



THE WELL STREET JOURNAL

Oilfield Services and Industrials Deep Dive
2022 | Q3 Report

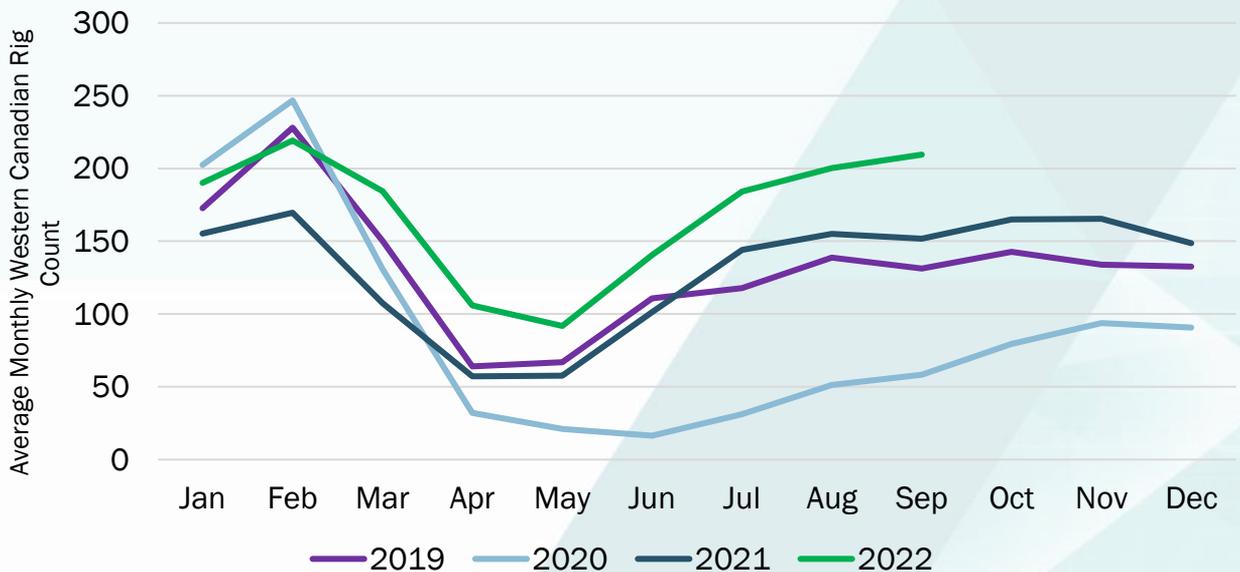
Energy Market Sentiment

While Q3 2022 was marked by rising levels of inflation and increased global recession fears, the demand for energy equipment and services continued to strengthen. Industry trends and data remain positive – the rig count in Western Canada is trending well above pre-pandemic levels, increasing 49% quarter over quarter, as producers bank on continued strong market pricing.

WTI prices started the quarter off strong at \$107/bbl, but decreased to \$79/bbl at the end, reaching their lowest point since the beginning of the year. This slide, driven by signs of economic shakiness and U.S. SPR release, was the most rapid decline since the COVID-related crash of 2020. While analysts reduced their near-term oil price forecasts, many remain exceptionally bullish on pricing overall. Current expectations are that prices will climb significantly from current levels into 2023, as global markets remain tight in the face of a likely continued diminishment of Russian supply, a re-opening in China, support from OPEC+, and the cessation of SPR releases.

Post-quarter, the October 5th OPEC+ announcement of a 2 million bbl/d production cut successfully increased prices over \$90/bbl. This move heightened existing geopolitical tensions, as the Biden administration had been pushing Saudi Arabia to increase its supply to replace lost Russian barrels and improve gas prices in the face of inflation related political challenges domestically.

Overall, we expect the demand for oilfield equipment and services to continue to strengthen – the longer energy prices remain elevated, the more that Western political sentiment is likely to shift in support of further oil and gas development.

