FINANCIAL REPORT

For the year ended December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2016

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the year ended December 31, 2016.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the years ended December 31, 2016 and 2015, the notes contained therein to which readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 8, 2017 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 8, 2017.

SERVICE RIG DISPOSITION

In December 2016 Essential sold its service rig business to Precision Drilling Corporation ("Precision") for $28.2 million and received Precision's coil tubing rigs, pumpers, ancillary equipment and cash proceeds of $12.2 million. The service rig business has been reported as a discontinued operation in this reporting period with prior periods restated to this same basis of accounting and disclosure.

SELECTED INFORMATION

(in thousands of dollars, except percentages, per share amounts and hours)	Three months ended December 31, **2016**	Three months ended December 31, 2015	Years ended December 31, **2016**	Years ended December 31, 2015	Years ended December 31, 2014
Revenue	**$ 33,043**	$ 34,964	**$ 97,527**	$ 147,664	$ 258,397
Gross margin	**4,148**	5,952	**7,787**	27,600	67,534
Gross margin %	**13%**	17%	**8%**	19%	26%
EBITDAS[1] from continuing operations[i]	**(4,161)**	3,366	**(9,169)**	14,696	49,806
Adjusted EBITDAS[1] from continuing operations	**1,141**	3,510	**(2,118)**	16,674	49,806
Net loss from continuing operations[i][ii]	**(9,832)**	(14,739)	**(62,622)**	(19,034)	(18,837)
Per share – basic and diluted	**(0.07)**	(0.12)	**(0.48)**	(0.15)	(0.15)
Net loss[i][ii]	**(25,411)**	(18,082)	**(90,629)**	(22,485)	(22,822)
Per share – basic and diluted	**(0.18)**	(0.14)	**(0.70)**	(0.18)	(0.18)
Cash dividends per share	**-**	0.003	**0.001**	0.078	0.12
Operating hours					
Coil tubing rigs	**11,119**	13,817	**32,306**	51,739	72,677
Pumpers	**12,341**	15,049	**37,022**	54,763	70,138

(i) The fourth quarter and year ended December 31, 2016 includes an onerous lease contract expense of $4.8 million.

(ii) The year ended December 31, 2016 includes an impairment loss of $51.2 million, of which $45.8 million was recognized in the first quarter 2016 and $5.4 million was recognized in the fourth quarter 2016. The fourth quarter and year ended December 31, 2015 includes an impairment loss of $11.1 million. The year ended December 31, 2014 includes an impairment loss of $32.8 million.

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

(in thousands of dollars, except fleet data)	As at December 31, **2016**	2015	2014
Total assets[i]	**$ 209,270**	$ 317,224	$ 397,351
Total long-term debt	**11,250**	25,543	55,253
Equipment fleet[ii]			
Coil tubing rigs	**31**	31	36
Pumpers	**32**	30	32

(i) Total assets as at December 31, 2015 and December 31, 2014 include the service rig business which was sold in December 2016.
(ii) Fleet data represents the number of units at the end of the period.

HIGHLIGHTS

Industry Highlights

Oilfield service activity in 2016 was below historical levels as exploration and production ("E&P") companies reduced spending to preserve cash flow and manage debt due to low oil and natural gas prices. Wells drilled in the Western Canadian Sedimentary Basin ("WCSB"), a key indicator of industry activity, were 25%[a] lower than 2015. Oil prices improved from a low of U.S.$26 per barrel (West Texas Intermediate ("WTI")) in February 2016 to over U.S.$50 per barrel (WTI) by the end of 2016. An Organization of the Petroleum Exporting Countries ("OPEC") announcement at the end of November 2016 helped to stabilize the price of oil above U.S.$50 per barrel (WTI) and narrow the range of volatility. Natural gas prices followed a similar trend to oil with AECO prices falling to a 10-year low of $0.65 per gigajoule in the first half of 2016 and steadily increasing to $3.36 per gigajoule at the end of 2016. In the fourth quarter 2016, E&P companies' sentiment began to improve and the demand for oilfield service activity started to increase. Wells drilled in the WCSB increased 15%[a] in the fourth quarter 2016 compared to the same period in 2015. This was the first quarterly increase year-over-year since fourth quarter 2014.

Essential - Highlights for the Fourth Quarter 2016

Revenue and EBITDAS[1] were $33.0 million and negative $4.2 million respectively, compared to $35.0 million and $3.4 million in the fourth quarter of 2015. Adjusted EBITDAS[1] was $1.1 million, after removing the one-time $4.8 million onerous lease contract expense and severance costs recognized in the fourth quarter 2016. Both Essential coil well service ("ECWS") and downhole tools & rentals ("DT&R") activity experienced improvement in the fourth quarter 2016 with both segments recording their highest quarterly revenue for the year, after a very slow start to 2016.

ECWS fourth quarter 2016 revenue of $17.6 million was 26% lower than the same period in 2015 due to lower spending on Essential's services by key customers, wet weather in the first half of the quarter and pricing declines compared to fourth quarter 2015. While overall operating hours were below fourth quarter 2015, Essential's Generation III coil tubing rigs achieved 93% utilization during the quarter as a result of strong customer demand for work on deep horizontal wells. Gross margin of 8% was below the prior year as a result of higher labour and repairs and maintenance expenses incurred to hire and prepare crews and equipment as activity began to improve.

Management was pleased with the performance of DT&R in the fourth quarter 2016. Revenue of $15.7 million exceeded the prior year period by 39% due to strong Tryton MSFS® activity and higher rental revenue. Gross margin of 19% reflected increased activity and the benefits of cost reductions implemented earlier in the year and was a significant improvement from 8% in the prior year period.

(a) Source: Canadian Association of Oilwell Drilling Contractors
® MSFS is a registered trademark of Essential Energy Services Ltd.

Essential - Highlights for the Year 2016

Revenue and EBITDAS[(1)] were $97.5 million and negative $9.2 million respectively, compared to $147.7 million and $14.7 million in 2015. Adjusting for the one-time onerous lease contract expense recognized in the fourth quarter 2016 and severance costs incurred during the year, Adjusted EBITDAS[(1)] was negative $2.1 million for the year ended December 31, 2016. Essential's focus in 2016 was debt management and positioning the Company to return to growth and profitability as the industry recovered. Key strategic activities included:

- Business simplification - In December 2016, Essential sold its service rig business in exchange for four Generation III coil tubing rigs, three quintuplex pumpers, a nitrogen pumper, ancillary equipment, inventory and cash proceeds of $12.2 million. The cash proceeds were used to reduce outstanding debt. In the past few years, ECWS generated higher utilization and margins than the service rig business. Essential believes the opportunity to return to growth and profitability is greater in ECWS as there is less competition and not as much excess competitor equipment.
- Debt reduction – At December 31, 2016, Essential had $11.3 million of debt outstanding, a decrease of $20.5 million from September 30, 2016 and $14.3 million from December 31, 2015. Essential renewed and extended its revolving credit facility agreement with relaxation of financial covenants in June 2016 and completed a bought deal financing for $10.4 million in October 2016. Proceeds from the financing were used to partially repay outstanding indebtedness and as an equity cure to the Company's fourth quarter 2016 Bank EBITDA[(1)] calculation. With the proceeds from the sale of the service rig business, the equity cure and the revised credit facility, Essential is in a strong financial position as oil and gas industry activity begins to improve.
- Cost management – Essential completed a second round of significant cost reductions including additional employee and wage reductions in the first half of 2016. These cost reductions allowed Essential to achieve positive annual gross margins throughout the industry downturn and minimized the EBITDAS[(1)] loss for 2016. The cost reductions and efficiency improvements implemented during the prolonged downturn position Essential to return to profitability as the industry recovers.

CORPORATE INFORMATION

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares trade on the Toronto Stock Exchange ("TSX") under the symbol ESN.

Additional information regarding Essential, including the Financial Statements and the Annual Information Form for the year ended December 31, 2016, as well as the March 31, 2016, June 30, 2016 and September 30, 2016 interim reports, the 2015 interim reports, the 2015 Annual MD&A, the Financial Statements and the Annual Information Form for the year ended December 31, 2015, can be found under Essential's profile on SEDAR at www.sedar.com.

OVERVIEW OF ESSENTIAL

Essential safely provides completion, production and abandonment services to E&P companies primarily in western Canada. Services are offered through coil tubing, fluid and nitrogen pumping, and the sale and rental of downhole tools and equipment.

Essential Coil Well Service

Coil Tubing Rigs – Essential operates the largest coil tubing fleet in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 7/8 inches in diameter. The rigs have a depth capacity of up to 7,900 meters using 2 3/8 inch coil. Essential's coil tubing fleet is primarily comprised of Generation II, III and IV coil tubing rigs, which are differentiated by capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter ratings of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over programs.

Coil tubing rigs are typically used in the completion and stimulation of a horizontal well in the following areas:

- Pre-Fracturing – Coil tubing is used to complete pre-fracturing confirmation runs and/or place the tools used to isolate a portion of the wellbore during fracture stimulation.
- Fracturing – Dependent on the design of the customer's fracturing program, coil tubing can be used to frac-thru-coil, complete annular fracturing, convey and actuate sliding-sleeve tool assemblies or perform tubing conveyed plug-and-perf operations in the well.
- Post-Fracturing – Once the fracturing has been completed, coil tubing is used to complete post-fracturing confirmation runs, clean-outs and mill-outs/drill-outs of ball & seat systems. Coil tubing can also be used for work-overs and to convey third party instrumentation and evaluation tools to confirm the results of the fracture treatment.

Pumpers – Coil tubing rigs are supported by a fleet of fluid and nitrogen pumpers. Fluid pumpers are used to maintain downhole circulation, provide ancillary acid/solvent treatments and inject friction reducers and other chemicals into the wellbore. Fluid pumpers also perform stand-alone pump-down work independent of the coil tubing fleet. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coil tubing of fluids once the coil tubing work has been completed.

Downhole Tools & Rentals

Essential's DT&R segment provides production and completion tools and rentals for horizontal and vertical wells. Operations for this segment are well placed geographically across the WCSB and in the U.S. in Texas, Oklahoma and Kansas.

Essential provides a wide range of downhole tools and rental services for completion and production of oil and natural gas wells, including:

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously.
- Conventional Tools – Includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and abandonment operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers, specialty equipment for steam-assisted gravity drainage wells, and various other tools and handling equipment.

Patent Litigation

On October 23, 2013, Packers Plus Energy Services Inc. ("Packers Plus") filed a Statement of Claim in Canada's Federal Court (the "Court") against Essential alleging that certain products and methods associated with the Tryton MSFS® infringe on a patent issued to Packers Plus (the "Packers Plus Claim"). Packers Plus subsequently limited its infringement allegations to just certain method claims in the patent.

Essential believes the Packers Plus Claim is without merit and filed a Statement of Defence and Counterclaim on November 22, 2013. The Statement of Defence denies infringement and pleads further that the patent is invalid because the methodology and equipment claimed in the patent were in use in the oil and natural gas industry prior to the patent's effective filing date of November 19, 2001 or represent nothing more than obvious variations over what was already known in the industry at the time. This position is supported by the existence of similar products, articles and other patents prior to the effective filing date of the patent.

A trial took place in February and into early March 2017. There were two parts to the trial:

- Validity – The validity portion of the trial focused on whether or not the patent is valid. Given the fact that Packers Plus has asserted infringement of the same patent against Essential and three other defendants, Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc., and all of the defendants filed counterclaims seeking a declaration that the patent is invalid, the Federal

Court directed that the counterclaims be consolidated into a single trial (the "Joint Validity Trial"). During the Joint Validity Trial the four defendants asserted their common position that the patent is invalid.

- Infringement – The infringement portion of the trial focused on whether or not Essential has infringed the Packers Plus patent. The infringement portions of the Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc. trials were not consolidated with the infringement portion of the Essential case since each infringement action, by its nature, deals with tools, designs and business activities specific to each company.

The Court is expected to render its decision on both validity and infringement within six months from the end of the trial. The Court must find that the Packers Plus patent is both valid and infringed. Given the appeal rights of the parties, and if applicable, the process to quantify damages, final determination of the implications to Essential will most likely not be known for another 16 months to two years.

