



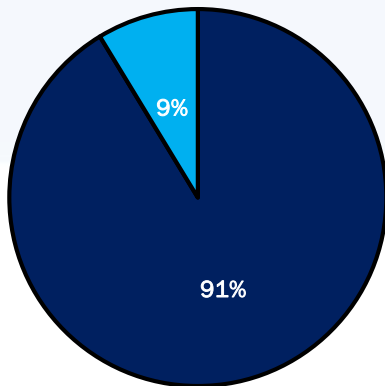
# THE WELL STREET JOURNAL

Oilfield Services and Industrial Deep Dive  
2019 | Q4 Report

# Q4 | Overview

Despite a mixed bag of crude pricing activity which saw Brent and WTI rise and WCS decline, the average Canadian active rig count in Q4 2019 fell to 138 rigs versus 179 rigs in Q4 2018, representing a decrease of 23%. Despite some volatility, there are reasons for optimism, as analysts are seeing investor interest return to our country's energy sector. A combination of perceived value and increasingly negative sentiment surrounding U.S. shale economics has resulted in many considering investing in Canada for the first time since before the 2015 downturn.

Beyond North America, significant attention must be paid to a number of matters, in particular the potential impact of further turmoil in Iran and ongoing international trade tensions. A maelstrom of global macroeconomic and geopolitical forces will likely keep commodity traders, E&P's and service companies guessing for much of 2020.



■ Industrials ■ Oilfield Services

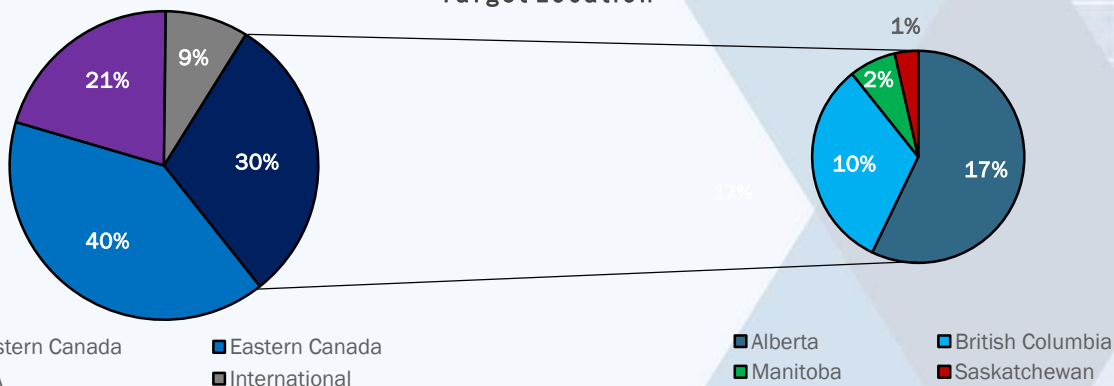
As for transactions in the oilfield and industrial industry segments, Q4 2019 saw 92 disclosed transactions with either a Canadian target or buyer. Of the 92 transactions, 9% were specific to the oilfield services sector compared to 14% in Q3 2019.

# Transactions in the Quarter

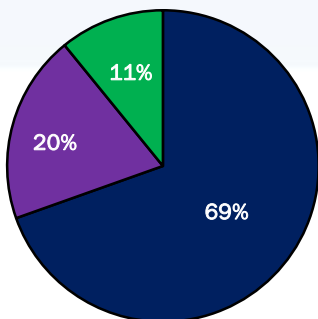
Of the noted transactions in the quarter with either a Canadian buyer or target, 30% of target companies were located in Western Canada and 17% of those targeted companies in Alberta. Strategic purchasers continue to be the most active buyers, participating in 69% of transactions while financial purchasers increased their relative share of activity to 11% from 5% the previous quarter.

Oilfield services transactions in the quarter included Strike Group's acquisition of JEDCO Energy Services, White Water Management's purchase of Catalyst Production Systems, and the purchase by Ujuo Developments and Green Energy Services of the Water Management Business of Fraction Energy Services.