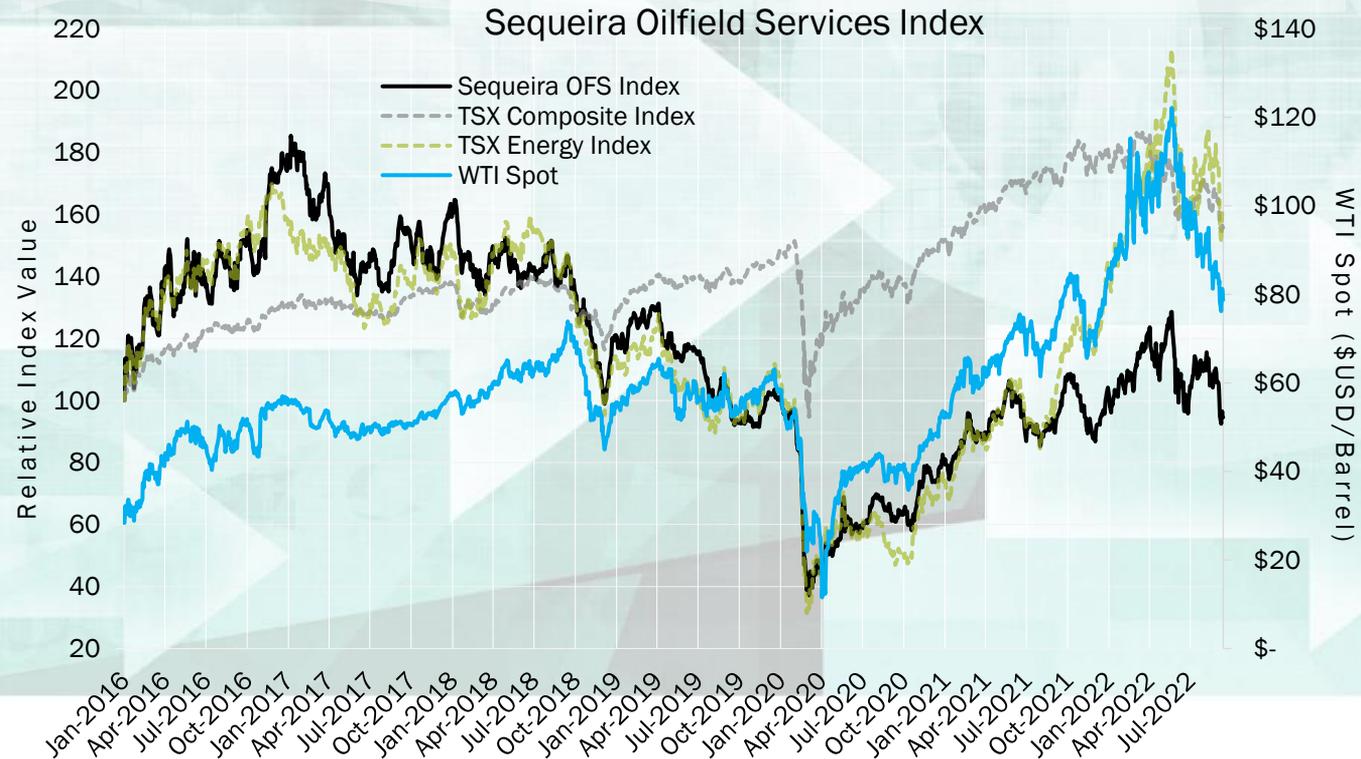


Source: Baker Hughes

Market Overview

Sequeira's OFS index tracks publicly listed Canadian Oilfield Service company stock price performance. Investor sentiment for OFS companies represented by our index has traded mostly flat in the quarter, as compared to the TSX Energy index representing E&Ps which has increased 49% year over year. This confirms investors have greater confidence in producers to continue to churn significant cash flow under the current market conditions than they do in service companies to capture value through price increases. Despite the trend in the OFS index, we believe that oilfield services firms will soon reach a point where they will be able to meaningfully raise prices and capture additional value, as excess capacity continues to be absorbed by improving activity levels.

Current market trends for commodity demand and production indicate that pricing will gain momentum into the last quarter of 2022 and 2023, which we anticipate will result in producers and service providers sharing more equitably in the spoils.