The Packers Plus Claim targets only the Tryton MSFS® ball & seat system, which Essential commenced using in 2009. It does not target past or future operations of Essential's conventional tools, other Tryton MSFS® tools or the rentals business.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	Three months ended December 31, 2016	2015	Years ended December 31, 2016	2015
Revenue	**$ 33,043**	$ 34,964	**$ 97,527**	$ 147,664
Operating expenses	**28,895**	29,012	**89,740**	120,064
Gross margin	**4,148**	5,952	**7,787**	27,600
General and administrative expenses	**3,555**	2,586	**12,202**	12,904
Onerous lease contract expense	**4,754**	-	**4,754**	-
EBITDAS[(1)] from continuing operations	**(4,161)**	3,366	**(9,169)**	14,696
Depreciation and amortization	**3,747**	5,271	**17,110**	21,168
Share-based compensation	**1,238**	191	**2,758**	839
Impairment loss	**5,403**	11,114	**51,241**	11,114
Other expense	**406**	789	**2,510**	77
Finance costs	**323**	211	**1,263**	1,340
Loss before income tax from continuing operations	**(15,278)**	(14,210)	**(84,051)**	(19,842)
Current income tax recovery	**(801)**	(898)	**(6,780)**	(3,460)
Deferred income tax (recovery) expense	**(4,645)**	1,427	**(14,649)**	2,652
Income tax (recovery) expense	**(5,446)**	529	**(21,429)**	(808)
Net loss from continuing operations	**$ (9,832)**	$ (14,739)	**$ (62,622)**	$ (19,034)
Net loss from discontinued operations	**(15,579)**	(3,343)	**(28,007)**	(3,451)
Net loss	**$ (25,411)**	$ (18,082)	**$ (90,629)**	$ (22,485)
Net loss from continuing operations per share Basic and diluted	**$ (0.07)**	$ (0.12)	**$ (0.48)**	$ (0.15)
Net loss per share Basic and diluted	**$ (0.18)**	$ (0.14)	**$ (0.70)**	$ (0.18)

<u>SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*</u>

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended December 31, 2016	Three months ended December 31, 2015	Years ended December 31, 2016	Years ended December 31, 2015
Revenue	**$ 17,564**	$ 23,833	**$ 53,638**	$ 90,128
Operating expenses	**16,107**	17,828	**49,976**	69,609
Gross margin	**$ 1,457**	$ 6,005	**$ 3,662**	$ 20,519
Gross margin %	**8%**	25%	**7%**	23%
<u>Operating hours</u>				
Coil tubing rigs	**11,119**	13,817	**32,306**	51,739
Pumpers	**12,341**	15,049	**37,022**	54,763
<u>Equipment fleet</u>(i)				
Coil tubing rigs	**31**	31	**31**	31
Pumpers	**32**	30	**32**	30

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

ECWS revenue decreased 26% compared to the fourth quarter 2015 due to lower operating hours and pricing. Although industry activity, as measured by the number of wells drilled, increased in the fourth quarter 2016 compared to the prior year, lower spending on Essential's services by key customers and wet weather in the first half of the quarter resulted in reduced operating hours for both coil tubing and pumping. Activity improved in the second half of the quarter with some work continuing through the Christmas break. Coil tubing and pumping revenue per hour declined approximately 10% compared to the fourth quarter 2015. There was price stability in the fourth quarter compared to the third quarter 2016, but due to the mix of work, coil tubing and pumping revenue per hour declined approximately 5%.

Demand for Essential's four Generation III coil tubing rigs continued to be strong with 93% utilization in the fourth quarter 2016. Relative to the beginning of the year, Essential's coil tubing activity improved, achieving the highest quarterly operating hours of 2016 in the fourth quarter. Coil tubing operating hours increased over third quarter 2016 due to stronger customer demand driven by improved commodity prices.

Pumping operating hours are generally correlated with Essential's coil tubing rig activity, as the pumpers and coil tubing rigs are often provided as a package to meet customer needs. Consistent with coil tubing, pumping activity improved in the fourth quarter 2016 as work with the coil tubing fleet and stand-alone pump-down work achieved their highest quarterly operating hours of 2016 in the fourth quarter.

ECWS gross margin as a percentage of revenue was 8% in the fourth quarter 2016, lower than the same period of 2015 due to lower revenue and higher operating expenses as a percentage of revenue. The increase in operating expenses as a percentage of revenue is due to higher wages and increased labour costs for training and equipment preparation. Repairs and maintenance expenses also increased in preparation for higher activity. Expense increases had not yet been reflected in customer pricing. This is expected as demand improves.

ECWS revenue in 2016 decreased 40% compared to the prior year. The prolonged industry downturn resulted in lower activity and pricing declines for ECWS, with particularly low activity in the first quarter, which is traditionally the busiest quarter of the year. ECWS maintained positive gross margin in 2016 with a second round of cost reductions implemented early in the year partially offsetting the year-over-year revenue decline. Revenue per hour declined between 5% and 10% year-over-year.

Segment Results - *Downhole Tools & Rentals*

(in thousands of dollars, except percentages)	Three months ended December 31, 2016	2015	Years ended December 31, 2016	2015
Revenue	**$ 15,655**	$ 11,278	**$ 44,383**	$ 58,268
Operating expenses	**12,731**	10,430	**37,905**	47,494
Gross margin	**$ 2,924**	$ 848	**$ 6,478**	$ 10,774
Gross margin %	**19%**	8%	**15%**	18%
Downhole Tools & Rentals revenue – % of revenue				
Tryton MSFS®	**53%**	24%	**43%**	33%
Conventional Tools & Rentals	**47%**	76%	**57%**	67%

DT&R revenue for the fourth quarter 2016 increased over the same prior year period due to strong Tryton MSFS® activity and increased rental revenue. With improved industry activity, all DT&R service lines experienced their highest revenue in 2016 in the fourth quarter. Compared to the fourth quarter 2015, Tryton MSFS® revenue increased due to work for key customers in the Montney region of the WCSB. Rental revenue increased with the expansion of rental assets with heavy weight drill pipe purchased in 2016.

DT&R gross margin was 19% of revenue for the fourth quarter 2016, higher than the same period of 2015. This was as a result of increased activity and cost reductions implemented in the Canadian and U.S. operations earlier in the year.

DT&R revenue in 2016 declined 24% compared to 2015 as a result of decreased activity after a slow start to the year and lower pricing. Gross margin declined year-over-year due to fixed costs representing a greater portion of revenue. Cost reductions implemented during the first half of 2016, including staff reductions in both Canada and the U.S., resulted in improved margins in the second half of the year.

General and Administrative

(in thousands of dollars)	Three months ended December 31, 2016	2015	Years ended December 31, 2016	2015
General and administrative expenses	**$ 3,555**	$ 2,586	**$ 12,202**	$ 12,904

General and administrative expenses ("G&A") are comprised of wages, professional fees, office rent expense and other corporate and operational administrative costs. G&A for the fourth quarter 2016 increased compared to the same period in 2015 due to higher legal fees and severance costs. Year-over-year, employee and salary reductions in the first half of 2016 offset higher G&A incurred in the fourth quarter 2016.

Onerous Lease Contract

(in thousands of dollars)	Three months ended December 31, 2016	2015	Years ended December 31, 2016	2015
Onerous lease contract expense	**$ 4,754**	$ -	**$ 4,754**	$ -

When the contractual obligations of a lease exceed the benefits expected to be received under it, International Financial Reporting Standards ("IFRS") require the present value of the minimum future contractual lease payments be recorded as an expense in the reporting period. For the three months ended December 31, 2016, Essential recognized an onerous lease expense related to Calgary office space that is no longer used following staff reductions

and the sale of the service rig business. The Calgary office market is oversupplied following the downturn in the oil and gas industry and the ability to sub-lease this space is limited.

DEPRECIATION AND AMORTIZATION

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Depreciation and amortization expense	**$ 3,747**	$ 5,271	**$ 17,110**	$ 21,168

Depreciation and amortization for the three months and year ended December 31, 2016 was lower than the same prior year periods due to lower net book value of equipment and intangible assets as a result of impairment losses recognized in the first quarter 2016 and fourth quarter 2015.

SHARE-BASED COMPENSATION

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Share-based compensation expense	**$ 1,238**	$ 191	**$ 2,758**	$ 839

For the year ended December 31, 2016, share-based compensation expense was higher than the prior year due to the increase of Essential's share price since December 31, 2015 and the issuance of restricted share units ("RSUs") and deferred share units ("DSUs") in 2016.

OTHER EXPENSE

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Loss on disposal and write-down of assets	**663**	1,648	**2,151**	1,727
Foreign exchange (gain) loss	**(277)**	(1,121)	**342**	(1,977)
Other loss	**20**	262	**17**	327
Other expense	**$ 406**	$ 789	**$ 2,510**	$ 77

Loss on disposal and write-down of assets included disposal of equipment that was retired or redundant and no longer used in operations. Strengthening of the Canadian dollar in relation to the U.S. dollar resulted in foreign exchange loss for the year ended December 31, 2016 compared to a foreign exchange gain for the same period in 2015.

IMPAIRMENT LOSS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Impairment loss	**$ 5,403**	$ 11,114	**$ 51,241**	$ 11,114

During the fourth quarter 2016, Essential recorded an impairment to the partially completed Generation IV coil tubing rigs of $5.4 million, reducing the carrying values and previously paid deposits to their estimated net realizable values.

On November 6, 2016 Essential signed a Settlement Agreement terminating its build contract with Option Industries Inc. ("Option"), the fabricator of its Generation IV coil tubing rigs and subsequently took delivery of the two partially completed rigs, components and parts. Option also committed to deliver parts and components for two deferred rigs on which $2 million of deposits had been paid. The Settlement Agreement included reference to the deferred rigs and associated drawings, plans and certifications for all rigs. On November 9, 2016, Option filed a Notice of Intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada). Essential is in a legal dispute with Option and has not released $0.4 million of funds held in trust as Option has not fulfilled the terms of the Settlement Agreement.

Essential conducted an evaluation of the equipment, parts and components, which included verification and valuation of items received, assessment of the percentage of completion, estimate of remaining costs to complete and a timeline to complete the two Generation IV coil tubing rigs. Essential considered the status of the legal dispute, the precarious financial condition of Option, Essential's recent acquisition of four Generation III coil tubing rigs in December 2016 and near-term industry demand. As a result, Essential deferred completion of one rig to a future date when market demand warrants. The second rig's usable components will be redeployed amongst its existing fleet or future rig builds. The second rig and remaining parts were written down to their net realizable value. The deposits on the two deferred rigs were written down to $0.3 million as Option has not credibly demonstrated that they have the ability or intention to deliver the remaining items that were committed to in the Settlement Agreement.

IFRS requires the Company to assess the carrying value of assets in cash generating units ("CGUs"). Essential completed an impairment assessment at the end of the fourth quarter 2016 and determined that except for the $5.4 million impairment loss discussed above, no further impairment loss was required to be recognized, since the fair value of Essential's assets did not exceed their carrying value.

At the end of the first quarter 2016 when financial results were much lower than expected and the outlook for the industry had deteriorated, Essential completed an impairment assessment. That assessment determined that the fair value of ECWS's CGU was less than its carrying value and the Company recognized an impairment charge in the first quarter 2016 of $28.5 million on property and equipment and $17.3 on intangible assets (2015 – $11.1 million on goodwill related to ECWS).

FINANCE COSTS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Finance costs	**$ 323**	$ 211	**$ 1,263**	$ 1,340

For the year ended December 31, 2016, finance costs were consistent with 2015, as the average long-term debt outstanding was relatively consistent year-over-year.

INCOME TAXES

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Current income tax recovery	**$ (801)**	$ (898)	**$ (6,780)**	$ (3,460)
Deferred income tax (recovery) expense	**(4,645)**	1,427	**(14,649)**	2,652
Total income tax (recovery) expense	**$ (5,446)**	$ 529	**$ (21,429)**	$ (808)

For the three and twelve months ended December 31, 2016, the current income tax recovery relates to 2016 losses that will be applied to recover income taxes paid in previous years.

For the quarter and year ended December 31, 2016, deferred income tax recovery increased compared to the same periods in 2015 due to the reversal of temporary differences arising from the impairment loss recorded on ECWS property and equipment.

DISCONTINUED OPERATIONS

In December 2016, Essential sold its service rig business for total consideration of $28.2 million. Sale of the service rig business included all service rigs, ancillary equipment and transfer of employees. The results of operations have been restated to present discontinued operations separately from continuing operations for the years ended December 31, 2016, 2015 and 2014.

