2013 Financial Report

ESSENTIAL
ENERGY SERVICES

Vision: Safe Production

Mission/Purpose

Deliver safe, reliable and cost effective oil and gas services that reward customers, investors, employees and the community.

As Canada's leading well service specialist, provide innovative solutions for customers as they complete, and work-over deeper and longer reach horizontal oil and natural gas wells.

Dear Shareholders,

In 2013, Essential focused on executing our capital plan and further refinement of our strategy. Demand in well servicing continues to be driven by oil wells and horizontal completions, with an increasing shift to deeper, more complex wells. Essential's 2013 capital plan was focused on offering innovative technology to complete and service these wells. During the year we completed our exit from Colombia and began an organic expansion of our downhole tools business into the southern United States. From a return to shareholders perspective, we were pleased with our share price performance in 2013, as it increased from $2.10 at December 31, 2012 to $2.92 at December 31, 2013. For the 2013 fiscal year our shareholders also received an average return of 4.4% from our dividend payments.

2013 started out strong as we reported record EBITDA of $33 million in the first quarter. However, the second quarter brought a prolonged spring breakup with significant rain in many of the areas that we operate. This wetness continued into the early part of the third quarter and activity was slow to pick up. By the fourth quarter, operations were similar to 2012.

From an industry perspective, 2013 activity was fairly flat to 2012. The number of wells drilled was flat and completion activity decreased 8%. These are relevant industry activity indicators for Essential. The West Texas Intermediate oil price remained relatively strong for much of the year, but exploration and production ("E&P") companies in the Western Canadian Sedimentary Basin continued to be challenged by the oil price differential as takeaway capacity constraints negatively impacted the Western Canadian Select oil price. Natural gas pricing began to show improvement later in the year, but these gains had little impact on natural gas-related service activity in 2013. In addition, challenging equity markets for many of the Canadian E&P companies overshadowed the industry. This impacted the amount of cash flow available for our customers to spend on our services. Uncertainty around capital access often leads our customers to be cautious and defer drilling and completion programs.

<u>Strategic Highlights for 2013</u>

2013 included a number of strategic highlights for Essential, including:

- Growth in our equipment fleet including:
    - the addition of:
        - one Generation III masted deep coil tubing rig
        - two nitrogen pumpers
        - four double mobile service rigs
        - one double rod rig
    - significant progress on the construction of three additional masted deep coil tubing rigs;
- Expansion into the United States with our downhole tools, opening three field offices in Texas and Oklahoma;
- Completion of our exit from Colombia;
- Preserving our strong balance sheet with year-end debt of $39 million, slightly higher than one year ago. Debt to EBITDA at year end was 0.6x, a healthy and low level of debt for an oilfield services company; and
- Increased the quarterly dividend from $0.025 share to $0.03 per share in August 2013.

Operations in 2013

Masted Deep Coil Tubing Rigs

We continued to focus our attention on increasing the depth capacity of our deep coil tubing fleet to meet the growing demand for rigs to complete and service complex, long-reach, horizontal wells. While Essential had expected to take delivery of four masted deep coil tubing rigs in 2013, deliveries were delayed as we worked closely with the fabricators to refine and commission the new technology coil tubing rigs. We took delivery of one rig in 2013, one in February, 2014 and the other two rigs are expected by the end of the first quarter and in the second quarter of 2014. We are excited to get these new rigs to work. These rigs have industry leading large diameter coil-carrying capacity making them uniquely capable of working on long-reach horizontal wells. They are also well-suited to work in deep, high pressure basins including the Montney, Horn River and Duvernay. These basins are expected to supply gas for the proposed liquefied natural gas ("LNG") export facilities in British Columbia. In addition, customers are drilling in the Duvernay for oil.