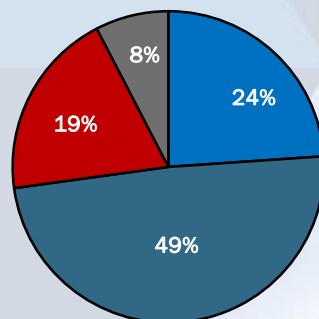
### Target Location



### Buyer Type



### Buyer Location



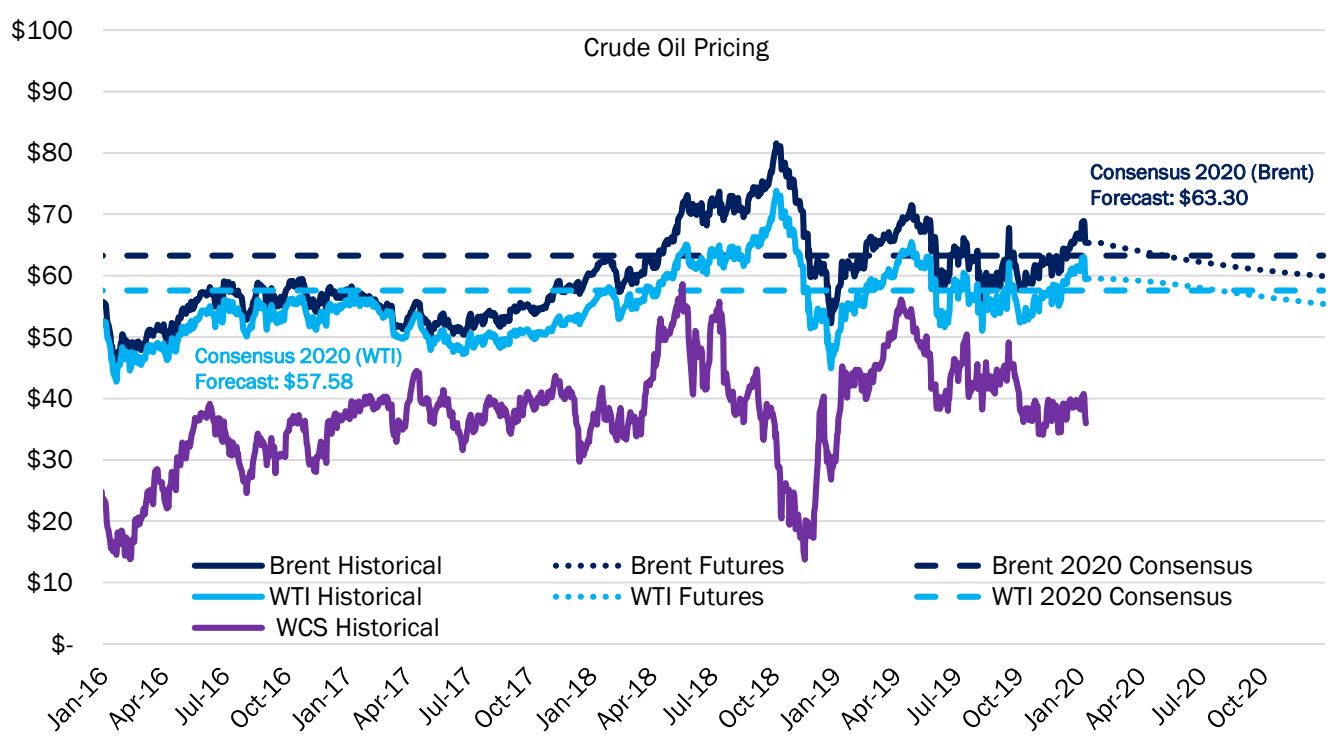
Strategic Buyer
  Financial Backed Strategic
  Financial Buyer

Western Canada
  Eastern Canada
  International

# Commodity Pricing and Analyst Forecasts

In Q4 2019 we saw a moderate recovery in global oil prices following the decline in Q3, with Brent and WTI benchmarks rising 11% and 12% in the quarter respectively. Prices were steady for the majority of the quarter before rising to end the decade, a reaction to increased instability within Iran; however, the risk premium plateaued at the beginning of January, as U.S. shale producers raced to lock in higher futures pricing.

Canada's WCS benchmark continued to struggle in Q4, declining 7% despite increases elsewhere as ongoing pipeline egress issues have been compounded by new International Maritime Organization (IMO) rules, which took effect Jan. 1, 2020, and limit the sulphur content of ship fuel. As Canada's bitumen is highly sulfurous, demand is expected to decrease relative to sweeter crudes, though the impact of the regulation has been dampened by disruptions in competing regions such as Venezuela and Mexico.