Net loss from discontinued operations related to the service rig business was as follows:

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Revenue	**$ 4,135**	$ 7,516	**$ 15,950**	$ 37,049
Expenses	**4,958**	9,110	**17,460**	33,675
Depreciation and amortization	**678**	1,019	**3,051**	4,556
Impairment loss	**-**	2,100	**15,814**	2,100
Loss before income tax	**(1,501)**	(4,713)	**(20,375)**	(3,282)
Income tax expense (recovery)	**1,083**	(1,370)	**(5,363)**	169
Loss from discontinued operations, net of tax	**(2,584)**	(3,343)	**(15,012)**	(3,451)
Loss on sale of discontinued operations	**(17,758)**	-	**(17,758)**	-
Income tax recovery on loss on sale of discontinued operations	**4,763**	-	**4,763**	-
Net loss from discontinued operations	**$ (15,579)**	$ (3,343)	**$ (28,007)**	$ (3,451)

FINANCIAL RESOURCES AND LIQUIDITY

OPERATING CASH FLOW BEFORE CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars, except per share amounts)	**2016**	2015	**2016**	2015
Net cash provided by operating activities	**$ 572**	$ 12,226	**$ (32)**	$ 50,451
Changes in non-cash working capital	**26**	(7,837)	**302**	(30,238)
Operating cash flow before changes in non-cash operating working capital	**$ 598**	$ 4,389	**$ 270**	$ 20,213
Per share – basic and diluted	**$ -**	$ 0.03	**$ -**	$ 0.16

WORKING CAPITAL

	As at December 31,	
(in thousands of dollars, except ratios)	**2016**	2015
Current assets	**$ 66,413**	$ 66,599
Current liabilities	**(20,613)**	(15,421)
Working capital [(1)]	**$ 45,800**	$ 51,178
Working capital ratio	**3.2:1**	4.3:1

Working capital is comprised primarily of accounts receivable and inventory. The accounts receivable portion typically grows through the first, third and fourth quarters of the year when activity is greater. Inventory, comprised primarily of downhole tools and coil tubing products, does not fluctuate directly with changes in activity. Essential uses its revolving credit facility ("Credit Facility") to meet the variable nature of its working capital needs for the cost of carrying inventory and customer accounts receivable. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt initially tends to increase and in periods of lower activity, debt initially declines.

CREDIT FACILITY

Essential's Credit Facility is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent. The Credit Facility was renewed on June 15, 2016 and matures on May 31, 2019. It is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At December 31, 2016, the maximum of $40 million under the Credit Facility was available to Essential.

The Credit Facility includes an equity cure provision where proceeds from equity offerings may be applied to the calculation of Bank EBITDA(1) in the funded debt(1) to Bank EBITDA(1) covenant, the minimum cumulative Bank EBITDA(1) covenant and the fixed charge coverage(1) covenant. In October 2016, Essential received gross proceeds of $10.4 million for 16,019,883 shares issued at $0.65 per share from an equity offering that the Company applied as an equity cure to its fourth quarter 2016 Bank EBITDA(1) calculation under the Credit Facility. Due to the trailing 12 month nature of the covenants, the proceeds from the equity offering will increase Bank EBITDA(1) for the first, second and third quarter 2017 covenants as well.

In addition to the equity cure, the Credit Facility contains a number of terms and conditions, including:

- financial covenants:

Quarter Ending	Funded Debt(1) to Capitalization	Funded Debt(1) to Bank EBITDA(1)(i)	Minimum Cumulative Bank EBITDA(1)(ii)	Fixed Charge Coverage Ratio(1)(i)
December 31, 2016	≤ 50%	waived	$4 million	≥ 2.00x
March 31, 2017	≤ 50%	waived	$6 million	≥ 2.00x
June 30, 2017	≤ 50%	≤ 5.25x	n/a	≥ 1.25x
September 30, 2017	≤ 50%	≤ 4.75x	n/a	≥ 1.25x
December 31, 2017	≤ 50%	≤ 4.25x	n/a	≥ 1.25x
March 31, 2018	≤ 50%	≤ 3.50x	n/a	≥ 1.25x
June 30, 2018	≤ 50%	≤ 3.50x	n/a	≥ 1.25x
September 30, 2018	≤ 50%	≤ 3.25x	n/a	≥ 1.25x
December 31, 2018	≤ 50%	≤ 3.00x	n/a	≥ 1.25x
March 31, 2019	≤ 50%	≤ 3.00x	n/a	≥ 1.25x

(i) Calculated on a trailing 12 month basis.
(ii) Calculated on a cumulative basis as follows: at December 31, 2016: Bank EBITDA(1) for the six months ending December 31, 2016; at March 31, 2017: Bank EBITDA(1) for the nine months ending March 31, 2017.

- a monthly borrowing base; and
- restrictions on dividends and acquisitions when funded debt(1) to Bank EBITDA(1) is greater than 3.00x or when the covenant is waived.

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. As at December 31, 2016 all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

	Covenant Threshold	As at December 31, 2016
Funded debt[1] to capitalization	≤ 50%	**6%**
Funded debt[1] to Bank EBITDA[1]	waived	**waived**
Minimum cumulative Bank EBITDA[1]	$4 million	**$13 million**
Fixed charge coverage ratio[1]	≥ 2.0x	**11.9x**

As at December 31, 2016, Essential had a consolidated funded debt[1] balance of $11.3 million, consisting of long-term debt plus deferred financing fees, net of cash. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On March 8, 2017, Essential had $14.6 million of debt outstanding.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Essential Coil Well Service	**$ 353**	$ 3,180	**$ 7,788**	$ 13,735
Downhole Tools & Rentals	**1,393**	109	**2,769**	801
Corporate	**37**	167	**70**	790
Total equipment expenditures	**1,783**	3,456	**10,627**	15,326
Less proceeds on disposal of property and equipment	**(1,550)**	(418)	**(3,569)**	(1,460)
Net equipment expenditures[1]	**$ 233**	$ 3,038	**$ 7,058**	$ 13,866

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

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Growth capital[1]	**$ 1,386**	$ 1,926	**$ 7,761**	$ 11,826
Maintenance capital[1]	**397**	1,530	**2,866**	3,500
Total equipment expenditures	**$ 1,783**	$ 3,456	**$ 10,627**	$ 15,326

2016 growth capital spending related to the Generation IV coil tubing rig build program and purchase of heavy weight rental drill pipe. Two Generation IV coil tubing rigs were added to the coil tubing rig fleet in 2016. The Generation III and IV rigs have the capability to work on complex long-reach horizontal wells in the Montney, Bakken and Duvernay regions. With a coil diameter of 2 3/8", the Generation III rigs can reach 6,500 meters and the Generation IV rigs can reach 7,900 meters. As at December 31, 2016, the Company had eight Generation III and four Generation IV coil tubing rigs in its fleet.

Essential's 2017 capital budget of $11 million is comprised of $4 million of growth capital and $7 million of maintenance capital. Growth capital consists primarily of pumping support equipment, the cost to recertify and prepare for work the four coil tubing rigs and four pumpers acquired in December 2016 and the purchase of rental drill pipe for the Company's DT&R segment. The increase in maintenance capital compared to 2016 reflects expectations that the fleet will be more active in 2017.

SHARE CAPITAL

As at March 8, 2017, there were 141,856,813 common shares and 6,718,249 share options outstanding. Of the 6,718,249 share options, 2,516,992 were exercisable of which 493,333 were "in-the-money".

COMMITMENTS

Operating leases

Essential has entered into operating leases for office and shop premises that provide for minimum annual lease payments, as follows:

(in thousands of dollars)	Amount
2017	$ 5,448
2018	4,855
2019	4,643
2020	4,072
2021	3,503
Thereafter	6,347
	$ 28,868

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2016, such officers have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's disclosure controls and procedures and have concluded that the Company's disclosure controls and procedures are effective with no material weakness as at December 31, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's CEO and CFO are responsible for designing, or causing to be designed under their supervision, internal controls over financial reporting related to the Company, including its consolidated subsidiaries.

During the year, the Company's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework 2013. The assessment includes a risk-based evaluation, documentation and testing of key processes. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that disclosures and financial information is accurate and complete.

Through management's assessment of the design and effectiveness of ICFR, no material weaknesses were found. The broad scope of senior management's oversight and strong entity level controls are expected to compensate for any non-material control weaknesses. In addition, non-material control weaknesses identified are mitigated by the active involvement of senior management in all the affairs of the Company; open lines of communication within the Company and its divisions; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management; and the existence of a Company whistle-blower policy.

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2016 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES

Preparation of consolidated financial statements requires that the Company make assumptions regarding accounting estimates for certain amounts contained within the consolidated financial statements. The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements necessarily involves the use of estimates and approximations based on information available as at the reporting date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the provisions for impairment of trade receivables, net realizable value of inventory, depreciation and amortization, intangible assets, impairment of long-lived assets, share-based compensation, onerous lease contract liability, and deferred income tax assets and liabilities. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represent the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

Provision for Impairment of Trade Receivables

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. Given the cyclical nature of the oil and gas industry, a customer’s ability to fulfill its payment obligations can change suddenly and without notice.

Net Realizable Value of Inventory

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

Depreciation and Amortization

Equipment is depreciated based upon estimated useful lives and residual values. For intangible assets, amortization policies are intended to amortize assets over their expected lives or contracted terms. The Company reviews its historical experience with similar assets to ensure that depreciation and amortization rates are appropriate. Actual useful lives of assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity.

Intangible Assets

Intangible assets consist of customer relationships, non-compete agreement, and computer software. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Impairment of Long-Lived Assets

At each reporting date Essential assesses whether there is an indication that an asset or group of assets, including goodwill and intangible assets, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the higher of the CGU’s fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to

its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, forecasts and industry considerations affecting the Company and the CGU.

Share-based Compensation

Share-based compensation is provided in respect of the share option, RSU and DSU plans.

The expense for the share option plan is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, the Company uses estimates and assumptions to determine risk-free interest rates, expected terms, anticipated volatility and dividend yield.

The Board is authorized to grant RSUs to participants under the RSU Plan. RSUs granted prior to December 9, 2015 represent the right to receive a cash payment or its equivalent in fully paid shares at the time of vesting, at the option of the Company. RSUs granted after December 9, 2015 represent the right to receive a cash payment at the time of vesting. As determined by the Board, RSUs vest over a specified time period, vest based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

The Board is authorized to grant DSUs to participants under the DSU Plan. Unless otherwise determined, DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding expense is charged to net loss evenly over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in net loss.

Provisions

Provisions are recognized when Essential has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of net loss and other comprehensive loss.

Onerous Lease Contract

An onerous lease contract liability is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The liability is determined by estimating the present value of the minimum future contractual payments the Company is obligated to make under the non-cancellable onerous contract, reduced by estimated recoveries.

Deferred Income Tax Liabilities and Assets

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for most taxable temporary differences, with certain exceptions being applied. Deferred income tax assets are re-measured at each reporting date and recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

FUTURE ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2017 and have not been applied in preparing the Consolidated Financial Statements for the year-ended December 31, 2016. The standards and interpretations are as follows and will be adopted on their respective effective dates: IAS 7, "Disclosure Initiatives"; IFRS 2, "Share-Based Payments"; IFRS 9, "Financial Instruments"; IFRS 15, "Revenue from Contracts with Customers"; and IFRS 16, "Leases". Essential is evaluating the potential impact these standards are expected to have on the Company.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form for the year ended December 31, 2016, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's Annual Information Form. The risks and uncertainties in Essential's Annual Information Form are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business.

OUTLOOK

To date in the first quarter of 2017, improved commodity prices and a more positive industry outlook have resulted in higher oilfield service activity. Much of this activity is focused on horizontal well completions in key basins like the Montney, Bakken and Duvernay where Essential is active. Quarter to date, the WCSB drilling rig count has been approximately 46% higher than the same period in 2016. Due to significant layoffs and cost reductions in the past two years of industry downturn, the ability for oilfield service companies to provide equipment has become constrained due to a shortage of qualified field staff. This relatively quick change in industry sentiment is changing the dynamic between oilfield service companies and E&P companies. As E&P companies seek to secure oilfield services for their completion programs, the undersupply of efficient, crewed equipment has initiated new discussions about work scheduling, service pricing, safety and efficiency. Based on 2017 E&P company capital budgets announced to date, oilfield service activity for 2017 is expected to be considerably stronger than 2016. The Petroleum Services Association of Canada has projected a 26% increase in wells drilled (rig released) in Canada in 2017.

With the largest coil tubing fleet in Canada, associated pumping services, and an established downhole tool and rental operation, Essential is well positioned to benefit from this increase in demand and long-standing relationships with its customers. Essential has seen activity improve in all of its operations from year end 2016 into the first quarter of 2017. Although pricing increases have been moderate, incremental revenue from increased activity is expected to generate improved margins as fixed costs are absorbed by a larger revenue base. Higher revenue and the flattening of Essential's organization structure will generate greater positive EBITDAS in 2017. Although the first two months of the first quarter have shown improved activity, the timing of spring break up and the operational performance in the month of March is still an important unknown factor. Beyond the first quarter 2017, early indications from customers suggest that the second quarter 2017 could see demand for Essential's services increase over the second quarter 2016, provided weather and road conditions allow operations to proceed. Some of Essential's completion work is on multi-well pad locations which can continue in the second quarter if the equipment is able to reach the well pad.

ECWS is experiencing strong customer demand for coil tubing and pumping. During the first quarter ECWS has experienced days where demand has exceeded crewed equipment, resulting in some customer requests being declined. To date in the quarter ECWS has operated up to 13 coil tubing rigs and associated pumps on peak days. ECWS's crewed equipment supply is constrained by the ability to recruit and train qualified employees. Although an active recruiting program commenced in late 2016, competition for skilled and experienced field personnel is intense. Increased activity and constrained crewed equipment supply have naturally led to pricing discussions with customers and implementation of pricing increases of up to 10%. Higher pricing is required to achieve reasonable margins and offset increases in variable input costs including costs to retain, attract and train employees.