Conventional Deep Coil Tubing Rigs

Our conventional deep coil business continues to be an important part of our coil tubing strategy. We offer our customers a full suite of coil tubing options with varying cost structures and operational advantages depending on their needs. Our conventional fleet continues to offer a training and development opportunity for crews as they have the opportunity to progress to the more complex and deeper operations. Conventional deep coil tubing started the year off well with a strong first quarter, but began to experience lower sales and utilization in the third quarter. These rigs have a shallower depth range and typically operate in the less technical 2" diameter coil tubing market. This market has not seen as much customer growth and has become more competitive with Canadian service industry competitors adding more equipment in 2013.

Service Rigs

Our service rig business continued to perform well in 2013. The three service rigs that work on SAGD operations did notably well as they often work 24-hour operations. We built four new double service rigs in 2013, three of which are capable of servicing SAGD. In 2014, we expect to continue to maintain the three SAGD rigs and we are working to expand our involvement in the active SAGD market. In the meantime, the new double service rigs are working on conventional wells.

Downhole Tools & Rentals

Our downhole tools business had a very good year, with revenue increasing 6% in a relatively flat industry period. This reflected growth in both the conventional tools business and the Tryton MSFS® business. With a relatively low capital investment, this unique and valuable segment of Essential's operations continues to impress by providing a 32% gross margin during the year and a correspondingly high internal rate of return.

In October 2013, we were served with A Statement of Claim against our Tryton MSFS® from an industry competitor. We believe the claim is without merit and are defending our position. This claim does not apply to our conventional tools or rental operations.

Outlook

Activity in 2014 for Essential started off slower than 2013. The strength of the 2014 first quarter will also be dependent on the timing of spring breakup which typically occurs in mid-March. Last year, spring breakup did not come until early April, supporting strong first quarter results in 2013. Delivery delays of our new masted deep coil tubing rigs, combined with associated incremental costs for commissioning, crews and training, are expected to adversely impact earnings in the first quarter of 2014.

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Generally speaking, 2014 E&P capital budgets are consistent with 2013. Essential believes there are reasons for optimism for the second half of the year including: a weaker Canadian dollar which would increase E&P cash flows, improved access to equity capital markets for E&P companies and the rising price of natural gas.

We see Essential's growth opportunities coming from the following areas:

1. An industry trend of deeper and more complex horizontal well completions;
2. Completion of wells for LNG development; and
3. Workover and maintenance requirements for the growing number of horizontal oil wells.

Industry trends in 2014 support Essential's strategy of introducing deeper, larger diameter masted coil tubing rigs. Our $50 million capital program for 2014 will add significant growth to Essential's masted deep coil tubing fleet. In addition to the four masted deep coil tubing rigs that were part of the 2013 capital plan, Essential plans to build one Generation III and three Generation IV rigs in 2014, with delivery of one of them sliding into 2015.

While the longer term outlook still remains positive for the development of proposed LNG projects in British Columbia, anticipated development has been delayed beyond 2014 expected timeframes. Development of the Montney, Horn River and Duvernay basins for LNG export is expected to increase the demand for oilfield services, including the demand for Essential's deep coil tubing and downhole tools and rentals.

With the growing number of horizontal oil wells in recent years, the industry has been expecting an increase in demand for service rigs and coil tubing to perform work-over services on these wells. This demand has not yet materialized possibly due to new technologies prolonging primary production and capital allocation decisions made by E&P companies to focus on new drilling rather than maintaining existing production. Essential believes, in time, these wells will require work-over services, increasing the demand for service rigs and coil tubing rigs.

Essential is in a great position to take advantage of these future opportunities and our strong balance sheet facilitates this growth.

2013 was a year of preparation for changes in the ever-evolving oil and gas industry. We are excited to be a part of these changes and are on the leading edge of offering innovative completion and production services to our customers.

As always, I offer a sincere thank you to all of our employees – for their dedication and hard work, our Board of Directors – for their support and our investors – for believing in and investing in Essential.