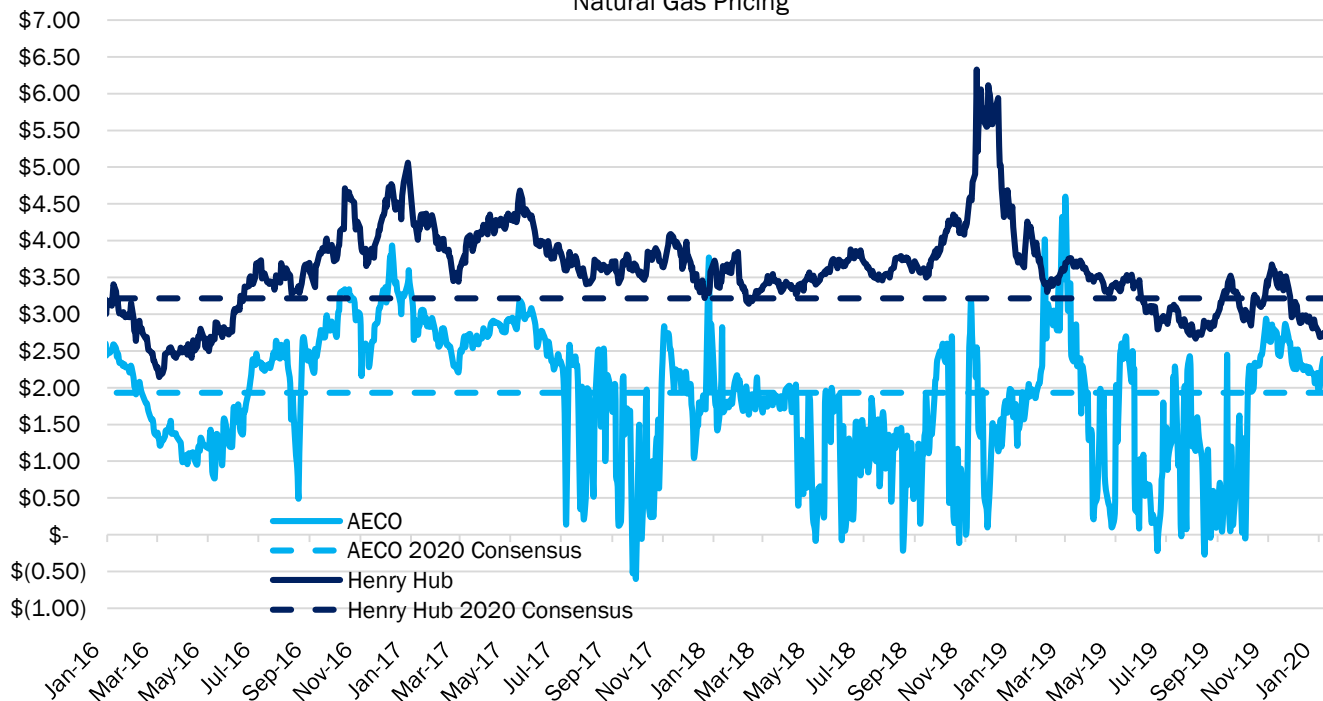


# Commodity Pricing and Analyst Forecasts

AECO pricing in Q4 2019 saw a return to relative stability following an extended run of highly volatile prices. After ending the third quarter at \$0.04/MCF, prices recovered to above \$2/MCF in mid-October until dipping to \$1.95/MCF on New Year's Eve. Prices rose further to kick off the new year, and the benchmark is currently trading at its highest price relative to U.S. benchmarks in 10 months. However, this stability has largely come at the cost of Canadian production, as producers had pulled back on drilling in response to abysmal historical prices.