The acquisition of incremental coil tubing and pumping assets in December 2016 has proven to be well timed. Essential added four Generation III coil tubing rigs and three associated fluid pumpers to its fleet. The equipment is in good working order with typical capital spending required to re-certify and prepare the equipment for service. One acquired coil tubing rig and one fluid pumper have been put into service in the first quarter. The remaining acquired coil tubing rigs and pumpers are expected to be in service for the start of the third quarter. Essential's Generation III coil tubing rigs continue to experience high customer demand in the first quarter 2017.

DT&R is also experiencing increased activity in the first quarter of 2017, primarily with its Tryton MSFS® products in Canada. In addition to its ball and seat MSFS® product, modifications to the Tryton Viking shifting sleeve product have resulted in successes in the oil plays in southern Saskatchewan. DT&R has successfully expanded its labor pool by 30% since the third quarter 2016. January 2017 revenue was the best month for DT&R since January 2015 due to MSFS® and rental revenue driven by increased industry activity. Similar to ECWS, although activity is increasing, pricing remains a challenge.

Final arguments in the Packers Plus lawsuit will be heard this week and the judge is expected to render his decision within the next six months. Given the appeal rights of the parties, and if applicable, the process to quantify damages, final determination of the implications to Essential will most likely not be known for another 16 months to two years. Essential continues to believe that the case is without merit.

As the industry recovers, Essential is financially well positioned to meet the anticipated incremental cash flow demands for operating and capital spending. Essential's 2017 capital budget of $11 million is primarily maintenance capital to refresh and expand the in-service fleet. Working capital[(1)] and debt is expected to grow in the short term as we incur costs to hire and train new personnel and carry customer receivables from services provided. Essential has a unique advantage with its low debt position on March 8, 2017 of $14.6 million.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity is directly impacted by seasonality. Activity is traditionally higher in the first, third and fourth quarters of the year and lower in the second quarter. With the onset of spring, melting snow and thawing ground frost renders many roadways incapable of supporting heavy equipment. In addition, certain areas in Canada are typically only accessible during the winter months.

The industry downturn since early 2015 has disrupted typical historic oilfield services seasonal and quarterly patterns in western Canada as E&P companies' spending decisions have been driven by constrained cash flow in addition to weather and access issues.

The following table provides the Company's quarterly information for the past eight quarters. The sale of the service rig business in December 2016 has been reported as a discontinued operation in this reporting period with prior periods restated to this same basis of accounting and disclosure.

The basis of presentation for coil tubing utilization and operating hours in this table has changed from previous quarters. Both metrics now include all coil tubing rigs. Previous reporting included only the masted coil tubing fleet.

(in thousands of dollars, except per share amounts, percentages and fleet data)	**Dec 31, 2016**	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016	**Dec 31, 2015**	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015
Essential Coil Well Service	**17,564**	13,896	6,422	15,756	**23,833**	24,432	9,887	31,976
Downhole Tools & Rentals	**15,655**	12,256	5,583	10,889	**11,278**	15,919	7,460	23,611
Inter-segment eliminations	**(176)**	(139)	(90)	(89)	**(147)**	(209)	(182)	(194)
Total revenue	**33,043**	26,013	11,915	26,556	**34,964**	40,142	17,165	55,393
Gross margin	**4,148**	3,899	(1,578)	1,318	**5,952**	10,121	(819)	12,346
Gross margin %	**13%**	15%	(13)%	5%	**17%**	25%	(5)%	22%
EBITDAS[(1)] from continuing operations[(i)]	**(4,161)**	1,418	(4,224)	(2,202)	**3,366**	6,956	(3,957)	8,331
Adjusted EBITDAS[(1)] from continuing operations	**1,141**	1,418	(4,208)	(469)	**3,510**	6,994	(3,845)	10,015
Bank EBITDA[(1)]	**11,541**	1,418	(4,208)	(469)	**3,510**	6,994	(3,845)	10,015
Continuing operations								
Net (loss) income[(i)(ii)]	**(9,832)**	(3,253)	(7,159)	(42,378)	**(14,739)**	3,843	(10,370)	2,232
Per share – basic and diluted	**(0.07)**	(0.03)	(0.06)	(0.34)	**(0.12)**	0.03	(0.08)	0.02
Net income (loss)[(i)(ii)]	**(25,411)**	(3,814)	(7,486)	(53,918)	**(18,082)**	2,996	(10,495)	3,096
Per share – basic and diluted	**(0.18)**	(0.03)	(0.06)	(0.43)	**(0.14)**	0.02	(0.08)	0.02
Total assets	**209,270**	242,781	238,450	246,713	**317,244**	346,564	337,299	371,496
Long-term debt	**11,250**	31,781	26,894	27,053	**25,543**	34,738	27,027	39,817
Utilization[(iii)]								
Coil tubing rigs	**46%**	32%	16%	34%	**48%**	49%	20%	59%
Pumpers	**48%**	38%	16%	37%	**55%**	57%	23%	61%
Operating hours								
Coil tubing rigs	**11,119**	7,662	3,848	9,677	**13,817**	13,493	5,429	19,000
Pumpers	**12,341**	10,127	4,336	10,218	**15,049**	15,747	6,381	17,586
Equipment fleet [(iv)]								
Coil tubing rigs	**31**	26	26	32	**31**	30	30	36
Fluid pumpers	**21**	18	18	18	**18**	18	18	18
Nitrogen pumpers	**11**	10	12	12	**12**	12	12	14
Downhole Tools & Rentals - % of revenue								
Tryton MSFS®	**53%**	45%	15%	40%	**24%**	40%	16%	38%
Conventional Tools & Rentals	**47%**	55%	85%	60%	**76%**	60%	84%	62%

(i) The quarter ended December 31, 2016 includes an onerous lease contract expense of $4.8 million.
(ii) The quarters ended December 31, 2016, March 31, 2016 and December 31, 2015 include an impairment loss of $5.4 million, $45.8 million and $11.1 million, respectively.
(iii) Utilization is calculated using a 10 hour day.
(iv) Fleet data represents the number of units at the end of the period.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A 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", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: capital spending; cash flow and earnings; application of losses against taxes paid in previous years; the Credit Facility; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the Company's belief that the Packers Plus claim is without merit and the length of time it will take to resolve the claim, including the timing for the Court to render a decision and potential appeals; the impact of the Company's legal dispute with Option; the amount expected to paid for Essential's "Other commitments"; senior management's oversight and strong entity level controls compensating for any non-material control weaknesses in the Company's ICFR; information provided under the subheading "Critical Accounting Estimates"; the adoption of new accounting standards, amendments to standards, the timing of such adoption and amendment, and interpretations for the Company's accounting policies; expense increases being reflected in customer pricing as demand increases; focus of growth capital spending; oilfield service activity for 2017 is expected to be considerably stronger than 2016; the dynamic between oilfield service companies and E&P companies is changing and the focus of new discussions; Essential is well-positioned to benefit from increased demand and long-standing relationships with customers; expectations for increased activity, increased demand for Essential's services, incremental revenue and improved margins; greater positive EBITDAS in 2017; certain industry activity can continue in the second quarter; pricing discussions with customers; implementation of pricing increases of up to 10% in the first quarter 2017; assets acquired in December 2016 require typical capital spending; in-service dates for acquired equipment; Essential has a unique advantage with its low debt and is financially well-positioned to meet anticipated incremental cash flow demands for operating and capital spending; and expectations for working capital and debt to grow in the short term.

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 (e.g. 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 MD&A 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 MD&A 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.

[1]Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net loss and net loss 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 loss and net loss per share as calculated in accordance with IFRS.

Adjusted EBITDAS – This measure is EBITDAS adjusted for onerous lease contract expense and severance costs. This measure is considered relevant as it provides EBITDAS without the impact of non-recurring items.

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.

Capitalization – Capitalization is defined in Essential's Credit Facility as the aggregate of its Funded Debt and equity.

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.

The following table reconciles Bank EBITDA, Adjusted EBITDAS, EBITDAS from continuing operations, EBITDA from continuing operations, and to the IFRS measure, net loss from continuing operations:

(in thousands of dollars)	Three months ended December 31, 2016	2015	Year ended December 31, 2016	2015
Bank EBITDA	**$ 11,541**	$ 3,510	**$ 8,282**	$ 16,674
Equity cure	**10,400**	-	**10,400**	-
Adjusted EBITDAS from continuing operations	**$ 1,141**	$ 3,510	**$ (2,118)**	$ 16,674
Severance costs	**548**	144	**2,297**	1,978
Onerous lease contract expense	**4,754**	-	**4,754**	-
EBITDAS from continuing operations	**$ (4,161)**	$ 3,366	**$ (9,169)**	$ 14,696
Share-based compensation	**1,238**	191	**2,758**	839
Other expense	**406**	789	**2,510**	77
EBITDA from continuing operations	**$ (5,805)**	$ 2,386	**$ (14,437)**	$ 13,780
Depreciation and amortization	**3,747**	5,271	**17,110**	21,168
Impairment loss	**5,403**	11,114	**51,241**	11,114
Finance costs	**323**	211	**1,263**	1,340
Loss before income tax from continuing operations	**$ (15,278)**	$ (14,210)	**$ (84,051)**	$ (19,842)
Total income tax (recovery) expense	**(5,446)**	529	**(21,429)**	(808)
Net loss from continuing operations	**$ (9,832)**	$ (14,739)	**$ (62,622)**	$ (19,034)

Fixed charge coverage ratio – This measure is generally defined in Essential's Credit Facility as the ratio of EBITDAS less cash tax expense to the sum of distributions, scheduled principal repayments and interest expense.

(in thousands of dollars, except ratios)	Trailing 12 months ended December 31, 2016
Bank EBITDA	**$ 8,282**
Less current income tax recovery	**(6,780)**
	$ 15,062
Finance costs	**$ 1,263**
Fixed charge coverage ratio	**11.9x**

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[i] – 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.

(i) Net equipment expenditures is calculated from the IFRS measures, total equipment expenditures less proceeds on disposal of property and equipment, in the table "Equipment Expenditures and Fleet Additions".

Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2016

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

Management has established and maintains an accounting and reporting system supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records.

Ernst & Young LLP, an independent firm of Chartered Professional Accountants, has been engaged, as approved by a vote of shareholders at the Company's most recent annual general meeting as external auditors of the Company. The Independent Auditors' Report to the shareholders, which describes the scope of their examination and expresses their opinion, is presented on the following page.

The Audit Committee of the Board of Directors, whose members are independent of management, meet to review the consolidated financial statements with management and the auditors, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements.

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Allan Mowbray"

ALLAN MOWBRAY
Vice President, Finance and
Chief Financial Officer

March 8, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Essential Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Essential Energy Services Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada

March 8, 2017

Chartered Professional Accountants

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,	
(in thousands of dollars)	**2016**	2015
Assets		
Current		
Cash	**$ 143**	$ 1,042
Trade and other accounts receivable *(note 6)*	**29,300**	28,460
Inventories *(note 7)*	**27,077**	30,609
Income taxes receivable *(note 15)*	**8,119**	3,791
Prepayments and deposits	**1,774**	2,697
	66,413	66,599
Non-current		
Property and equipment *(note 8)*	**137,039**	225,479
Intangible assets *(note 9)*	**2,132**	21,347
Goodwill *(note 10)*	**3,686**	3,799
	142,857	250,625
Total assets	**$ 209,270**	$ 317,224
Liabilities		
Current		
Trade and other accounts payable *(note 11)*	**$ 19,312**	$ 14,528
Share based compensation *(note 22)*	**689**	515
Dividends payable *(note 12)*	**-**	378
Current portion of onerous lease contract *(note 13)*	**612**	-
	20,613	15,421
Non-current		
Long-term onerous lease contract *(note 13)*	**4,142**	-
Share based compensation *(note 22)*	**2,179**	423
Long-term debt *(note 14)*	**11,250**	25,543
Deferred tax liabilities *(note 15)*	**7,519**	31,279
	25,090	57,245
Total liabilities	**45,703**	72,666
Commitments and contingencies *(note 24)*		
Equity		
Share capital *(note 16)*	**272,732**	262,977
Deficit	**(114,602)**	(23,595)
Other reserves *(note 17)*	**5,437**	5,176
Total equity	**163,567**	244,558
Total liabilities and equity	**$ 209,270**	$ 317,224

See accompanying notes to the consolidated financial statements.