Sincerely,

Garnet Amundson
President & CEO
March 5, 2014

Please refer to Forward Looking Statements and Information on page 24 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2013

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, 2013.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the years ended December 31, 2013 and 2012 and the notes contained therein to which readers are referred and the statement regarding forward-looking information in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 5, 2014.

SELECTED INFORMATION

(Thousands of dollars, except per share, percentages & fleet data)

	Three months ended December 31,		Year ended December 31,		
	2013	2012	**2013**	2012	2011
Revenue	**$ 92,823**	$ 96,015	**$ 336,269**	$ 348,580	$ 313,171
Gross margin	**25,332**	27,039	**83,268**	90,695	87,143
Gross margin %	**27%**	28%	**25%**	26%	28%
EBITDA[1] from continuing operations	**20,705**	22,368	**66,092**	74,342	73,694
EBITDA % [1]	**22%**	23%	**20%**	21%	24%
Net income from continuing operations	**9,478**	8,050	**24,017**	30,764	32,349
Per share – basic	**0.07**	0.06	**0.19**	0.25	0.32
Per share – diluted	**0.07**	0.06	**0.19**	0.25	0.31
Net income attributable to shareholders of Essential	**11,126**	678	**22,095**	22,308	31,122
Per share – basic	**0.09**	0.01	**0.18**	0.18	0.31
Per share – diluted	**0.09**	0.01	**0.17**	0.18	0.30
Cash dividends per share	**$0.030**	$0.025	**$0.11**	$0.10	-
Total assets	**423,963**	406,853	**423,963**	406,853	421,500
Total long-term debt	**39,027**	35,563	**39,027**	35,563	63,486
Utilization					
Deep coil tubing rigs	**74%**	95%	**69%**	77%	99%
Service rigs	**53%**	54%	**50%**	50%	52%
Equipment fleet					
Masted deep coil tubing rigs	**15**	16	**15**	16	16
Conventional deep coil tubing rigs	**12**	11	**12**	11	9
Service rigs	**55**	55	**55**	55	57

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

HIGHLIGHTS

Highlights for Fourth Quarter 2013

Revenue for the fourth quarter of 2013 was $92.8 million, a $3.2 million decrease compared to the same period in 2012.

- Coil Well Service – Essential's coil well service revenue declined compared to the prior quarter due to lower utilization. Masted deep coil tubing utilization of 107% was below prior quarter utilization of 113% due to extreme winter conditions across the Western Canadian Sedimentary Basin ("WCSB") in early December which affected the ability of equipment to work. Conventional deep coil tubing utilization was significantly below prior quarter.
- Service Rigs – Service rig revenue was consistent compared to the same period in the prior quarter, with utilization at 53% compared to 54% in 2012. Essential continued to experience strong utilization for the three service rigs working on steam-assisted gravity drainage ("SAGD") wells.
- Downhole Tools & Rentals – Downhole tools & rentals performed well in the fourth quarter due to increased revenue from both the Canadian Tryton Multi-stage Fracturing System ("Tryton MSFS®") and conventional tools and rentals service lines.

EBITDA for the fourth quarter of 2013 was $20.7 million, a decrease of $1.7 million from 2012. The decrease was due to lower utilization in coil well service, additional labour and travel costs incurred while equipment was shut-down due to extreme cold weather, additional labour costs for crews in preparation for the delivery of new deep masted coil tubing rigs, and start-up costs related to the expansion of downhole tools into the United States.

Highlights for 2013 Year

For the year ended 2013, Essential continued to strengthen its core service capabilities and position itself to meet the rising demand for completing complex, long-reach horizontal wells. In 2013, Essential:

- Made progress in expanding its masted deep coil tubing fleet. In the third quarter, one Generation III rig was delivered. During the fourth quarter, progress was made in the construction of three additional masted deep coil tubing rigs, one Generation III and two Generation IV rigs. Two of these rigs, one Generation III and one Generation IV, will be delivered in the first quarter of 2014, while the third rig will be delivered in the second quarter of 2014. These new masted deep coil tubing rigs have the capability to work on long-reach horizontal wells and are well-suited to work in deep, high pressure basins, including the Montney, Horn River and Duvernay.
- Continued to invest in its service rig fleet adding four mobile free standing, double service rigs, three of which are SAGD capable.
- Expanded downhole tools into the United States, with three field locations in Texas and Oklahoma.
- Completed its exit from Colombia.