Source: S&P Capital IQ

Energy Service and Industrial Transactions

Q3 2022 has seen a multitude of events that have resulted in uncertainty in the global markets, including the OFS and industrial space in Canada. Multiple interest rate hikes of 1% and 0.75% in July and September respectively resulted in an increased hesitancy from some purchasers to pursue transactions until there is clearer line of sight on near-to-medium term borrowing rates. As a result of these uncertain market conditions, Q3 2022 saw a decline in overall transactions when compared to Q3 2021. Despite this uncertainty, corporations continue to capitalize on high demand and a lucrative commodity pricing environment to continue to generate significant cash flows, resulting in healthy balance sheets capable of executing on transactions.

In the oilfield services sector in particular, we anticipate that as operators continue to prove out investment hypotheses with strong operating results purchaser hesitancy will wane and a corresponding ramp up in M&A activity will follow.

Q3 2022 vs 2021 Transaction Mix⁽¹⁾



This past quarter (Q3 2022) saw 81 disclosed transactions in the industrials and oilfield services sector with either a Canadian target or buyer. That represented an increase from the previous quarter (Q2 2022) which saw 73 transactions and a lower level as compared to the comparative quarter from the prior year (Q3 2021) which saw 119 transactions. Of the 81 transactions this quarter, 6% were in the oilfield services sector down from the 12% in Q2 2022, and 10% in Q3 2021. The suppressed OFS M&A activity in the quarter is not entirely surprising given the uncertainty throughout the market as exemplified by the decrease in WTI of 24% over the quarter – when prices stabilize and uncertainty wanes, we expect activity to return.

Buyer Profile

Industrial & OFS Transactions By Buyer Location⁽¹⁾

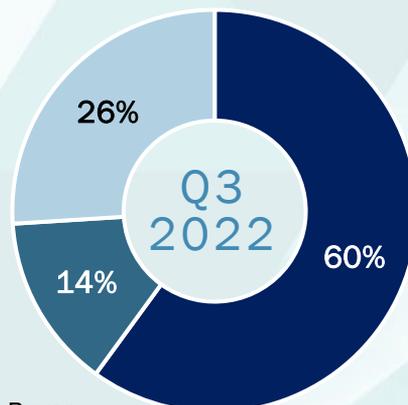
Buyer Location	Q3 2022 (Count)	Q3 2022 (%)	Q3 2021 (Count)	Q3 2021 (%)
Western Canada	19	24%	39	33%
Eastern Canada	39	48%	54	46%
USA	17	21%	21	18%
International	6	7%	4	3%
Total	81	100%	118	100%

Consistent with historical trends, domestic parties continue to represent the largest group of acquirers for Canadian-based businesses. However, US-based buyer activity has grown as a percentage of transactions in Q3 2022. This is a trend we've observed on recent engagements as the US dollar continues to hold global strength against the diminishing Canadian dollar, providing a pricing parity benefit for cross-border transactions.

By Buyer Type⁽¹⁾

Strategics continue to represent the largest group of buyers in the quarter, though their share has reduced amongst public market turmoil. While some Financial buyers are feeling the pressures of increased borrowing rates which reduces their capacity for leverage, those with ample access to cash are well-positioned and capitalizing on what has become a less competitive market – with a particular focus on add-ons for existing platforms.

Buyer Type	Q3 2022	Q3 2021
Strategic	60%	72%
Financial	14%	10%
Financial Backed Strategic	26%	18%