Signed "Garnet K. Amundson"
Garnet K. Amundson
Director

Signed "James A. Banister"
James A. Banister
Director

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(in thousands of dollars, except per share amounts)	For the years ended December 31, **2016**	2015
Revenue	**$ 97,527**	$ 147,664
Operating expenses *(notes 18 and 20)*	**89,740**	120,064
Gross margin	**7,787**	27,600
General and administrative expenses *(notes 19 and 20)*	**12,202**	12,904
Onerous lease contract expense *(note 13)*	**4,754**	-
Depreciation and amortization *(notes 8 and 9)*	**17,110**	21,168
Share-based compensation *(note 22)*	**2,758**	839
Impairment loss *(notes 8, 9 and 10)*	**51,241**	11,114
Other expenses *(note 21)*	**2,510**	77
Operating loss from continuing operations	**(82,788)**	(18,502)
Finance costs	**1,263**	1,340
Loss before income taxes from continuing operations	**(84,051)**	(19,842)
Current income tax recovery	**(6,780)**	(3,460)
Deferred income tax (recovery) expense	**(14,649)**	2,652
Income tax recovery *(note 15)*	**(21,429)**	(808)
Net loss from continuing operations	**(62,622)**	(19,034)
Loss from discontinued operations, net of tax *(note 5)*	**(15,012)**	(3,451)
Loss on sale of discontinued operations, net of tax *(note 5)*	**(12,995)**	-
Net loss from discontinued operations	**(28,007)**	(3,451)
Net loss	**(90,629)**	(22,485)
Unrealized foreign exchange (loss) gain from continuing operations *(note 17)*	**(40)**	418
Unrealized foreign exchange loss from discontinued operations *(note 17)*	**(39)**	-
Other comprehensive (loss) income	**(79)**	418
Comprehensive loss	**$ (90,708)**	$ (22,067)
Net loss per share from continuing operations *(note 23)*		
Basic and diluted	**$ (0.48)**	$ (0.15)
Net loss per share *(note 23)*		
Basic and diluted	**$ (0.70)**	$ (0.18)
Comprehensive loss per share *(note 23)*		
Basic and diluted	**$ (0.70)**	$ (0.18)

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of dollars)	For the years ended December 31, **2016**	2015
Equity:		
Share capital		
Balance, January 1	**$ 262,977**	$ 262,871
Exercise of options *(note 17)*	**-**	106
Shares issued on equity raise, net of tax *(note 16)*	**9,755**	-
Balance, December 31	**$ 272,732**	$ 262,977
Deficit		
Balance, January 1	**$ (23,595)**	$ 8,706
Net loss	**(90,629)**	(22,485)
Dividends *(note 12)*	**(378)**	(9,816)
Balance, December 31	**$ (114,602)**	$ (23,595)
Other reserves		
Balance, January 1	**$ 5,176**	$ 4,433
Other comprehensive (loss) income *(note 17)*	**(79)**	418
Equity-settled share-based compensation *(note 17)*	**340**	363
Exercise of options *(note 17)*	**-**	(38)
Balance, December 31	**$ 5,437**	$ 5,176
Total equity	**$ 163,567**	$ 244,558

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	For the years ended December 31, **2016**	2015
Operating activities:		
Net loss from continuing operations	**$ (62,622)**	$ (19,034)
Non-cash adjustments to reconcile net loss for the period to operating cash flow:		
Onerous lease contract expense *(note 13)*	**4,754**	-
Depreciation and amortization	**17,110**	21,168
Deferred income tax (recovery) expense *(note 15)*	**(14,649)**	2,652
Share-based compensation *(note 22)*	**340**	363
Provision for impairment of trade accounts receivable *(note 6)*	**682**	883
Finance costs	**1,263**	1,340
Impairment loss *(notes 8, 9 and 10)*	**51,241**	11,114
Loss on disposal and write-down of assets *(note 21)*	**2,151**	1,727
Operating cash flow before changes in non-cash operating working capital	**270**	20,213
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(3,531)**	38,646
Inventories	**(118)**	5,382
Income taxes receivable	**(3,256)**	(3,867)
Prepayments	**443**	237
Trade and other accounts payable	**4,230**	(10,020)
Share based compensation	**1,930**	(140)
Net cash provided by operating activities from continuing operations	**(32)**	50,451
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 8 and 9)*	**(10,627)**	(15,326)
Non-cash investing working capital in trade and other accounts payable	**(772)**	(3,662)
Proceeds on disposal of equipment	**3,569**	1,460
Net cash used in investing activities from continuing operations	**(7,830)**	(17,528)
Financing activities:		
Decrease in long-term debt	**(14,293)**	(29,710)
Issuance of shares *(note 16)*	**9,575**	-
Proceeds from exercise of options	**-**	68
Dividends paid *(note 12)*	**(756)**	(13,211)
Finance costs	**(1,263)**	(1,340)
Net cash used in financing activities from continuing operations	**(6,737)**	(44,193)
Foreign exchange (loss) gain on cash held in a foreign currency	**(28)**	362
Net (decrease) increase in cash	**(14,627)**	(10,908)
Net increase (decrease) in cash, discontinued operations *(note 5)*	**13,728**	12,941
Cash (bank indebtedness), beginning of period	**1,042**	(991)
Cash, end of period	**$ 143**	$ 1,042
Supplemental cash flow information		
Cash taxes (received) paid	**$ (3,668)**	$ 339
Cash interest and standby fees paid	**$ 1,065**	$ 1,253

See accompanying notes to the consolidated financial statements.

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the year ended December 31, 2016 and 2015 were approved by the Board of Directors of Essential ("Board of Directors") on March 8, 2017.

Based in Calgary, Alberta, Essential provides oilfield services to oil and gas exploration and production companies primarily in western Canada. Essential is publicly traded, was incorporated under the *Business Corporations Act* (Alberta) and is listed under the symbol ESN on the Toronto Stock Exchange. The address of the registered office is 3400, 350 – 7 Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The Financial Statements for the year ended December 31, 2016, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of Presentation

The Financial Statements have been prepared on a historical cost basis, except as detailed in the Company's accounting policies in Note 2. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000's), except when otherwise indicated.

c) Principles of Consolidation

The Financial Statements include the accounts of the Company and its wholly owned subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Essential obtains control, and continue to be consolidated until the date that such control ceases.

The Financial Statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances, income, expenses and unrealized gains and losses resulting from intercompany transactions are eliminated.

d) Foreign Currency Translation

The results and financial position of the Company's foreign operations are translated from the functional currency of those operations, which is the local currency, into the presentation currency for each reporting period so that financial statements may be presented. The results and financial position are translated into the presentation currency using the following procedures:

i. assets and liabilities for the consolidated statement of financial position are translated at the closing rate at the date of the consolidated statement of financial position;

ii. income and expenses for the consolidated statements of net loss and comprehensive loss are translated at exchange rates at the dates of the transactions; and

iii. any resulting exchange differences are recognized in other comprehensive loss.

e) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired and liabilities assumed are recognized and measured at their fair value at the date of the acquisition. The cost of an acquisition is the fair value of the net assets plus costs directly attributable to the issuance of equity or debt required to facilitate the acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is recognized directly in the consolidated statements of net loss and comprehensive loss.

On the date of acquisition, goodwill is allocated to each of the cash-generating units ("CGU") to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

f) DISCONTINUED OPERATIONS

Financial results from continuing operations do not include the results of operations which have been identified as discontinued operations. IFRS requires the results from the discontinued operations for the current and comparative periods be segregated on the consolidated statements of net loss and comprehensive loss as discontinued operations. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as net loss or loss, net of tax from discontinued operations in the consolidated statements of net loss and comprehensive loss.

g) REVENUE RECOGNITION

Revenue is recognized in the period service is rendered. Revenue for downhole tools is recognized when title passes to the customer and the customer assumes risks and rewards of ownership. Revenue is only recognized when it is probable that economic benefits will flow to Essential. Revenue is measured at the fair value of the consideration received, excluding sales taxes.

h) INCOME TAXES

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of net loss and comprehensive loss.

Deferred income taxes

Deferred income taxes are provided using the liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are re-measured at each reporting date and recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable

income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of net loss and comprehensive loss. Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. The measurement of deferred income tax assets and liabilities involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

i) SHARE-BASED PAYMENT TRANSACTIONS

Essential has a Share Option Plan, a Restricted Share Unit ("RSU") Plan and a Deferred Share Unit ("DSU") Plan for which share-based compensation costs are incurred. The estimates used to determine fair value and forfeiture rates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. In addition, the dilutive effect of outstanding options and equity-settled RSUs are reflected as additional share dilution in the computation of diluted earnings per share.

Share Option Plan

The Board of Directors is authorized to grant options to participants under The Share Option Plan. The Share Option Plan is available to senior management and executives. At the time of issuance, Essential uses the Black-Scholes Option Pricing Model to measure the fair value of the options granted. The cost of the options is recorded as compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that eventually vest. Upon exercise of the option, the associated amount is reclassified from contributed surplus to share capital. On exercise, the cash consideration received by the Company is recorded as share capital.

Restricted Share Unit Plan

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. The RSU Plan is for certain employees and executives of the Company. RSUs granted prior to December 9, 2015 represent the right to receive a cash payment or its equivalent in fully paid common shares of Essential ("Common Shares") at the time of vesting, at the option of the Board of Directors. RSUs granted after December 9, 2015 represent the right to receive a cash payment at the time of vesting. As determined by the Board of Directors, RSUs may vest evenly over a specified period, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. DSUs are for executives and non-employee directors ("Eligible Directors") of the Company. Unless otherwise determined, DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding expense is charged to share-based compensation expense over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense.

j) FINANCIAL INSTRUMENTS

Fair value hierarchy

The fair value hierarchy establishes three levels to classify the inputs for valuation techniques used to measure fair value as follows:

a. Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
b. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means.
c. Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company does not use any Level 3 inputs.

Financial assets

Financial assets are recognized initially at fair value. Subsequent to initial recognition non-derivative financial assets are measured based on their classification, as follows:

a. fair value through net loss (including held-for-trading),
b. loans and receivables,
c. held-to-maturity, or
d. available-for-sale.

Financial assets at fair value through net loss

Cash is classified as "held-for-trading". Financial assets recognized at fair value through net loss include financial assets designated as held-for-trading and financial assets designated upon initial recognition at fair value through net loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Financial assets recognized at fair value through net loss are carried in the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statements of net loss and comprehensive loss.

Loans and receivables

Trade and other accounts receivables are classified as "loans and receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

<u>*Financial liabilities*</u>

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, include directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial liabilities are measured based on their classification, as follows:

a. fair value through net loss (including held-for-trading), or
b. other financial liabilities.

Financial liabilities at fair value through net loss

Financial liabilities recognized at fair value through net loss include those designated as held-for-trading and as fair value through net loss upon initial recognition. As at December 31, 2016, Essential had no held-for-trading financial liabilities.

Other financial liabilities

Trade and other payables and long-term debt are classified as "other financial liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

k) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of an asset. The costs of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The costs associated with repairs and maintenance are recognized in the consolidated statements of net loss and comprehensive loss as incurred.

Depreciation is recorded using either a straight-line method or unit of production method, net of salvage value, over the estimated useful lives of the assets. The Company reviews its historical experience with similar assets to help ensure that these depreciation rates are appropriate. The actual useful life of the assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. Depreciation rates are as follows:

Category	Period	Method
Coil tubing rigs and equipment – certifications	24,000 hours	Hours of service
Coil tubing rigs and equipment	8-20 years	Straight-line
Service rigs and equipment – certifications	24,000 hours	Hours of service
Service rigs and equipment	8-30 years	Straight-line
Oilfield equipment	10-15 years	Straight-line
Vehicles	4-8 years	Straight-line
Office and computer equipment	3-10 years	Straight-line
Other	5-12 years	Straight-line
Leasehold improvements	varied	Over lease term

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of net loss and comprehensive loss in the period the asset is derecognized.

Existing assets' estimated useful lives, residual values and methods of depreciation are assessed as part of the Company's annual review of the estimated useful lives of property and equipment. As a result of a review in 2015, effective January 1, 2016 certain assets were depreciated prospectively over a shorter period. This was approved by Essential's Audit Committee on March 2, 2016.

- Vehicles - depreciated over an average life of 4-8 years (previously 5-10 years);
- Coil tubing rigs and equipment - depreciated over an average life of 8-20 years (previously 8-30 years); and
- Service rigs and equipment - depreciated over an average life of 8-30 years (previously 8-40 years).

The change in estimate arose from more information and experience operating and maintaining these assets obtained with the passage of time.

l) Leases

At inception, leases are classified as either finance or operating leases.

Finance leases

Finance leases, which transfer to the Company substantially all the risks and benefits of ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations recorded under finance leases are reduced by the lease payments, net of imputed interest.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases

Any lease not classified as a finance lease is accounted for as an operating lease, and the associated payments are recorded over the lease term.

m) Intangible Assets

Intangible assets are comprised of the values attributable to computer software, customer relationships and a non-compete agreement from acquired businesses.