Revenue for the year ended December 31, 2013 was $336.3 million, a decrease of $12.3 million compared to 2012. Downhole tools & rentals revenue increased compared to prior year. This was offset by a decline in coil well service revenue due to lower utilization of the deep coil tubing fleet. Revenue in 2013 was also lower due to the prolonged spring break-up in 2013 and disposal in 2012 of the drilling rig and wireline operations, which contributed a combined $13.5 million in revenue for the prior year.

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EBITDA for the year ended December 31, 2013 was $66.1 million, a decrease of $8.3 million from the same period in 2012. The decline in EBITDA is primarily due to the absence of the contribution in the prior year from the drilling rig operation, start-up costs related to the expansion of downhole tools into the United States, lower utilization in coil well service and the prolonged spring break-up in 2013.

INDUSTRY OVERVIEW

Activity in the fourth quarter and for the year ended 2013 closely mirrored 2012 for the same periods. During the fourth quarter of 2013, drilling rig utilization and the number of wells drilled were slightly ahead of prior quarter, while well completions were down. Compared to the fourth quarter 2012, drilling rig utilization increased 3 percentage points[a], the number of wells drilled increased by 2%[b], while well completion count decreased by 11%[b]. For the year, drilling rig utilization decreased 2 percentage points[a], the number of wells drilled was flat[b], and well completion counts decreased 8%[b] compared to 2012. Drilling rig utilization, wells drilled and completion activity are all indicators of overall oilfield activity in the WCSB.

Well service activity in the WCSB continues to be driven by horizontal drilling, completion and stimulation of oil and liquids-rich natural gas wells. The industry continues to focus on horizontal wells which typically require more investment capital and increased rig time per well due to their depth and complexity compared to conventional vertical wells.

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, 2013, as well as, the March 31, 2013, June 30, 2013 and September 30, 2013 interim reports, the 2012 interim reports, 2012 Annual MD&A, Financial Statements and the Annual Information Form for the year ended December 31, 2012, can be found under Essential's profile on SEDAR at www.sedar.com.

OVERVIEW OF ESSENTIAL

Essential is a growth-oriented, dividend paying corporation that provides oilfield services to exploration and production ("E&P") companies in western Canada. Essential's operations are focused on meeting the well servicing needs of customers through its coil well service, service rig, and downhole tools & rentals businesses.

Well Servicing

Essential operates the largest coil well service fleet in the WCSB, out of five facilities across western Canada. There are three distinct types of activities within Essential's coil well service operation.

- Deep Coil Tubing - The deep coil tubing rig fleet includes both masted and conventional rigs. These rigs provide completion, stimulation and work-over services on long reach horizontal and vertical wells. They primarily service horizontal oil and liquids-rich natural gas resource plays:
    - Essential's masted deep coil tubing rigs have a depth capacity of up to 6,400 meters. These rigs have an increased reel capacity which allows for longer and larger coil diameter, making them well suited for deeper, more complex wells.
    - Conventional deep coil tubing rigs generally work in the depth range of 2,500 to 4,000 meters. These rigs have a smaller footprint on location and have greater flexibility during transport and rig-up operations.

(a) Source: Canadian Association of Oilwell Drilling Contractors ("CAODC")
(b) Source: June Warren-Nickle's Energy Group

- Other Coil Tubing - Other coil tubing includes shallow/intermediate conventional coil tubing rigs that have a depth capacity of up to 2,500 meters. These rigs primarily provide work-over services on existing wells. The intermediate rigs are typically oil focused while the shallow rigs are focused on natural gas.
- Pumpers - The coil tubing rigs are supported by a fleet of fluid and nitrogen pumpers. A fluid and/or a nitrogen pumper is often required for jobs involving deep coil tubing rigs and provides circulation through coil tubing.

