expect strong crude oil and natural gas demand is likely to continue and tight supply in a robust commodity price environment may further drive oilfield services industry activity and rate improvements during the remainder of 2022. While we continue to expect oil and natural gas producers to remain committed to prioritizing shareholder returns, higher oilfield service industry utilization is expected to drive day-rate pricing improvements year-over-year in the Company's North American segments.

Over the short-term, there is considerable uncertainty regarding macroeconomic conditions. The impact of the ongoing hostilities in Ukraine on the global economy in general, and the future supply of Russian oil and natural gas to Europe in particular, as well as international sanctions on the Russian Federation, inflationary pressures and recession risk along with a myriad of other factors may impact near term supply and demand for, and pricing of crude oil and natural gas and related oilfield services.

Canadian Activity

Canadian activity, currently representing 28 percent of total revenue for the first half of 2022, improved in the second quarter of 2022 as operations exited seasonal spring break-up. We expect activity to continue to improve over the third quarter and into the fourth quarter of 2022.

As of August 4, 2022, of our 123 marketed Canadian drilling rigs, approximately 41 percent are engaged under term contracts of various durations. Approximately 41 percent of our contracted rigs have a remaining term of six months or longer, although they may be subject to early termination.

United States Activity

United States activity, currently representing 55 percent of total revenue for the first half of 2022, improved during the second quarter of 2022 and is expected to continue to steadily improve in the third quarter of 2022. Dwindling drilled but uncompleted ("DUC") well inventory in the US is expected to positively impact activity as producers are expected to drill new wells to maintain or grow current production levels through the remainder of the year.

As of August 4, 2022, of our 89 marketed United States drilling rigs, approximately 61 percent are engaged under term contracts of various durations. Approximately 24 percent of our contracted rigs have a remaining term of six months or longer, although they may be subject to early termination.

International Activity

International activity, currently representing 17 percent of total revenue in the first half of 2022, improved over the second quarter, with increased activity in Latin America and Australia. Operations in Australia are expected to remain steady to modestly improve in the third quarter of 2022. Operations in Argentina, with two rigs active, are also expected remain steady in the third quarter of 2022. In the Middle East, operations are expected to remain steady in the third quarter of 2022 with four rigs active and are anticipated to improve in the fourth quarter of 2022 with increased activity in Oman.

As of August 4, 2022, of our 34 marketed international drilling rigs, approximately 38 percent are engaged under term contracts of various durations. Approximately 62 percent of our contracted rigs have a remaining term of six months or longer, although they may be subject to early termination.

RISK AND UNCERTAINTIES

The Company is subject to several risks and uncertainties. A discussion of certain risks faced by the Company may be found under the "Risk Factors" section of the Company's Annual Information Form ("AIF") and the "Risks and Uncertainties" section of the Company's Management's Discussion & Analysis ("MD&A")

for the year ended December 31, 2021, which are available under the Company's SEDAR profile at www.sedar.com.

Other than as described within this document, the Company's risk factors and management of those risks have not changed substantially from as disclosed in the AIF. Additional risks and uncertainties not presently known by the Company, or that the Company does not currently anticipate or deem material, may also impair the Company's business operations or financial condition. If any of the events described in the risk factors in this document or the Company's AIF actually occur, overall business, operating results and the financial condition of the Company could be materially adversely affected.

CONFERENCE CALL

A conference call will be held to discuss the Company's second quarter 2022 results at 10:00 a.m. MDT (12:00 p.m. EDT) on Friday, August 5, 2022. The conference call number is 1-416-764-8659 (in Toronto) or 1-888-664-6392 (outside Toronto). The conference call reservation number is: 52222893. A taped recording will be available until August 12, 2022 by dialing 1-416-764-8677 (in Toronto) or 1-888-390-0541 (outside Toronto) and entering the reservation number 222893#. A live broadcast may be accessed through the Company's website at www.ensignenergy.com/presentations.

Ensign Energy Services Inc. is an international oilfield services contractor and is listed on the Toronto Stock Exchange under the trading symbol ESI.