The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. The actual useful life of the assets may differ from the original estimate as they involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

Intangible assets are amortized on a straight-line basis over their expected lives as follows:

Customer relationships	5-10 years
Computer software	5 years
Non-compete agreement	5 years

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net proceeds from disposition and the carrying amount of the asset and are recognized in the consolidated statements of net loss and comprehensive loss when the asset is derecognized.

n) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

The cost basis of each category of inventory is as follows:

Downhole tools	weighted average cost basis
Coil tubing	specific cost basis

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

o) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. However, given the cyclical nature of the oil and gas industry, a customer's ability to fulfill its payment obligations can change suddenly and without notice. The provision for impairment of trade receivables involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

p) IMPAIRMENT OF LONG-LIVED ASSETS

At each reporting date, the Company assesses whether there is an indication that an asset or group of assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a cash generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized in the consolidated statements of net loss and comprehensive loss. After an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, budgets and industry considerations affecting the Company and the CGU. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of net loss and

comprehensive loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

q) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of identifiable net asset acquired, less any accumulated impairment losses after initial recognition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any goodwill impairment will be recognized as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

r) PROVISIONS

Provisions are recognized when Essential has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. The expense relating to any provision is presented in the consolidated statements of net loss and comprehensive loss.

An onerous lease contract liability is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The liability is determined by estimating the present value of the minimum future contractual payments the Company is obligated to make under the non-cancellable onerous lease contract, reduced by estimated recoveries.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Disclosure Initiative

Amendments to International Accounting Standard 7 *Disclosure Initiative* requires disclosures that enable users of financial statements to evaluate the changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. Essential does not expect the amendments to have a material effect on its disclosures.

Share-Based Payments

Amendments to IFRS 2 *Share-Based Payments* clarifies how to classify and measure certain types of share-based compensation. The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. Essential intends to adopt the IFRS 2 amendments on January 1, 2018 and is currently assessing the impact of the amendments.

Financial Instruments

IFRS 9 *Financial Instruments* addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. Essential intends to adopt IFRS 9 on January 1, 2018 and continues to assess this new standard, but does not expect it to have a significant impact.

Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a single revenue recognition and measurement framework to determine the timing and measurement of revenue from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Essential intends

to adopt IFRS 15 on January 1, 2018 and continues to assess this new standard, but does not expect it to have a significant impact.

Leases

IFRS 16 *Leases* requires all leases to be recognized in the consolidated statement of financial position as right-of-use assets and related lease liabilities. IFRS 16 changes the definition of a lease and outlines new requirements for recognition and measurement for the asset and liability. The standard is effective for annual periods beginning on or after January 1, 2019. Essential is currently assessing the impact of this new standard.

4. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements involves the use of estimates and approximations based on information available as at the date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the estimates used for the impairment provisions for trade receivables, net realizable value of inventory, depreciation and amortization, intangible assets, impairment of long-lived assets and goodwill, share-based compensation, provisions, onerous lease contracts, and deferred income tax assets and liabilities. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

5. DISCONTINUED OPERATIONS

On December 16, 2016 Essential sold its service rig business for total consideration of $28.2 million. Sale of the service rig business included all service rigs, ancillary equipment and transfer of employees. The service rig business has been reported as a discontinued operation in this reporting period with prior periods restated to this same basis of accounting and disclosure. Discontinued operations were previously classified in the Well Servicing segment, which has been renamed as Essential Coil Well Service following the service rig business disposal.

The comparative consolidated statement of net loss and comprehensive loss have been restated to present the discontinued operations separately from continuing operations.

The loss on sale of discontinued operations was determined as follows:

	Amount
Cash	**$ 12,200**
Inventory	**350**
Equipment	**15,650**
Total consideration received	**28,200**
Net book value of disposed service rig assets	**45,022**
Transaction costs	**936**
Loss on sale of discontinued operations	**17,758**
Income tax recovery on loss on sale of discontinued operations	**4,763**
Loss on sale of discontinued operations, net of tax	**$ 12,995**

The results of the service rig business are as follows:

	For years ended December 31, 2016	2015
Revenue	**$ 15,950**	$ 37,049
Expenses	**17,460**	33,675
Depreciation	**3,051**	4,556
Impairment loss	**15,814**	2,100
Loss before income tax	**(20,375)**	(3,282)
Income tax (recovery) expense	**(5,363)**	169
Loss from discontinued operations, net of tax	**(15,012)**	(3,451)
Loss on sale of discontinued operations	**(17,758)**	-
Income tax recovery on loss on sale of discontinued operations	**4,763**	-
Net loss from discontinued operations	**(28,007)**	(3,451)
Unrealized foreign exchange loss from discontinued operations	**(39)**	-
Comprehensive loss from discontinued operations	**$ (28,046)**	$ (3,451)
Net loss from discontinued operations per share, basic and diluted	**$ (0.22)**	$ (0.03)

	For years ended December 31, 2016	2015
Net cash flows used in discontinued operations:		
Net cash used in operating activities	**$ 1,775**	$ 14,219
Net cash provided by (used in) investing activities	**11,953**	(1,278)
Net cash flows provided by (used in) discontinued operations	**$ 13,728**	$ 12,941

The March 31, 2016 impairment test determined the carrying amount of the service rigs CGU was higher than its recoverable amount of $49.3 million and an impairment loss of $15.8 million was recognized (2015 – $2.1 million). The recoverable amounts were determined based on a value-in-use calculation using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.5% per annum (2015 – 2.5%) and discounted at a rate of 15.1% (2015 – 15.1%). Management identified that a 2.6 percentage point decrease in the discount rate would have supported a conclusion of no impairment loss to be recognized for the service rigs CGU. Following the impairment loss recognized in Essential's service rigs CGU, the recoverable amount was equal to the carrying amount.

6. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31, 2016	2015
Trade receivables, net of provision	**$ 29,228**	$ 28,023
Other receivables	**72**	437
	$ 29,300	$ 28,460

Trade receivables are non-interest bearing and are shown net of a provision for impairment. Other receivables are non-interest bearing.

The carrying amounts of trade receivables are denominated in the following currencies:

	As at December 31, 2016	As at December 31, 2015
Canadian dollar	**$ 28,619**	$ 26,848
U.S. dollar	**609**	1,175
	$ 29,228	$ 28,023

The aging analysis of trade receivables is as follows:

	As at December 31, 2016	As at December 31, 2015
< 31 days	**$ 13,866**	$ 11,334
31-60 days	**10,289**	10,021
61-90 days	**3,888**	4,473
>90 days	**1,185**	2,195
	$ 29,228	$ 28,023

Essential considers a trade receivable balance past due when it exceeds normal customer payment terms, which can range from net 30 days to greater than 90 days. The provision for impairment of receivables of $0.5 million (2015 – $0.9 million) is included in the amounts over 90 days old. The movements in the provision during the period were as follows:

	For years ended December 31, 2016	For years ended December 31, 2015
Balance, beginning of period	**$ 925**	$ 1,148
Provision for receivables impairment	**682**	883
Receivables written off against the provision	**(1,075)**	(1,106)
Balance, end of period	**$ 532**	$ 925

The provision for impairment of receivables has been included in operating expenses in the consolidated statements of net loss and comprehensive loss. Uncollectable amounts included in the provision are written off against the provision when there is no expectation of recovery.

7. INVENTORIES

	As at December 31, 2016	As at December 31, 2015
Downhole tools	**$ 18,028**	$ 23,146
Coil tubing	**9,049**	7,463
	$ 27,077	$ 30,609

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2016 was $25.2 million (2015 – $31.4 million).

8. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, 2016	2015
Coil well service, rigs and equipment	**$ 95,140**	$ 112,895
Service rigs and equipment	**-**	58,931
Oilfield equipment	**27,622**	28,794
Vehicles	**11,903**	21,160
Office and computer equipment	**739**	1,420
Land	**482**	482
Other	**1,153**	1,797
	$ 137,039	$ 225,479

Cost As at December 31, 2016	**Balance, beginning of year**	**Additions**	**Transfer**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil well service, rigs and equipment	**$ 147,484**	**$ 20,839**	**$ -**	**$ (11,846)**	**$ -**	**$ 156,477**
Service rigs and equipment	**88,566**	**255**	**-**	**(88,831)**	**10**	**-**
Oilfield equipment	**49,639**	**3,890**	**4,001**	**(5,245)**	**(21)**	**52,264**
Vehicles	**31,149**	**1,552**	**-**	**(7,004)**	**(143)**	**25,554**
Office and computer equipment	**4,426**	**47**	**-**	**(747)**	**(52)**	**3,674**
Land	**482**	**-**	**-**	**-**	**-**	**482**
Other	**4,787**	**-**	**-**	**(65)**	**(1)**	**4,721**
	$ 326,533	**$ 26,583**	**$ 4,001**	**$ (113,738)**	**$ (207)**	**$ 243,172**
Cost As at December 31, 2015						
Coil well service, rigs and equipment	$ 139,649	$ 11,393	$ -	$ (3,558)	$ -	$ 147,484
Service rigs and equipment	92,300	405	-	(4,139)	-	88,566
Oilfield equipment	54,254	1,337	-	(6,137)	185	49,639
Vehicles	33,201	2,150	-	(4,218)	16	31,149
Office and computer equipment	4,604	307	-	(488)	3	4,426
Land	482	-	-	-	-	482
Other	5,123	104	-	(445)	5	4,787
	$ 329,613	$ 15,696	$ -	$ (18,985)	$ 209	$ 326,533

Accumulated Depreciation As at December 31, 2016	**Balance, beginning of year**	**Depreciation**	**Disposals**	**Impairment Loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil well service, rigs and equipment	**$ 34,589**	**$ 6,968**	**$ (7,849)**	**$ 27,629**	**$ -**	**$ 61,337**
Service rigs and equipment	**29,635**	**2,401**	**(46,730)**	**14,707**	**(13)**	**-**
Oilfield equipment	**20,845**	**4,276**	**(3,486)**	**2,852**	**155**	**24,642**
Vehicles	**9,989**	**3,630**	**(4,130)**	**4,362**	**(200)**	**13,651**
Office and computer equipment	**3,006**	**516**	**(587)**	**-**	**-**	**2,935**
Other	**2,990**	**502**	**(65)**	**143**	**(2)**	**3,568**
	$ 101,054	**$ 18,293**	**$ (62,847)**	**$ 49,693**	**$ (60)**	**$ 106,133**
Accumulated Depreciation As at December 31, 2015						
Coil well service, rigs and equipment	$ 30,000	$ 7,382	$ (2,793)	$ -	$ -	$ 34,589
Service rigs and equipment	24,656	3,789	(910)	2,100	-	29,635
Oilfield equipment	20,891	5,017	(5,109)	-	46	20,845
Vehicles	8,643	3,917	(2,573)	-	2	9,989
Office and computer equipment	2,807	622	(423)	-	-	3,006
Other	2,920	511	(445)	-	4	2,990
	$ 89,917	$ 21,238	$ (12,253)	2,100	$ 52	$ 101,054

Included in coil well service, rigs and equipment, is $0.7 million (2015 – $23.1 million) of assets under construction which will not be depreciated until put into use.

In 2016, an impairment loss of $51.2 million was recorded, of which $33.9 related to coil well service equipment (2015 – nil), $17.3 million related to intangible assets in the Essential Coil Well Service (“ECWS”) CGU (2015 – nil) and nil related to goodwill in ECWS (2015 – $11.1 million). Of the $51.2 million impairment loss recorded in 2016, $45.8 million was recognized on March 31, 2016 and $5.4 million was recognized on December 31, 2016.

a) Impairment Assessment - December 31, 2016

On November 6, 2016 Essential signed a Settlement Agreement terminating its build contract with Option Industries Inc. (“Option”), the fabricator of its Generation IV coil tubing rigs and subsequently took delivery of the two partially completed rigs, components and parts. Option also committed to deliver parts and components for two deferred rigs. The Settlement Agreement included reference to the deferred rigs and associated drawings, plans and certifications for all rigs. On November 9, 2016, Option filed a Notice of Intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada).

Essential conducted an evaluation of the equipment, parts and components, which included verification and valuation of items received, assessment of the percentage of completion and an estimate of remaining costs to complete the two Generation IV coil tubing rigs. As a result, during the three months ended December 31, 2016, the Company recorded an impairment loss to coil well service rigs under construction of $5.4 million, reducing the carrying values and previously paid deposits to their estimated net realizable values.

Essential completed an impairment assessment at December 31, 2016. The impairment assessment determined that except for the $5.4 million impairment loss discussed above, the fair value of Essential’s long lived assets and goodwill were higher than their carrying value and no further impairment loss was recognized (2015 – $11.1 million related to goodwill in ECWS).

The recoverable amounts of Essential’s CGUs were determined based on value-in-use calculation using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of

2.5% per annum (2015 – 2.5%) and discounted at a rate of 15.4% (2015 – 15.1% to 15.4%). Financial forecasts were based on management's expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends. Management assumed that 2017 would begin a gradual recovery from the bottom of the downturn in 2016, returning to historical activity levels through 2019 to 2021.