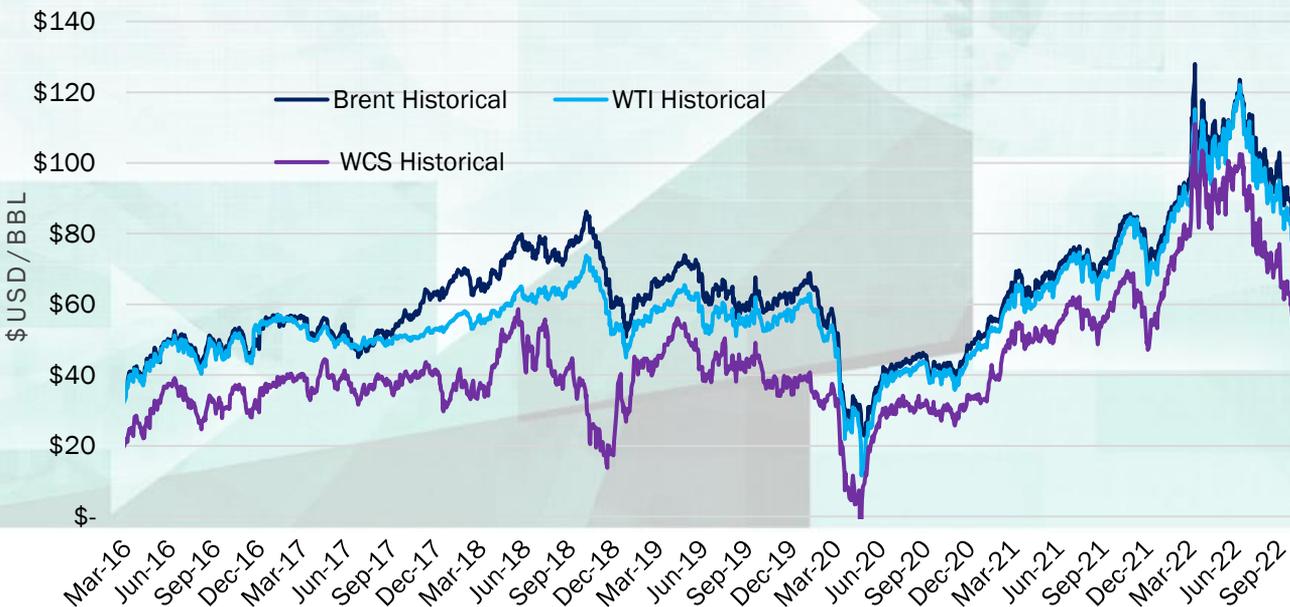
- Strategic Buyer
- Financial Buyer
- Financial Backed Strategic Buyer

Commodity Pricing and Analyst Forecasts

Q3 2022 began with WTI and WCS trading at \$107.27 and \$84.65 USD. The momentum from 2021 peaked in Q1 2022 but has faded as interest rates have soared and global demand has not been as robust as expected, with continued lockdowns in China. Additionally, the relative strength of the US dollar, which is at 20-year highs, has contained prices – foreign currency equivalent pricing would present a far less steep decline.

While demand shows signs of wavering as expectations of a recession grow, supply continues to tighten, leaving analysts to weigh the relative strengths of these market forces. The recent announcement of decreased OPEC+ production to come, coupled with a possible end to SPR releases, could provide a significant jolt to the supply side. Years of underinvestment in the sector continues to play a role in current dynamics – with Aramco CEO Amin Nasser warning that current investments are “too little, too late, and too short-term.”

As a result, the outlook on the pricing environment is positive, with many analysts recognizing there is significant upside beyond current prices – Goldman Sachs sees crude averaging over \$100/bbl through Q4 and increasing further into 2023.