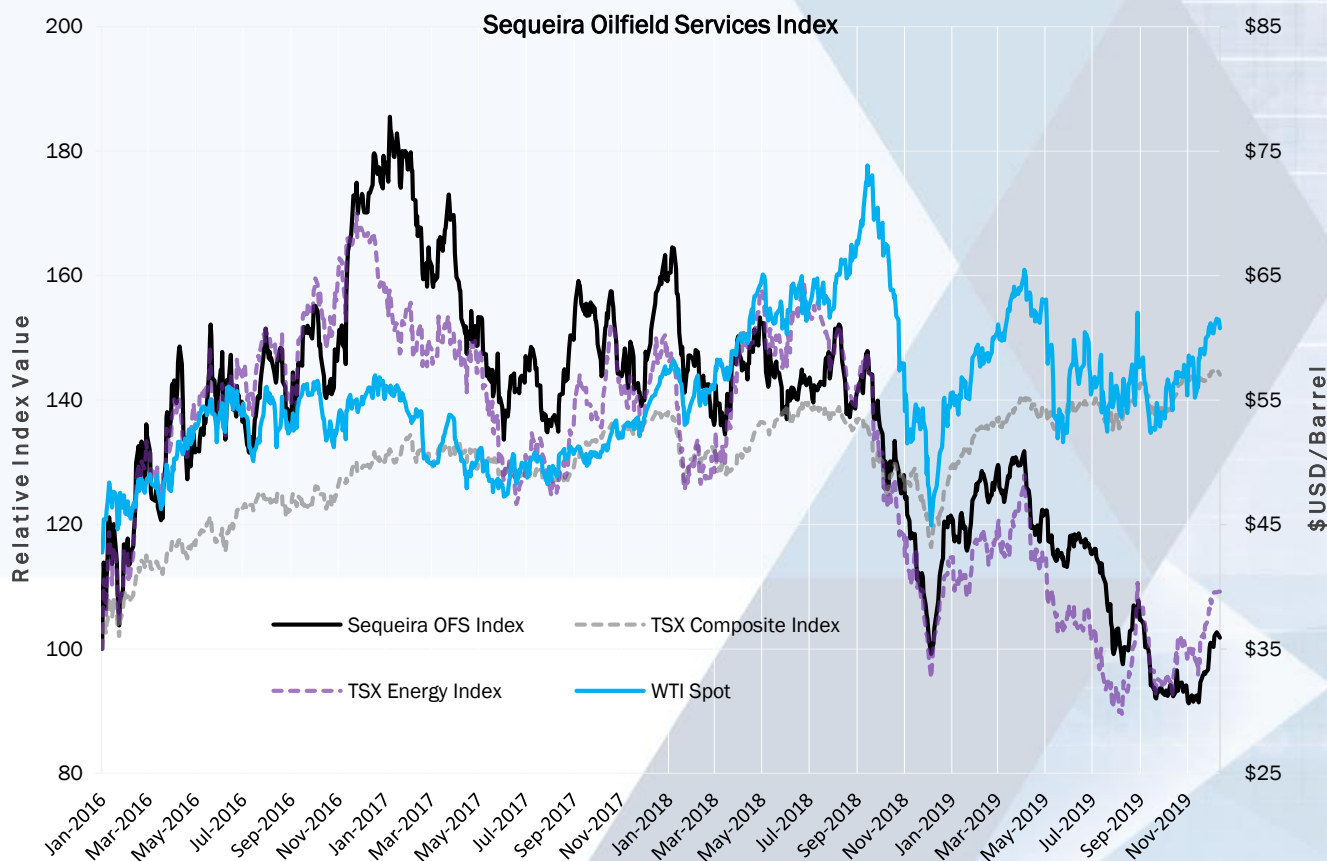
Henry Hub pricing saw further declines in Q4, declining 8% quarter over quarter and ending the year down 27%. 2019 natural gas prices in the U.S. were at a 3-year low as natural gas output continues to reach record highs. However, the market is beginning to react as rig counts ended the year at multi-year lows, providing upside to pricing in the latter half of 2020.