Management identified that a 0.1 percentage point increase in the discount rate would have resulted in an impairment loss to be recognized for ECWS.

b) Impairment Test - March 31, 2016

Essential completed an impairment assessment at March 31, 2016 following the first quarter 2016 when financial results were much lower than expected and the industry outlook had deteriorated since December 31, 2015. The impairment assessment determined that the fair value of the ECWS CGU was less than its carrying value.

The recoverable amounts of Essential's CGUs were determined based on value-in-use calculation using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.5% per annum (2015 – 2.5%) and discounted at a rate ranging from 15.1% to 15.4% (2015 – 15.1% to 15.4%). Financial forecasts were based on management's expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends. Assumptions related to asset utilization rates for Essential's coil tubing rigs and service rigs were forecast based on existing industry trends and forecasts. Management assumed the downturn in the oil and natural gas industry would continue through 2016 and 2017, with a gradual recovery to historical activity levels through 2018 to 2020.

The March 31, 2016 impairment test determined the carrying amount of the ECWS CGU was higher than its recoverable amount of $125.1 million and an impairment loss of $45.8 million was recognized (March 31, 2015 – nil). Management identified that a 3.4 percentage point decrease in the discount rate would have supported a conclusion of no impairment loss to be recognized for the ECWS CGU. Following the impairment loss recognized in the ECWS CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

9. INTANGIBLE ASSETS

	As at December 31,	
Carrying Amount	**2016**	2015
Customer relationships	**$ 841**	$ 19,518
Computer software	**1,084**	1,523
Non-compete agreement	**207**	306
	$ 2,132	$ 21,347

In 2016, an impairment loss of $51.2 million was recorded, of which $17.3 million related to intangible assets (2015 – nil), $33.9 million related to coil well service equipment (2015 – nil) and nil related to goodwill (2015 - $11.1 million related to ECWS).

Cost **As at December 31, 2016**	**Balance, beginning of year**	**Additions**	**De-recognition**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 38,602**	**$ -**	**$ -**	**$ (48)**	**$ 38,554**
Computer software	**5,475**	**62**	**-**	**-**	**5,537**
Non-compete agreement	**458**	**-**	**-**	**(15)**	**$ 443**
	$ 44,535	**$ 62**	**$ -**	**$ (63)**	**$ 44,534**
Cost As at December 31, 2015					
Customer relationships	$ 41,242	$ -	$ (2,897)	$ 257	$ 38,602
Trade names	3,159	-	(3,159)	-	-
Computer software	4,494	981	-	-	5,475
Favourable leases	500	-	(500)	-	-
Non-compete agreement	384	-	-	74	458
	$ 49,779	$ 981	$ (6,556)	$ 331	$ 44,535

Accumulated Amortization **As at December 31, 2016**	**Balance, beginning of year**	**Amortization**	**De-recognition & impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 19,084**	**$ 1,280**	**$ 17,362**	**$ (13)**	**$ 37,713**
Computer software	**3,952**	**501**	**-**	**-**	**4,453**
Non-compete agreement	**152**	**87**	**-**	**(3)**	**236**
	$ 23,188	**$ 1,868**	**$ 17,362**	**$ (16)**	**$ 42,402**
Accumulated Amortization As at December 31, 2015					
Customer relationships	$ 18,006	$ 3,914	$ (2,897)	$ 61	$ 19,084
Trade names	3,159	-	(3,159)	-	-
Computer software	3,464	488	-	-	3,952
Favourable leases	500	-	(500)	-	-
Non-compete agreement	51	84	-	17	152
	$ 25,180	$ 4,486	$ (6,556)	$ 78	$ 23,188

10. GOODWILL

	For the years ended December 31, **2016**	2015
Beginning of the year	**$ 3,799**	$ 14,298
Impairment loss	**-**	(11,114)
Effect of movement in exchange rates	**(113)**	615
End of the year	**$ 3,686**	$ 3,799

In 2016, an impairment loss of $51.2 million was recorded, of which $17.3 million related to intangible assets (2015 – nil), $33.9 million related to coil well service equipment (2015 – nil) and nil related to goodwill (2015 - $11.1 million related to ECWS). Goodwill is allocated to the Company's downhole tools CGU (2015 - $3.8 million).

In assessing whether goodwill has been impaired, the carrying amount, including goodwill, of each CGU containing goodwill is compared to its recoverable amount. The recoverable amounts of Essential's downhole tools CGU was based on value in use, determined using discounted cash flow projections for a five-year period from financial

forecasts extrapolated thereafter at a growth rate of 2.5% per annum (2015 – 2.5%) and discounted at a rate of 15.4% (2015 – 15.1%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends.

For the year ended December 31, 2016, the carrying amount of the downhole tools CGU was determined to be lower than its recoverable amount of $93.9 million and no impairment loss was recognized. Management has identified that a 15.7 percentage point decrease in the discount rate would result in an impairment loss to be recognized in the downhole tools CGU.

11. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31, 2016	As at December 31, 2015
Trade accounts payable	**$ 9,139**	$ 6,894
Accrued payables	**4,571**	3,437
Accrued payroll	**3,983**	3,236
Other	**1,619**	961
	$ 19,312	$ 14,528

The carrying amounts of trade accounts payable are denominated in the following currencies:

	As at December 31, 2016	As at December 31, 2015
Canadian dollar	**$ 8,728**	$ 6,709
U.S. dollar	**411**	185
	$ 9,139	$ 6,894

12. DIVIDENDS PAYABLE

During the period, Essential declared dividends to shareholders in accordance with the following schedule:

Record date	**Payment date**	**Total dividend**	**Amount per share**
2016			
March 31, 2016	April 15, 2016	$ 378	$ 0.003
2015			
December 31, 2015	January 15, 2016	$ 378	$ 0.003
September 30, 2015	October 15, 2015	$ 1,888	$ 0.015
June 30, 2015	July 15, 2015	$ 3,775	$ 0.030
March 31, 2015	April 15, 2015	$ 3,775	$ 0.030

In May 2016, the Board of Directors suspended the dividend.

13. ONEROUS LEASE CONTRACT

	As at December 31, **2016**
Beginning of the year	**$ -**
Liability recognized during the year	**4,754**
End of year	**$ 4,754**
Current portion of onerous lease contract liability	**612**
Long-term portion of onerous lease liability	**$ 4,142**

In 2016, Essential recognized an onerous lease contract liability related to its Calgary office space that is no longer used following staff reductions and the sale of the service rig business. The lease will expire in 2023. A portion of the lease has been sub-let until June 30, 2017, but is not expected to be renewed. The Company recognized the present value of the minimum future contractual payments as an onerous lease contract, net of expected rental income.

14. LONG-TERM DEBT

	As at December 31, **2016**	As at December 31, 2015
Term loan	**$ 11,450**	$ 25,600
Deferred financing costs	**(200)**	(57)
Non-current portion of long-term debt	**$ 11,250**	$ 25,543

Essential's credit facility with its banking syndicate was renewed on June 15, 2016 and is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2019, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date. At December 31, 2016, the maximum of $40 million under the Credit Facility was available to Essential.

As at December 31, 2016, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

15. INCOME TAXES

	For the years ended December 31, **2016**	For the years ended December 31, 2015
Current income tax recovery	**$ (6,780)**	$ (3,460)
Deferred income tax (recovery) expense	**(14,649)**	2,652
Total income tax recovery	**$ (21,429)**	$ (808)

Income tax recovery differs from the amount computed by applying the Canadian statutory rates on income before income taxes, as follows:

	For the years ended December 31,	
	2016	2015
Loss before income taxes	**$ (84,051)**	$ (19,842)
Statutory tax rate	**26.9%**	26.2%
Expected income tax recovery	**(22,610)**	(5,199)
Increase (decrease) resulting from:		
Impairment loss on goodwill	**-**	2,912
Changes in tax rates	**407**	1,253
Unrecognized deferred tax assets	**693**	357
Items not deductible for tax	**154**	205
Share-based compensation	**92**	95
Impact of foreign tax rates	**(175)**	(97)
Other	**10**	(334)
Total income tax recovery	**$ (21,429)**	$ (808)

The deferred income tax liabilities consist of temporary differences between the carrying values for accounting versus tax values, as follows:

	As at December 31,	
	2016	2015
Property and equipment	**$ (12,097)**	$ (28,123)
Intangible assets	**2,601**	(2,236)
Onerous lease contract expense	**1,273**	-
Net operating losses (income)	**657**	(19)
Share issuance costs	**180**	-
Other	**(133)**	(901)
Deferred tax liabilities	**$ (7,519)**	$ (31,279)

As at December 31, 2016, Essential has unrecognized tax assets that relate to $8.3 million (2015 - $6.2 million) of gross non-capital losses in the United States, which expire in 2033 to 2036.

16. SHARE CAPITAL

Authorized

The authorized share capital of Essential consists of an unlimited number of Common Shares and preferred shares. Common Shares are without par value and are entitled to any dividend declared on this class of share. Preferred shares may be issued in one or more series, and the rights, privileges, restrictions and conditions of each series will be determined prior to issuance.

	Number of Common Shares (000's)	Amount
As at January 1, 2015	125,778	$ 262,871
Shares issued on exercise of options	59	106
As at December 31, 2015	125,837	$ 262,977
Shares issued on equity raise, net of tax	16,020	9,755
As at December 31, 2016	**141,857**	**$ 272,732**

On October 12, 2016, Essential closed an equity offering whereby 16,019,883 Common Shares were issued at a price of $0.65 per Common Share. Net proceeds, net of tax, were $9.8 million (gross proceeds of $10.4 million less share issuance costs of $0.8 million and deferred tax benefit of $0.2 million on the share issuance costs) were used to partially repay outstanding indebtedness.

17. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2015	$ 4,426	$ 7	$ 4,433
Share-based compensation	363	-	363
Exercise of options	(38)	-	(38)
Unrealized foreign exchange gain from continuing operations	-	418	418
As at December 31, 2015	$ 4,751	$ 425	$ 5,176
Share-based compensation	**340**	**-**	**340**
Unrealized foreign exchange loss from continuing operations	-	**(40)**	**(40)**
Unrealized foreign exchange loss from discontinued operations	-	**(39)**	**(39)**
As at December 31, 2016	**$ 5,091**	**$ 346**	**$ 5,437**

18. OPERATING EXPENSES

	For the years ended December 31,	
	2016	2015
Employee costs *(note 20)*	**$ 31,890**	$ 44,997
Materials and related costs	**31,231**	37,324
Repairs and maintenance	**5,663**	8,331
Occupancy costs	**5,086**	4,776
Subcontracting	**4,615**	6,377
Travel	**4,445**	7,193
Fuel	**4,244**	6,640
Other	**2,566**	4,426
	$ 89,740	$ 120,064

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, **2016**	2015
Employee costs *(note 20)*	**$ 6,156**	$ 6,545
Professional fees	**2,114**	1,916
Occupancy costs	**1,708**	1,948
Other	**2,224**	2,495
	$ 12,202	$ 12,904

20. EMPLOYEE COSTS

	For the years ended December 31, **2016**	2015
Wages and salaries	**$ 35,356**	$ 48,349
Share-based compensation *(note 22)*	**2,114**	858
Other benefits	**2,690**	3,193
	$ 40,160	$ 52,400
Employee costs are included in:		
Operating expenses *(note 18)*	**$ 31,890**	$ 44,997
General and administrative expenses *(note 19)*	**6,156**	6,545
Share-based compensation *(note 22)*	**2,114**	858
	$ 40,160	$ 52,400

21. OTHER EXPENSES

	For the years ended December 31, **2016**	2015
Loss on disposal and write-down of assets	**$ 2,151**	$ 1,727
Foreign exchange loss (gain)	**342**	(1,977)
Other loss	**17**	327
	$ 2,510	$ 77

22. SHARE-BASED COMPENSATION

The Company offers the following share-based compensation plans: Share Option Plan, RSU and DSU Plan.

The maximum number of share options issuable under the Share Option Plan and RSUs issued prior to December 9, 2015 under the RSU Plan, together may not exceed 9% of the Company's outstanding Common Shares. RSUs granted after December 9, 2015 represent the right to receive a cash payment only, at the time of vesting, and as such, are not included in the maximum number of share options or RSUs allowed for issuance. As at December 31, 2016, the maximum number of share options and RSUs allowed for issuance was 12,767,114 (2015 – 11,325,324).

Components of the Company's share-based compensation expense are as follows:

	For the years ended December 31, 2016	2015
Equity-settled share options	**$ 340**	$ 363
Restricted share units	**1,102**	495
Deferred share units	**1,316**	(19)
Total share-based compensation expense	**$ 2,758**	$ 839

a) Share Option Plan

Under the Company's Share Option Plan, participants receive options to acquire Common Shares, with terms not to exceed five years from the date of the grant. The exercise price is the weighted-average price of the Common Shares for the five trading days immediately prior to the grant date. Under the Share Option Plan, vesting periods are determined by the Board of Directors at the time of the grant. The options currently outstanding vest over three years with one-third of the options exercisable on each anniversary date from the date of the original grant.