Ensign Energy Services Inc.
Consolidated Statements of Financial Position

As at	June 30 2022	December 31 2021
(Unaudited - in thousands of Canadian dollars)		
Assets		
Current Assets		
Cash	$ 38,994	$ 13,305
Accounts receivable	263,020	226,807
Inventories, prepaid and other	47,152	49,172
Income taxes receivable	137	580
Total current assets	349,303	289,864
Property and equipment	2,470,465	2,512,953
Deferred income taxes	191,499	174,237
Total assets	$ 3,011,267	$ 2,977,054
Liabilities		
Current Liabilities		
Accounts payable and accruals	$ 237,118	$ 177,932
Share-based compensation	3,389	1,055
Income taxes payable	912	1,389

Current portion of lease obligation	5,054	5,260
Total current liabilities	246,473	185,636
Share-based compensation	18,008	7,966
Long-term debt	1,396,531	1,453,884
Lease obligations	5,764	4,327
Income tax payable	6,411	7,647
Deferred income taxes	120,279	120,100
Non-controlling interest	-	4,832
Total liabilities	1,793,466	1,784,392
Shareholders' Equity		
Shareholders' capital	268,748	230,376
Contributed surplus	22,627	23,197
Equity component of convertible debenture	-	2,380
Accumulated other comprehensive income	234,576	223,308
Retained earnings	691,850	713,401
Total shareholders' equity	1,217,801	1,192,662
Total liabilities and shareholders' equity	$ 3,011,267	$ 2,977,054

Ensign Energy Services Inc.

Consolidated Statements of Loss

	Three months
	June 30 2022
(Unaudited - in thousands of Canadian dollars, except per common share data)	
Revenue	$ 344,123
Expenses	
Oilfield services	263,582
Depreciation	68,692
General and administrative	12,209
Restructuring	-
Share-based compensation	3,560
Foreign exchange and other loss	4,047
Total expenses	352,090
Loss before interest expense, accretion of deferred financing charges and other gains and income taxes	(7,967)

Gain on repurchase of unsecured Senior Notes	-
Gain on asset sale	(1,354)
Interest expense	27,563
Accretion of deferred financing charges	2,199
Loss before income taxes	(36,375)
Income taxes (recovery)	
Current income taxes (recovery)	(92)
Deferred income taxes recovery	(8,124)
Total income tax recovery	(8,216)
Net loss from continuing operations	(28,159)
Loss from discontinued operations	-
Net loss	$ (28,159)
Net (loss) income attributable to:	
Common shareholders	(28,138)
Non-controlling interests	(21)
	(28,159)
Net loss attributable to common shareholders per common share	
Basic	$ (0.17)
Diluted	$ (0.17)

[Ensign Energy Services Inc.](#)
Consolidated Statements of Cash Flows

	Three months ended		Six months ended	
	June 30 2022	June 30 2021	June 30 2022	June 30 2021
(Unaudited - in thousands of Canadian dollars)				
Cash provided by (used in)				
Operating activities				
Net loss	$ (28,159)	$ (52,332)	$ (21,470)	$ (95,834)
Items not affecting cash				
Depreciation	68,692	69,756	138,672	140,733
Gain on asset sale	(1,354)	-	(31,296)	-
Gain on purchase of unsecured Senior Notes	-	(2,139)	-	(7,431)
Share-based compensation, net cash settlements	1,823	5,820	12,222	6,822
Unrealized foreign exchange and other	18,857	5,369	22,618	11,895
Accretion of deferred financing charges	2,199	2,704	4,401	5,407
Interest expense	27,563	23,576	52,747	47,033
Deferred income taxes recovery	(8,124)	(11,428)	(19,656)	(20,772)
Funds flow from operations	81,497	41,326	158,238	87,853
Net change in non-cash working capital	18,023	11,859	(4,162)	(7,831)
Cash provided by operating activities	99,520	53,185	154,076	80,022
Investing activities				
Purchase of property and equipment	(54,279)	(13,587)	(86,230)	(24,339)
Proceeds from disposals of property and equipment	4,189	1,808	46,936	2,982
Distribution to non-controlling interest	(1,852)	-	(1,852)	-
Net change in non-cash working capital	3,205	4,041	8,902	1,003
Cash used in investing activities	(48,737)	(7,738)	(32,244)	(20,354)
Financing activities				
Proceeds from long-term debt	26,705	29,935	28,605	38,531
Repayments of long-term debt	(23,460)	(50,799)	(65,394)	(66,563)
Lease obligation principal repayments	(2,291)	(1,746)	(4,189)	(3,227)