### Natural Gas Pricing



# Market Overview

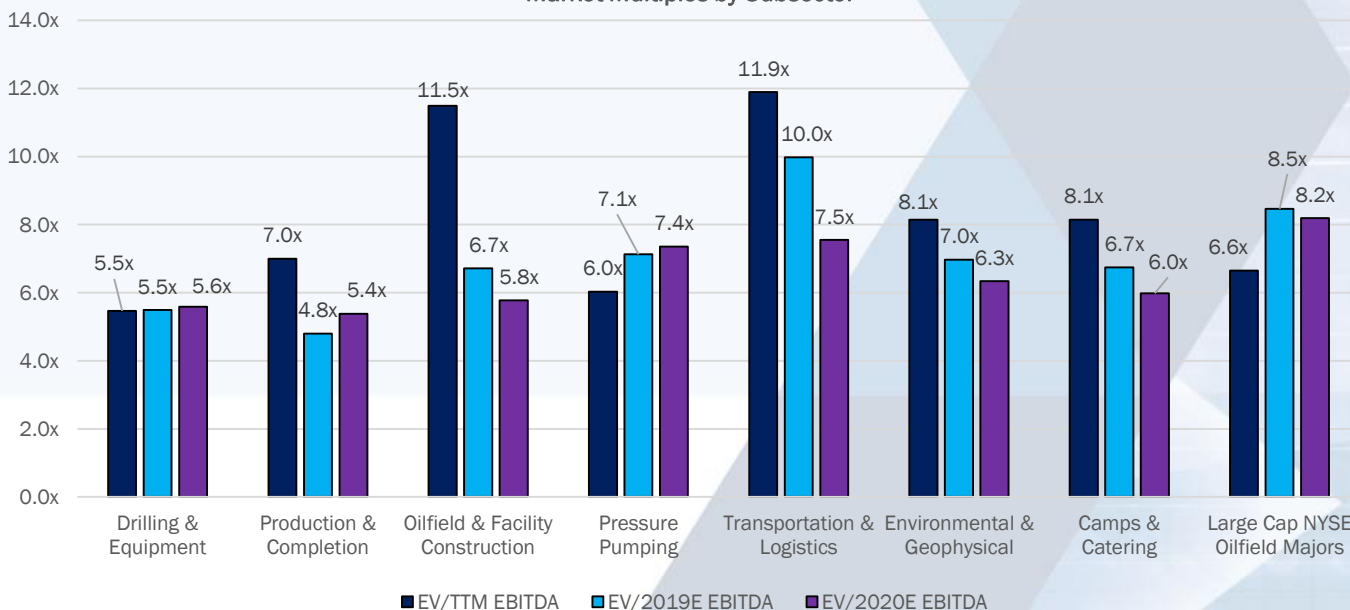
Sequeira's OFS index tracks publicly listed Canadian Oilfield Service companies with Enterprise Values averaging more than \$30 MM CAD. Our index ended the quarter down 3.8% for the year but up 2% quarter over quarter. An increase in oil prices in the quarter was largely offset by negative Canadian sentiment and significant U.S. uncertainty heading into 2020.



# Market Overview

Market multiples in Q4 remained relatively steady. 2020 forward multiples were largely in line with 2019 multiples suggesting little to no expected growth in earnings. The strongest performing sector in the period were the Large Cap Majors, as investor optimism surrounding international and offshore markets continues to increase relative to North American land. Price appreciation was also seen in the production and completion, and camps and catering sectors. In particular, Computer Modelling Group (TSX:CMG), a reservoir stimulation software business, was up 35% in the quarter due to a strong Q2 and a robust recurring revenue base.

### Market Multiples by Subsector





# ValueINSIGHTS

When developing the value of a going-concern business, a valuator or financial analyst will typically rely upon three primary valuation techniques: an income approach, a comparable transactions approach, and a guideline public company approach. Indeed, there are several other valuation techniques that can be applied in unique circumstances, but let's stick to the basics.

We find the primary valuation approach is typically the income approach. In essence, a detailed review of historical financial and operational results is performed and expected future returns of the business are analyzed in the context of an uncertain future. We do this for a number of reasons, including: 1) businesses are (generally) able to provide historical financial information, 2) we can analyze and understand the business drivers for a company going forward. Has the company secured new contracts? Have they lost significant customers? Is the company planning an expansion to a new region? All are appropriate questions in determining the future of the business.

The downside of the income approach is there is lots of uncertainty in these assumptions. It begs the question: why focus on the income approach at all? In Canada, there are often limited direct indications of value from comparable transactions. If someone paid \$22,000 for a used Kia up the street, with a few adjustments (say for fancy new rims), I could expect to get \$22,000 for my Kia. With businesses, the approach and theory to using market data is the same: do the research to uncover and analyze transactions for businesses that operate in a similar market and industry.