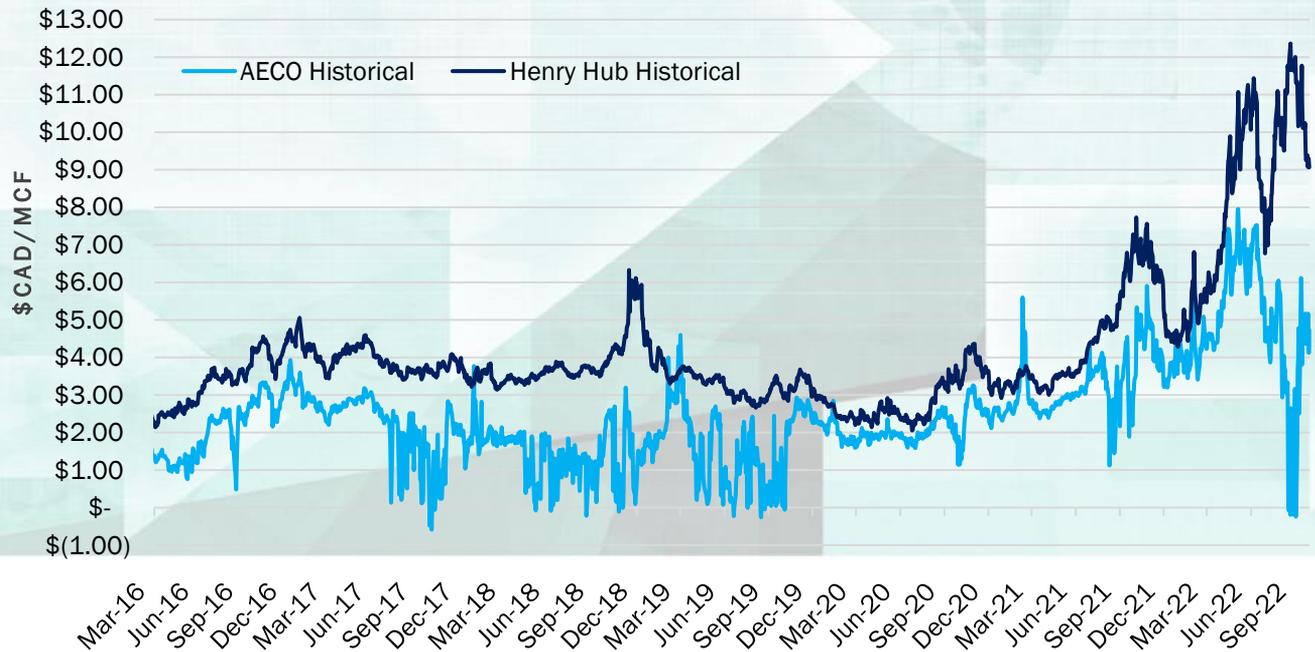


Source: S&P Capital IQ

Commodity Pricing and Analyst Forecasts

AECO pricing has seen volatility throughout the quarter, stemming from tight capacity on shipments from Alberta and British Columbia to North American markets. However, through the choppiness, AECO and Henry Hub pricing has increased 52% and 25% year over year, respectively. The step change in pricing through the year is largely due to global economic factors – demand for LNG continues to persist, amplified by the instability and uncertainty throughout Europe with the reduction of shipments from Russia. Many nations are resorting to other means of energy to curve the rapid price increases, such as Germany restarting a previously mothballed coal-fired plant to keep up with power demands – however, these alternative means of production can only be extended so far, and more gas will be needed.

During a visit in August, German Chancellor Olaf Scholz stated that Germany is looking for Canada to play a major role in filling the shortfall of LNG as Europe moves away from reliance on Russian energy supplies. This outlook supports two east coast projects, including a proposed LNG Facility in Nova Scotia and modifying Repsol's import facility in New Brunswick to handle exports. These projects would provide positive momentum for Canada to join the ranks of other major players in supplying the growing demand of LNG worldwide – though it remains to be seen if Federal and Provincial Governments would be supportive.



Source: S&P Capital IQ

Team Update



Sequeira Partners is pleased to announce Julie Afanasiff as Managing Partner effective August 1, 2022. This role supports Sequeira Partners' continued growth as one of Western Canada's largest and most active independent transaction and valuation advisors.

Congratulations Julie.



Sequeira Partners has continued to add depth and experience to the team with a new addition in the Edmonton office. Prior to joining the team, Neesha spent three years with a Big Four accounting firm in Edmonton, and holds a CPA designation.

Welcome to the team Neesha!

Neesha Chahal - Edmonton

About Us

Sequeira Partners is Western Canada's leading sell-side transaction advisor to private and public industrial, energy services, business services, manufacturing and insurance businesses.