Essential's mobile service rig fleet provides well servicing from eight facilities offering well completion and production/work-over services in all major resource plays across the WCSB. Service rigs are used primarily on oil wells which are typically more service intensive than natural gas wells. These rigs are deployed to perform work-overs on existing wells and completions on new wells. Essential also operates a fleet of rod rigs. Rod rigs are light service rigs that specialize in servicing pumping oil wells. They are smaller and lighter in weight than conventional service rigs with shorter rig up and rig down times and smaller crew requirements.

Downhole Tools & Rentals

Essential's downhole tools & rentals business focuses on oil and liquids-rich natural gas plays by providing production and completion tools and rentals for horizontal and vertical wells. Operations for this segment are well placed geographically across the WCSB, and in 2013, Essential began expanding its downhole tools business into the United States.

Essential provides a wide range of downhole tool and rental services to assist with the completion and production of oil and natural gas wells.

- Tryton MSFS® - The Tryton MSFS® is used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously.
- Conventional Downhole Tools & Rentals – The Tryton tool business also includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories. The rental business offers a broad range of oilfield equipment including specialty tubulars, blow out preventers, specialty equipment for SAGD wells, and various other tools and handling equipment.

RESULTS OF OPERATIONS

(Thousands, except per share amounts)	Three months ended December 31, **2013**	Three months ended December 31, 2012	Year ended December 31, **2013**	Year ended December 31, 2012
Revenue	**$ 92,823**	$ 96,015	**$ 336,269**	$ 348,580
Operating expenses	**67,491**	68,976	**253,001**	257,885
Gross margin	**25,332**	27,039	**83,268**	90,695
Gross margin %	**27%**	28%	**25%**	26%
General and administrative expenses	**4,627**	4,671	**17,176**	16,353
EBITDA[1]	**20,705**	22,368	**66,092**	74,342
EBITDA %[1]	**22%**	23%	**20%**	21%
Depreciation and amortization	**7,145**	6,787	**26,710**	26,325
Share-based compensation	**840**	475	**2,038**	1,902
Other expense	**839**	2,750	**4,385**	1,648
Operating income	**11,881**	12,356	**32,959**	44,467
Finance costs	**482**	477	**1,634**	2,177
Income before income tax	**11,399**	11,879	**31,325**	42,290
Current income tax expense	**5,655**	2,475	**10,508**	6,567
Deferred income tax expense (recovery)	**(3,734)**	1,354	**(3,200)**	4,959
Total income tax expense	**1,921**	3,829	**7,308**	11,526
Net income from continuing operations	**$ 9,478**	$ 8,050	**$ 24,017**	$ 30,764
Net income (loss) from discontinued operations	**1,648**	(7,626)	**(2,110)**	(8,901)
Net income	**$ 11,126**	$ 424	**$ 21,907**	$ 21,863
Net income from continuing operations	**$ 9,478**	$ 8,050	**$ 24,017**	$ 30,764
Net income from continuing operations per share				
Basic and Diluted	**$ 0.07**	$ 0.06	**$ 0.19**	$ 0.25
Net income (loss) attributable to:				
Shareholders of Essential	**$ 11,126**	$ 678	**$ 22,095**	$ 22,308
Non-controlling interest	**-**	(254)	**(188)**	(445)
	$ 11,126	$ 424	**$ 21,907**	$ 21,863
Net income per share, attributable to Essential				
Basic	**$ 0.09**	$ 0.01	**$ 0.18**	$ 0.18
Diluted	**$ 0.09**	$ 0.01	**$ 0.17**	$ 0.18