Interest paid	(41,434)	(34,318)	(53,887)	(49,851)
Issuance of common shares under share option plan	-	-	36	-
Purchase of common shares held in trust	(405)	(224)	(780)	(484)
Cash used in financing activities	(40,885)	(57,152)	(95,609)	(81,594)
Net increase (decrease) in cash	9,898	(11,705)	26,223	(21,926)
Effects of foreign exchange on cash	(610)	(2,179)	(534)	(2,740)
Cash - beginning of period	29,706	33,416	13,305	44,198
Cash - end of period	$ 38,994	$ 19,532	$ 38,994	$ 19,532

Ensign Energy Services Inc.
Non-GAAP Measures
Adjusted EBITDA, Adjusted EBITDA per common share and Consolidated EBITDA. These measures do not have any standardized meaning prescribed by IFRS and accordingly, may not be comparable to similar measures used by other companies.

Adjusted EBITDA is used by management and investors to analyze the Company's profitability based on the Company's principle business activities prior to how these activities are financed, how assets are depreciated, amortized and how the results are taxed in various jurisdictions. Additionally, in order to focus on the core business alone, amounts are removed related to foreign exchange, share-based compensation expense, the sale of assets, restructuring costs, gain on repurchase of unsecured Senior Notes and fair value adjustments on financial assets and liabilities, as the Company does not deem these to relate to its core drilling and well services business. Adjusted EBITDA is not intended to represent net loss as calculated in accordance with IFRS.

ADJUSTED EBITDA	Three months ended June 30		Six months ended June 30	
($ thousands)	2022	2021	2022	2021
Loss before income taxes	(36,375)	(60,385)	(42,888)	(113,181)
Add-back/(deduct):				
Interest expense	27,563	23,576	52,747	47,033
Accretion of deferred financing charges	2,199	2,704	4,401	5,407
Depreciation	68,692	69,756	138,672	140,733
Restructuring	-	-	-	3,533
Share-based compensation	3,560	5,820	13,959	6,822
Gain on asset sale	(1,354)	-	(31,296)	-
Gain on repurchase of unsecured Senior Notes [1]	-	(2,139)	0	(7,431)
Foreign exchange and other loss	4,047	6,313	2,702	12,627
Adjusted EBITDA	68,332	45,645	138,297	95,543

[1] See "Interest Expense" section for definition of Senior Notes.

Working Capital

Working capital is defined as current assets less current liabilities as reported on the consolidated statements of financial position.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements generally can be identified by the words "believe", "anticipate", "expect", "plan", "estimate", "target", "continue", "could", "intend", "may", "potential", "predict", "should", "will", "objective", "project", "forecast", "goal", "guidance", "outlook", "effort", "seeks", "schedule" or other expressions of a similar nature suggesting future outcome or statements regarding an outlook.

Disclosure related to expected future commodity pricing or trends, revenue rates, equipment utilization or operating activity levels, operating costs, capital expenditures and other prospective guidance provided throughout this document, including, but not limited to, information provided in the "Funds Flow from Operations and Working Capital" section regarding the Company's expectation that funds generated by operations combined with current and future credit facilities will support current operating and capital requirements, information provided in the "New Builds and Major Retrofits" section and information provided in the "Outlook" section regarding the general outlook for the remainder of 2022, are examples of forward-looking statements.