From our offices in Vancouver, Edmonton and Calgary, the team at Sequeira Partners has completed more than 200 mid-market transactions in Canada, the United States, and countries around the world.

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Sequeira Oilfield Services Index – Sector Drilldown

As at October 25, 2022

Source: Capital IQ

Company	Ticker	Share Price	Dividend Yield	Market Cap	Enterprise Value	Revenue	TTM EBITDA	EBITDA Margin	EV/EBITDA			Price/Book	Net Debt/2022E EBITDA
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Drilling & Equipment													
AKITA Drilling Ltd.	TSX:AKT.A	\$ 1.70	-	68	160	152	13	8.8%	11.9x	5.1x	3.6x	0.5x	2.9x
Cathedral Energy Services Ltd.	TSX:CET	\$ 0.85	-	183	197	106	7	6.6%	28.4x	4.1x	2.2x	1.5x	0.2x
CWC Energy Services Corp.	TSX:CWC	\$ 0.24	-	123	173	174	33	19.0%	5.2x	NM	NM	0.7x	ND
Ensign Energy Services Inc.	TSX:ESI	\$ 3.03	-	569	1,937	1,242	230	18.6%	8.4x	5.7x	4.2x	0.5x	3.9x
Essential Energy Services Ltd.	TSX:ESN	\$ 0.37	-	51	59	135	3	2.1%	21.3x	4.0x	2.6x	0.4x	0.5x
High Arctic Energy Services Inc	TSX:HWO	\$ 1.42	4.2%	69	63	97	5	5.4%	12.0x	NM	NM	0.5x	ND
McCoy Global Inc.	TSX:MCB	\$ 0.99	-	28	28	41	5	11.5%	5.9x	NM	NM	0.7x	ND
Pason Systems Inc.	TSX:PSI	\$ 14.25	2.2%	1,168	983	269	93	34.7%	10.5x	7.0x	6.0x	3.5x	0.4x
PHX Energy Services Corp.	TSX:PHX	\$ 7.59	5.3%	384	421	441	40	9.0%	10.6x	4.9x	3.3x	2.6x	0.4x
Precision Drilling Corporation	TSX:PD	\$ 86.95	-	1,181	2,329	1,402	250	17.8%	9.3x	6.9x	4.1x	1.0x	3.6x
Total Energy Services Inc.	TSX:TOT	\$ 7.83	3.1%	328	460	594	105	17.7%	4.4x	4.0x	3.3x	0.7x	1.1x
Western Energy Services Corp.	TSX:WRG	\$ 3.03	-	103	224	181	44	24.1%	5.1x	5.7x	3.8x	0.3x	3.1x
Mean								14.6%	11.1x	5.3x	3.7x	1.1x	2.0x
Median								14.6%	9.9x	5.1x	3.6x	0.7x	2.0x
Production & Completion													
Bri-Chem Corp.	TSX:BRY	\$ 0.59	-	14	47	84	7	8.8%	6.3x	NM	NM	0.7x	ND
CES Energy Solutions Corp.	TSX:CEU	\$ 2.69	2.4%	689	1,205	1,517	149	9.8%	8.1x	5.2x	4.4x	1.3x	2.1x
Computer Modelling Group Ltd.	TSX:CMG	\$ 5.03	4.0%	404	388	68	27	40.1%	14.3x	12.5x	13.2x	8.6x	NM
Enerflex Ltd.	TSX:EFX	\$ 6.48	1.5%	802	1,053	1,248	128	10.3%	8.2x	5.0x	2.3x	0.4x	1.1x
Source Energy Services Ltd.	TSX:SHLE	\$ 1.84	-	25	278	374	13	3.4%	21.9x	4.7x	4.1x	4.4x	4.3x
Wolverine Energy and Infrastructure Inc.	TSXV:WEII	\$ 0.07	-	7	103	55	(2)	NM	NM	NM	7.4x	0.2x	8.7x