Here's the rub: the availability of private (and often public) company transactions for businesses is scarce and the direct comparability between them can be called into question. Is the \$22,000 paid for the Kia relevant when I own a Hyundai? Perhaps, but it's not a direct comparison. With limited support from comparable transactions, we often turn to the public markets for trading data of comparable companies. Historically, the public markets in Canada have been a robust source of trading data to serve as a basis for comparison. While adjustments are made for size, control, liquidity, and a variety of other factors, we do generally count on the public markets to provide supportable indications of value for private businesses.

And now to the point of the article: for valuation professionals, the public markets are becoming less reliable as a valuation indication for private Canadian energy service businesses, which are the subject of many of our reports. We acknowledge that certain industry and operational issues are causing a decline in the value of energy service companies, however there are other factors outside the cash flow generating ability of these companies causing a departure between intrinsic, fair market value and what the public markets are telling us. There's a lot of speculation as to why this may be: institutional investor rotation out of the sector, the ever-growing importance of private equity to manage large pools of capital, investor activism, environmental policies discouraging investment in oil-related businesses (a 'sin-stock' tax on these equities), and a host of others.

It's unclear what is really driving this change and we don't know when the pendulum might swing back. In any event, our traditional three-legged stool to a valuation is now more like a set of stilts. Being the resourceful group we are, valuers are responding by looking for valuation indications, analogs, trends, and data to support conclusions in a variety of new ways to provide the reliability and transparency on conclusions that clients expect.



## Our Team

**Aron Sequeira, CA, CBV, ICD.D**  
asequeira@sequeirapartners.com  
780.784.0114

**Mark McRae, CA, CBV**  
mmcrae@sequeirapartners.com  
780.784.0115

**Julie Afanasiff, CA, CBV**  
jafanasiff@sequeirapartners.com  
780.784.0116

**Ken Tarry, MBA**  
ktarry@sequeirapartners.com  
604.687.5300 ext. 201

**Kellie Manchester, CFA**  
kmanchester@sequeirapartners.com  
604.687.5300 ext. 202

**Jordan Martel, CBV, ASA, MBA**  
jmartel@sequeirapartners.com  
587.352.2500 ext. 302

**Scott Acheson, CA, CBV, CFA**  
sacheson@sequeirapartners.com  
780.784.0124

**Erica McGuinness, CA, CBV**  
emcguinness@sequeirapartners.com  
604.687.5300 ext. 203

**Kira Gregson, CA, CBV**  
kgregson@sequeirapartners.com  
780.784.0125

**Ryan Turpin, CPA**  
rturpin@sequeirapartners.com  
780.784.0121

**Wenlei Tang, CA**  
wtang@sequeirapartners.com  
587.352.2500 ext. 306

**Tannie Lam, CA**  
tlam@sequeirapartners.com  
604.687.5300 ext. 207

**David Cameron, CPA**  
dcameron@sequeirapartners.com  
780.784.0127

**Kurt Chao, CPA**  
kchao@sequeirapartners.com  
604.687.5300 ext. 204

**Griffin Steele**  
gsteele@sequeirapartners.com  
604.687.5300 ext. 207

**John Scott, CPA**  
jscott@sequeirapartners.com  
780.784.0128

## Sequeira Update



Q4 2019 saw the addition of significant new talent at Sequeira Partners as we added four new hires in the quarter:

- Kira Gregson, joining us as a Vice President, Corporate Valuations & Financial Opinions in our Edmonton Office
- Tannie Lam, joining us as an Associate, Mergers and Acquisitions in our Vancouver Office
- John Scott, joining us as an Analyst, Mergers and Acquisitions in our Edmonton Office
- Griffin Steele, joining us as an Analyst, Mergers and Acquisitions in our Vancouver Office



## About Us

With offices in Edmonton, Calgary, and Vancouver, Sequeira Partners is focused on providing mergers and acquisition advisory, corporate valuations and financial opinions, and recapitalization services to mid-market energy services, industrial and diversified companies.

We welcome your thoughts or comments and inquiries as to how we could assist your business with its transaction needs.