These statements are not representations or guarantees of future performance and are subject to certain risks and unforeseen results. The reader should not place undue reliance on forward-looking statements as there can be no assurance that the plans, initiatives, projections, anticipations or expectations upon which they are based will occur. The forward-looking statements are based on current assumptions, expectations, estimates and projections about the Company and the industries and environments in which the Company operates, which speak only as of the date such statements were made or as of the date of the report or document in which they are contained. These assumptions include, among other things: the fluctuation in commodity prices may pressure customers to modify their capital programs; the status of current negotiations with the Company's customers and vendors; customer focus on safety performance; existing term contracts that may not be renewed or are terminated prematurely; the Company's ability to provide services on a timely basis and successfully bid on new contracts; successful integration of acquisitions; the general stability of the economic and political environments in the jurisdictions where we operate, and impacts of geopolitical events such as the hostilities between Ukraine and the Russian Federation and the global community responses thereto.

The forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risk factors include, among others: general economic and business conditions which will, among other things, impact demand for and market prices of the Company's services and the ability of the Company's customers to pay accounts receivable balances; volatility of and assumptions regarding commodity prices; foreign exchange exposure; fluctuations in currency and interest rates; inflation; economic conditions in the countries and regions in which the Company conducts business; political uncertainty and civil unrest; the Company's ability to implement its business strategy; impact of competition and industry conditions; risks associated with long-term contracts; force majeure events; determinations by Organization of Petroleum Exporting Countries ("OPEC") and other countries (OPEC and various other countries are referred to as "OPEC +") regarding production levels; loss of key customers; litigation risks, including the Company's defence of lawsuits; risks associated with contingent liabilities and potential unknown liabilities; availability and cost of labour and other equipment, supplies and services; business interruption and casualty losses; the Company's ability to complete its capital programs; operating hazards and other difficulties inherent in the operation of the Company's oilfield services equipment; availability and cost of financing and insurance; access to credit facilities and debt capital markets; availability of sufficient cash flow to service and repay our debts; impairment of capital assets; the Company's ability to amend or comply with covenants under the credit facility and other debt instruments; actions by governmental authorities; impact of and changes to laws and regulations impacting the Company and the Company's customers, and the expenditures required to comply with them (including safety and environmental laws and regulations and the impact of climate change initiatives on capital and operating costs); safety performance; environmental contamination; shifting interest to alternative energy sources; environmental activism; the adequacy of the Company's provision for taxes; tax challenges; the impact of, and the Company's response to COVID-19; workforce and reliance on key management; technology; cybersecurity risks; seasonality and weather; risks associated with acquisitions and ability to successfully integrate acquisitions; risks associated with internal controls over financial reporting; the impact of the ongoing hostilities between Ukraine and the Russian Federation and the global community responses thereto and other risks and uncertainties affecting the Company's business, revenues and expenses.

In addition, the Company's operations and levels of demand for its services have been, and at times in the future may be, affected by political risks and developments, such as expropriation, nationalization, or regime change, and by national, regional and local laws and regulations such as changes in taxes, royalties and other amounts payable to governments or governmental agencies, environmental protection regulations, the global COVID-19 pandemic, the potential reinstatement or removal of COVID-19 mitigation strategies and the impact thereof upon the Company, its customers and its business, the ongoing hostilities between Ukraine and the Russian Federation, related potential future impact on the supply of oil and natural gas to Europe by Russia and the impact of global community responses to the ongoing conflict.

Should one or more of these risks or uncertainties materialize, or should any of the Company's assumptions prove incorrect, actual results from operations may vary in material respects from those expressed or implied by the forward-looking statements. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and the Company's course of action would depend upon its assessment of the future considering all information then available. Unpredictable or unknown factors not discussed in this document could also have material adverse effects on forward-looking statements.

Readers are cautioned that the lists of important factors contained herein are not exhaustive. For additional information on these and other factors that could affect the Company's business, operations or financial condition, refer to the "Risks and Uncertainties" section of this document and the "Risk Factors" section of the Company's Annual Information Form for the year ended December 31, 2021 available on SEDAR at www.sedar.com.

The forward-looking statements contained in this document are expressly qualified in their entirety by this cautionary statement. The forward-looking statements contained herein are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law.

SOURCE Ensign Energy Services Inc.

Contact
Michael Gray, Chief Financial Officer, Telephone: (403) 262-1361; Nicole Romanow, Investor Relations, Telephone: (403) 267-6234