Mean								14.5%	11.8x	6.8x	6.3x	2.6x	4.1x
Median								14.5%	8.2x	5.1x	4.4x	1.0x	3.2x
Oilfield & Facility Construction													
Badger Infrastructure Solutions Ltd.	TSX:BDGI	\$ 28.73	2.3%	990	1,197	649	78	11.9%	15.4x	8.9x	6.4x	3.6x	1.2x
ClearStream Energy Services Inc.	TSX:CSM	\$ 0.04	-	4	358	494	5	1.0%	NM	NM	NM	NM	ND
Enterprise Group, Inc.	TSX:E	\$ 0.42	-	22	33	23	6	26.6%	5.4x	4.3x	3.6x	0.6x	1.4x
North American Construction Group Ltd.	TSX:NOA	\$ 15.25	2.1%	414	818	717	171	23.9%	4.8x	3.9x	3.5x	1.5x	2.0x
Shawcor Ltd.	TSX:SCL	\$ 8.97	-	632	842	1,133	83	7.3%	10.1x	7.3x	3.6x	1.0x	1.7x
Mean								14.1%	9.0x	6.1x	4.3x	1.7x	1.6x
Median								11.9%	7.8x	5.8x	3.6x	1.2x	1.5x
Pressure Pumping													
Calfrac Well Services Ltd.	TSX:CFW	\$ 7.00	-	274	678	1,403	149	10.6%	4.5x	3.4x	2.5x	0.9x	2.0x
STEP Energy Services Ltd.	TSX:STEP	\$ 5.54	-	396	611	784	101	12.8%	6.1x	3.5x	2.9x	1.7x	1.1x
Trican Well Service Ltd.	TSX:TCW	\$ 3.42	-	819	802	692	113	16.3%	7.1x	5.1x	3.9x	1.7x	NM
Mean								13.3%	5.9x	4.0x	3.1x	1.4x	1.6x
Median								12.8%	6.1x	3.5x	2.9x	1.7x	1.6x
Transportation & Logistics													
Gibson Energy Inc.	TSX:GEI	\$ 22.63	6.5%	3,314	4,925	10,655	449	4.2%	11.0x	9.6x	9.5x	5.5x	3.1x
Mullen Group Ltd.	TSX:MTL	\$ 13.34	5.4%	1,238	2,019	1,939	264	13.6%	7.6x	6.0x	6.4x	1.3x	2.3x
Mean								8.9%	9.3x	7.8x	7.9x	3.4x	2.7x
Median								8.9%	9.3x	7.8x	7.9x	3.4x	2.7x
Environmental & Geophysical													
Pulse Seismic Inc.	TSX:PSD	\$ 1.95	2.6%	105	99	23	16	66.2%	6.4x	15.4x	7.7x	2.9x	NM
Secure Energy Services Inc.	TSX:SES	\$ 7.05	0.4%	2,185	3,359	7,317	474	6.5%	7.1x	6.5x	6.2x	1.8x	2.1x
Vertex Resource Group Ltd.	TSXV:VTX	\$ 0.31	-	36	147	188	17	9.1%	8.6x	4.5x	3.6x	0.5x	3.5x
Mean								27.3%	7.4x	8.8x	5.9x	1.8x	2.8x
Median								9.1%	7.1x	6.5x	6.2x	1.8x	2.8x
Camps & Catering													
Black Diamond Group Limited	TSX:BDI	\$ 4.16	1.4%	251	439	345	62	18.0%	7.1x	6.0x	5.3x	1.0x	2.4x
Civeo Corporation	NYSE:CVCO	\$ 40.07	-	550	870	954	169	17.7%	5.1x	5.6x	6.7x	1.4x	1.4x
Dexterra Group Inc.	TSX:DXT	\$ 5.30	6.6%	346	499	862	45	5.2%	11.2x	6.9x	5.2x	1.2x	2.1x
Mean								13.6%	7.8x	6.1x	5.7x	1.2x	2.0x
Median								17.7%	7.1x	6.0x	5.3x	1.2x	2.1x
Mean - All Subsectors								15.8%	10.4x	7.2x	5.5x	2.0x	1.9x
Median - All Subsectors								13.2%	8.2x	6.0x	4.4x	1.5x	2.0x