400, 520 – 5TH Avenue SW    2250, 10088 102 Avenue NW    1790, 999 West Hastings Street  
Calgary, AB T2P 3R7    Edmonton, AB T5J 2Z1    Vancouver, BC V6C 2W2  
587-352-2500    780-633-5200    604-687-5300

# Appendix A

## Sequeira Oilfield Services Index – Sector Drilldown

As at December 31, 2019

Source: Capital IQ

Company	Ticker	Share Price	Dividend Yield	Market Cap	Enterprise Value	Revenue	TTM EBITDA	EBITDA Margin	EV/EBITDA TTM	EV/EBITDA 2019E	EV/EBITDA 2020E	Price/Book	Net Debt/2019E EBITDA
<b>Drilling &amp; Equipment</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
AKITA Drilling Ltd.	TSX:AKT.A	\$ 1.19	-	48	134	186	27	14.6%	4.9x	6.0x	5.1x	0.2x	4.0x
Cathedral Energy Services Ltd.	TSX:CET	\$ 0.30	-	15	36	144	(3)	NM	NM	6.6x	6.1x	0.2x	4.3x
CWC Energy Services Corp.	TSXV:CWC	\$ 0.10	-	51	93	113	13	11.1%	7.4x	8.4x	7.2x	0.3x	3.5x
Ensign Energy Services Inc.	TSX:ESI	\$ 2.85	8.4%	457	2,081	1,563	383	24.5%	5.4x	5.2x	5.4x	0.3x	4.0x
Essential Energy Services Ltd.	TSX:ESN	\$ 0.38	-	54	81	155	15	9.5%	5.5x	4.3x	4.0x	0.4x	1.4x
High Arctic Energy Services Inc	TSX:HWO	\$ 2.31	8.6%	115	114	191	20	10.4%	5.7x	5.1x	3.3x	0.5x	NM
McCoy Global Inc.	TSX:MCB	\$ 0.60	-	17	15	55	4	7.3%	3.8x	3.7x	2.5x	0.4x	NM
Pason Systems Inc.	TSX:PSI	\$ 13.11	5.8%	1,107	943	309	126	40.7%	7.5x	7.3x	7.7x	3.0x	NM
PHX Energy Services Corp.	TSX:PHX	\$ 2.83	-	156	214	361	43	12.1%	4.9x	4.3x	4.2x	1.0x	1.2x
Precision Drilling Corporation	TSX:PD	\$ 1.81	-	523	2,014	1,596	402	25.2%	5.0x	5.5x	5.8x	0.3x	3.9x
Total Energy Services Inc.	TSX:TOT	\$ 6.42	3.7%	291	593	826	105	12.7%	5.6x	5.4x	7.0x	0.5x	2.8x
Western Energy Services Corp.	TSX:WRG	\$ 0.28	-	26	264	214	26	12.1%	10.2x	11.2x	11.5x	0.1x	9.9x
Mean								16.4%	6.0x	6.1x	5.8x	0.6x	3.9x
Median								12.1%	5.5x	5.5x	5.6x	0.3x	3.9x
<b>Production &amp; Completion</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Bri-Chem Corp.	TSX:BRY	\$ 0.10	-	2	29	98	4	4.4%	6.8x	NM	NM	0.1x	ND
CES Energy Solutions Corp.	TSX:CEU	\$ 2.33	2.6%	618	1,036	1,310	148	11.3%	7.0x	6.0x	6.0x	0.9x	2.5x
Computer Modelling Group Ltd.	TSX:CMG	\$ 8.22	4.9%	660	655	78	36	45.4%	18.4x	NM	17.9x	15.7x	NM
Enerflex Ltd.	TSX:EFX	\$ 12.23	3.8%	1,097	1,345	2,038	288	14.1%	4.7x	3.8x	5.3x	0.8x	0.7x
Source Energy Services Ltd.	TSX:SHLE	\$ 0.24	-	14	248	318	9	2.9%	26.8x	5.8x	5.5x	0.1x	5.5x
Strad Inc.	TSX:SDY	\$ 1.79	-	98	119	123	31	25.2%	3.8x	3.4x	2.8x	0.7x	0.6x
Wolverine Energy and Infrastructure Inc.	TSXV:WEII	\$ 0.76	-	81	198	87	22	24.9%	9.2x	NM	4.0x	0.9x	7.2x
Mean								18.3%	11.0x	4.7x	6.9x	2.8x	3.3x
Median								14.1%	7.0x	4.8x	5.4x	0.8x	2.5x