	For the years ended December 31, 2016		For the years ended December 31, 2015	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**6,393**	**$ 1.91**	5,024	$ 2.19
Issued	**2,841**	**0.57**	2,025	1.19
Exercised	**-**	**-**	(59)	1.15
Expired	**(1,294)**	**2.12**	(145)	1.20
Forfeited	**(990)**	**1.24**	(452)	2.14
Outstanding, end of period	**6,950**	**$ 1.42**	6,393	$ 1.91
Exercisable, end of period	**3,297**	**$ 2.05**	3,707	$ 2.17

The fair value of the share options issued during the period was between \$0.15 – \$0.24 per option (2015 – \$0.15 – \$0.24), estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2016	2015
Risk-free interest rate	**0.5 – 0.6%**	1.0 – 1.1%
Expected volatility	**43.9 – 48.9%**	41.6 – 43.3%
Expected term	**3.6 – 4.5 years**	3.7 – 5.0 years
Expected forfeiture rate	**6.6 – 15.8%**	7.5 – 16.5%
Dividend yield	**nil – 2.3%**	8.7-10.6%

The expected term of the grant is determined based on the historical average life of grants issued. The risk-free interest rate is determined using the Canadian bond yield based on the expected term of the grant. The expected volatility is determined based on the change in the share price over the term of the grant. The expected forfeiture rate is calculated based on historical forfeitures of grants issued.

The following table summarizes information with respect to the share options outstanding as at December 31, 2016 and 2015:

Exercise Prices	Options Outstanding (000's)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (per option)	Number of Options Exercisable (000's)
As at December 31, 2016				
$0.55 – $1.00	**2,411**	**4.20**	**$ 0.57**	**-**
$1.01 – $2.00	**1,762**	**3.33**	**$ 1.20**	**675**
$2.01 – $2.90	**2,777**	**0.74**	**$ 2.30**	**2,622**
	6,950	**2.60**	**$ 1.42**	**3,297**
As at December 31, 2015				
$1.12 – $2.00	2,355	3.82	$ 1.30	330
$2.01 – $2.90	4,038	1.33	$ 2.27	3,377
	6,393	2.25	$ 1.91	3,707

On January 10, 2017, Essential issued 1,315,000 share options with an exercise price of $0.83 per option.

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. RSUs granted to a participant prior to December 9, 2015 represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. RSUs granted to participants after December 9, 2015 represent the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments; contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, when dividends are paid, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at December 31, 2016 is $1.4 million (December 31, 2015 – $0.8 million) of which $0.7 million is due within one year (December 31, 2015 – $0.5 million).

The following table summarizes information with respect to RSUs outstanding for the years ended December 31, 2016 and 2015:

Number of RSUs (000's)	For years ended December 31, **2016**	2015
Outstanding, beginning of period	**2,875**	1,103
Issued (including dividend equivalents)	**2,771**	2,396
Vested	**(835)**	(431)
Forfeited	**(985)**	(193)
Outstanding, end of period	**3,826**	2,875

On January 10, 2017, Essential issued 1,848,000 RSUs.

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or

employee of the Company. Under the terms of the plan, when dividends are paid, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at December 31, 2016 is $1.5 million (December 31, 2015 – $0.2 million) of which nil million is due within one year (December 31, 2015 – nil).

The following table summarizes information with respect to DSUs outstanding:

Number of DSUs (000's)	For the years ended December 31, **2016**	2015
Outstanding, beginning of period	**398**	243
Issued (including dividend equivalent)	**3,287**	187
Redeemed	**-**	(32)
Forfeited	**(415)**	-
Outstanding, end of period	**3,270**	398

On January 10, 2017, Essential issued 1,855,000 DSUs.

23. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net loss attributable to shareholders of Essential by the weighted average number of shares issued.

In calculating the diluted earnings per share, share options and equity-settled RSUs outstanding have been taken into account where the impact of these are dilutive. During periods of net loss, the dilutive effect on Common Shares from share options and RSUs are not used in calculating net loss per share as their effect is anti-dilutive.

(000's)	For the years ended December 31, **2016**	2015
Basic and diluted	**129,382**	125,836

24. COMMITMENTS AND CONTINGENCIES

Operating leases

Essential has entered into operating leases for office and shop premises that provide for minimum annual lease payments, as follows:

	Amount
2017	$ 5,448
2018	4,855
2019	4,643
2020	4,072
2021	3,503
Thereafter	6,347
	$ 28,868

Contingencies

The Company, through the performance of its services and business arrangements, is sometimes named as a defendant in litigation. The outcome of such claims against the Company is not determinable at this time.

On October 23, 2013, Packers Plus Energy Services Inc. ("Packers Plus") filed a Statement of Claim in Canada's Federal Court (the "Court") against Essential alleging that certain products and methods associated with the Tryton MSFS® infringe on a patent issued to Packers Plus (the "Packers Plus Claim"). Packers Plus subsequently limited its infringement allegations to just certain method claims in the patent.

Essential believes the Packers Plus Claim is without merit and filed a Statement of Defence and Counterclaim on November 22, 2013. The Statement of Defence denies infringement and pleads further that the patent is invalid because the methodology and equipment claimed in the patent were in use in the oil and natural gas industry prior to the patent's effective filing date of November 19, 2001 or represent nothing more than obvious variations over what was already known in the industry at the time. This position is supported by the existence of similar products, articles and other patents prior to the effective filing date of the patent.

A trial took place in February and into early March 2017. There were two parts to the trial:

- Validity – The validity portion of the trial focused on whether or not the patent is valid. Given the fact that Packers Plus has asserted infringement of the same patent against Essential and three other defendants, Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc., and all of the defendants filed counterclaims seeking a declaration that the patent is invalid, the Federal Court directed that the counterclaims be consolidated into a single trial (the "Joint Validity Trial"). During the Joint Validity Trial the four defendants asserted their common position that the patent is invalid.
- Infringement – The infringement portion of the trial focused on whether or not Essential has infringed the Packers Plus patent. The infringement portions of the Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc. trials were not consolidated with the infringement portion of the Essential case since each infringement action, by its nature, deals with tools, designs and business activities specific to each company.

The Court is expected to render its decision on both validity and infringement within six months from the end of the trial. The Court must find that the Packers Plus patent is both valid and infringed. Given the appeal rights of the parties, and if applicable, the process to quantify damages, final determination of the implications to Essential will most likely not be known for another 16 months to two years.

The Packers Plus Claim targets only the Tryton MSFS® ball & seat system, which Essential commenced using in 2009. It does not target past or future operations of Essential's conventional tools, other Tryton MSFS® tools or the rentals business.

25. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

The Company provides salaries, cash and non-cash benefits to the Board of Directors and Named Executive Officers. Named Executive Officers participate in the Company's Share Option Plan, RSU and DSU Plan. The Board of Directors participate in Essential's DSU Plan.

Key management personnel compensation is comprised of the following:

	For the years ended December 31,	
	2016	2015
Salaries and other benefits	**$ 2,497**	$ 1,602
Share-based compensation (equity and cash settled)	**2,848**	1,520
	$ 5,345	$ 3,122

26. CAPITAL DISCLOSURE

The Company's capital structure consists of the following:

	As at December 31,	
	2016	2015
Long-term debt	**$ 11,250**	$ 25,543
Equity	**163,567**	244,558
Total capitalization	**$ 174,817**	$ 270,101

Essential makes adjustments to its capital structure based on changes in economic conditions and the Company's planned requirements. Essential has the ability to adjust its capital structure by issuing new equity or debt, controlling the amount of dividends issued to shareholders and making adjustments to its capital expenditure program.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Designation and valuation of financial instruments

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other accounts receivable, income taxes receivable, trade and other accounts payable, dividends payable and long-term debt.

The following is a summary of the classification the Company has elected to apply to each of its significant categories of financial instruments:

Cash	Held-for-trading
Trade and other accounts receivable	Loans and receivables
Income tax receivable	Loans and receivables
Trade and other accounts payable	Other financial liabilities
Long-term debt	Other financial liabilities

Fair values

The fair value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates. Essential considers these inputs as Level I in the input hierarchy.

The fair value of a financial instrument is the amount that would be agreed to in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. Fair value can be determined by reference to prices in active markets to which the Company has access. In the absence of active markets, the Company determines fair value based on market or by reference to other similar products.

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and gas industry and are subject to normal industry credit risks. These balances represent the Company's total credit exposure. During the year ended December 31, 2016, the Company earned revenues from more than 445 customers (2015 – more than 435 customers) with five of these customers representing 46% of revenue (2015 – 52% of revenue). As at December 31, 2016, approximately 41% of the total trade accounts receivable balance was due from five companies (2015 – 51%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.2 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2015 – $0.4 million).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Essential manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. The Company believes that it has access to sufficient capital through internally generated cash flows and from undrawn committed credit facilities to meet current spending forecasts.

28. SEASONALITY OF OPERATIONS

The Company's operations are carried out primarily in western Canada. The oilfield service industry's ability to move heavy equipment in exploration and production areas is dependent on weather conditions. With the onset of spring, melting snow, together with frost coming out of the ground renders many roadways incapable of supporting heavy equipment until sufficient time has passed for them to dry out. In addition, certain areas in Canada are typically only accessible during winter months, when the ground surface is frozen enough to support the heavy equipment. As a result, the activity levels of the Company are directly impacted by this seasonality, whereby activity is traditionally higher in the first, third and fourth quarters of the year and lower in the second quarter.

The industry downturn since early 2015 has disrupted typical historic oilfield services seasonal patterns in western Canada as exploration and production companies are driven by constrained cash flow in addition to weather and access issues.

29. SEGMENTED INFORMATION

Essential has two operating segments, Essential Coil Well Service and Downhole Tools & Rentals, and a non-operating segment, Corporate and Eliminations.

Essential has chosen to identify its reportable segments based on services offered. The basis of accounting for transactions between reportable segments is done at fair market value.

a) Essential Coil Well Service

The Essential Coil Well Service segment provides well completion, production and workover services throughout the Western Canadian Sedimentary Basin. The Essential Coil Well Service segment is comprised of a fleet of coil tubing rigs, fluid and nitrogen pumpers and ancillary equipment.

b) Downhole Tools & Rentals

The Downhole Tools & Rentals segment provides downhole tools and rental services in Canada and the United States.

c) Corporate and Eliminations

The Corporate and Eliminations segment is comprised of: i) corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments; and ii) eliminations, which includes transactions between segments which are eliminated upon consolidation. Income (loss) before income taxes for the year ended December 31, 2016 for the Corporate and Eliminations segment substantially represents corporate office and certain operational costs of $12.5 million (2015 - $13.7 million), and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

Selected financial information by operating segment and Corporate & Eliminations is as follows:

As at and for the year ended December 31, 2016	**Essential Coil Well Service**	**Downhole Tools & Rentals**	**Corporate & Eliminations**	**Consolidated**
Revenue	**$ 53,638**	**$ 44,383**	**$ (494)**	**$ 97,527**
(Loss) income before income taxes from continuing operations	**$ (62,832)**	**$ 1,184**	**$ (22,403)**	**$ (84,051)**
Depreciation and amortization	**$ 12,150**	**$ 3,834**	**$ 1,126**	**$ 17,110**
Impairment loss	**$ 51,241**	**$ -**	**$ -**	**$ 51,241**
Total assets	**$ 145,980**	**$ 61,157**	**$ 2,133**	**$ 209,270**
Total liabilities	**$ 16,623**	**$ 9,292**	**$ 19,788**	**$ 45,703**
Property, equipment and intangible asset expenditures	**$ 7,788**	**$ 2,769**	**$ 70**	**$ 10,627**

As at and for the year ended December 31, 2015	Essential Coil Well Service	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	$ 90,128	$ 58,268	$ (732)	$ 147,664
(Loss) income before income taxes from continuing operations	$ (10,061)	$ 5,417	$ (15,198)	$ (19,842)
Depreciation and amortization	$ 16,278	$ 3,730	$ 1,160	$ 21,168
Impairment loss	$ 11,114	$ -	$ -	$ 11,114
Total assets[1]	$ 251,762	$ 61,587	$ 3,875	$ 317,224
Total liabilities[1]	$ 37,846	$ 3,920	$ 30,900	$ 72,666
Property, equipment and intangible asset expenditures	$ 13,735	$ 801	$ 790	$ 15,326

[1] Includes service rig business sold in December 2016, previously classified with Essential Coil Well Service as the Well Servicing Segment.

30. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

1. Audit Committee
2. Compensation & Governance Committee
3. Health, Safety & Environment Committee

Auditors

Ernst & Young LLP

Bankers

National Bank of Canada

The Toronto-Dominion Bank

HSBC Bank Canada

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

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