<b>Oilfield &amp; Facility Construction</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Badger Daylighting Ltd.	TSX:BAD	\$ 35.14	1.6%	1,231	1,405	670	149	22.3%	9.4x	8.6x	7.5x	3.7x	1.1x
ClearStream Energy Services Inc.	TSX:CSM	\$ 0.05	-	5	365	405	20	4.8%	18.6x	NM	NM	NM	ND
Enterprise Group, Inc.	TSX:E	\$ 0.20	-	10	20	20	1	6.9%	14.7x	NM	NM	0.3x	ND
Macro Enterprises Inc.	TSXV:MCR	\$ 3.75	-	117	119	471	71	15.2%	1.7x	1.7x	2.0x	1.0x	0.0x
North American Construction Group Ltd.	NYSE:NOA	\$ 15.72	-	402	855	661	143	21.6%	6.0x	4.8x	4.2x	0.0x	2.6x
Shawcor Ltd.	TSX:SCL	\$ 12.53	4.8%	879	1,333	1,510	98	6.5%	13.6x	10.1x	7.4x	0.8x	3.5x
Mean								12.9%	10.6x	6.3x	5.3x	1.2x	1.8x
Median								11.1%	11.5x	6.7x	5.8x	0.8x	1.8x
<b>Pressure Pumping</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Calfrac Well Services Ltd.	TSX:CFW	\$ 1.25	-	181	1,141	1,803	189	10.5%	6.0x	7.1x	7.4x	0.4x	6.0x
STEP Energy Services Ltd.	TSX:STEP	\$ 1.57	-	105	358	711	69	9.7%	5.2x	4.4x	4.6x	0.3x	3.1x
Trican Well Service Ltd.	TSX:TCW	\$ 1.14	-	318	376	660	22	3.4%	16.8x	13.9x	9.7x	0.4x	2.2x
Mean								7.9%	9.4x	8.5x	7.2x	0.4x	3.8x
Median								9.7%	6.0x	7.1x	7.4x	0.4x	3.1x
<b>Transportation &amp; Logistics</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
ENTREC Corporation	TSX:ENT	\$ 0.06	-	7	262	183	21	11.5%	12.4x	10.0x	7.5x	0.3x	9.5x
Gibson Energy Inc.	TSX:GEI	\$ 26.59	5.0%	3,869	5,136	6,984	432	6.2%	11.9x	11.4x	11.7x	5.0x	2.8x
Mullen Group Ltd.	TSX:MTL	\$ 9.27	6.5%	972	1,517	1,297	194	15.0%	7.8x	7.6x	7.3x	1.1x	2.7x
Mean								10.9%	10.7x	9.7x	8.8x	2.1x	5.0x
Median								11.5%	11.9x	10.0x	7.5x	1.1x	2.8x
<b>Environmental &amp; Geophysical</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Pulse Seismic Inc.	TSX:PSD	\$ 1.94	-	104	138	23	17	72.1%	8.3x	6.7x	5.8x	3.2x	1.6x
Secure Energy Services Inc.	TSX:SES	\$ 5.06	5.3%	794	1,315	2,997	157	5.2%	8.4x	7.5x	7.2x	1.0x	2.8x
Tervita Corporation	TSX:TEV	\$ 7.41	-	858	1,661	2,134	207	9.7%	8.0x	7.3x	6.8x	2.3x	3.5x
Vertex Resource Group Ltd.	TSXV:VTX	\$ 0.37	-	35	143	174	19	11.2%	7.4x	5.1x	4.5x	0.6x	4.0x
Mean								24.5%	8.0x	6.6x	6.1x	1.8x	3.0x
Median								10.4%	8.1x	7.0x	6.3x	1.7x	3.1x
<b>Camps &amp; Catering</b>													
			(%)	(\$mm)	(\$mm)	(\$mm)	(\$mm)	(%)	(x)	(x)	(x)	(x)	(x)
Black Diamond Group Limited	TSX:BDI	\$ 2.15	-	119	239	184	29	15.9%	8.1x	6.1x	5.6x	0.5x	3.1x
Civeo Corporation	NYSE:CVEO	\$ 1.67	-	284	890	653	122	18.6%	7.3x	6.7x	6.3x	0.5x	4.1x
Horizon North Logistics Inc.	TSX:HNL	\$ 1.23	6.5%	203	335	468	30	6.4%	11.1x	9.5x	6.0x	0.6x	4.1x
Mean								13.7%	8.9x	7.5x	5.9x	0.6x	3.8x
Median								15.9%	8.1x	6.7x	6.0x	0.5x	4.1x