SEGMENT RESULTS - *WELL SERVICING*

(Thousands of dollars, except percentages, fleet & hours)	Three months ended December 31, 2013	2012	Year ended December 31, 2013	2012
Revenue				
Coil Well Service (i)	**$ 36,150**	$ 41,228	**$ 128,241**	$ 136,196
Service Rigs (ii)	**25,593**	26,012	**97,751**	95,439
Other (iii)	**-**	786	**-**	11,823
Total revenue	**61,743**	68,026	**225,992**	243,458
Operating expenses	**45,269**	48,564	**171,992**	182,655
Gross margin	**$ 16,474**	$ 19,462	**$ 54,000**	$ 60,803
Gross margin %	**27%**	29%	**24%**	25%
Utilization (iv)				
Deep Coil Tubing Rigs				
Utilization	**74%**	95%	**69%**	77%
Operating hours	**18,257**	22,777	**64,870**	71,576
Service Rigs				
Utilization	**53%**	54%	**50%**	50%
Operating hours	**26,557**	27,310	**100,241**	101,313
Equipment fleet (v)				
Masted deep coil tubing rigs	**15**	16	**15**	16
Conventional deep coil tubing rigs	**12**	11	**12**	11
Service rigs	**55**	55	**55**	55
Nitrogen pumpers	**14**	13	**14**	13
Fluid pumpers	**18**	18	**18**	18

(i) Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.
(ii) Includes revenue from service rigs and rod rigs. Comparative amounts have been reclassified to conform to current period's presentation.
(iii) Other revenue in 2012 represents revenue from Essential's drilling operation which was disposed of in November 2012.
(iv) Utilization is calculated using a 10 hour day.
(v) Fleet data represents the number of units at the end of the period.

Coil well service revenue decreased during the fourth quarter of 2013 compared to the same period in 2012. Essential's masted deep coil tubing utilization was down quarter-over-quarter at 107% compared to 113% in 2012. Industry well completions decreased 11% in the same period. Masted deep coil tubing utilization was negatively impacted by extreme winter conditions in early December and lower activity at the end of December. Colder than normal weather impacted the ability of equipment to work and resulted in a temporary shut-down of operations. Conventional deep coil tubing revenue was below the prior quarter as extreme cold weather, lower activity by certain key customers and increased competition in the less technical two inch conventional coil tubing market adversely impacted utilization. Conventional deep coil tubing utilization was down quarter-over-quarter at 32% compared to 67% in 2012. The revenue decrease was partially offset by increased revenue from Essential's fluid and nitrogen pumpers due to increased crew availability and better integration with the deep coil tubing fleet in the fourth quarter 2013. Revenue per hour for coil tubing rigs was consistent with prior quarter.

Service rig revenue in the fourth quarter of 2013 was comparable to the prior quarter. Service rig utilization was higher than the prior quarter for the three service rigs operating on SAGD wells as demand for services remained high. Revenue per hour in the fourth quarter of 2013 was comparable to the prior quarter.

Gross margin percentage for well servicing in the fourth quarter of 2013 was negatively impacted by lower utilization and higher operating costs compared to the prior quarter. These additional operating costs were a result of the extreme winter conditions where labour and travel costs were incurred during the shutdown of equipment as crews were retained at customer sites during the cold period with no corresponding revenue. Additional labour costs were also incurred to expand and retain crews in preparation for the delivery of the new deep masted coil tubing rigs.

Coil well service revenue decreased in 2013 compared to 2012 due to extreme winter weather conditions in the fourth quarter and reduced activity in conventional deep coil tubing during the second half of 2013. Conventional deep coil tubing utilization was down significantly due to lower activity from certain key customers and increased competition. Masted deep coil tubing utilization was 97%, comparable to prior year. Service rig revenue for 2013 was comparable to the prior year. Year-over-year well service revenue and gross margins were also down due to the disposal of the drilling rig business in 2012 and the prolonged spring break-up in 2013.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

	Three months ended December 31,		Year ended December 31,	
(Thousands of dollars, except percentages)	**2013**	2012	**2013**	2012*
Revenue	**$ 31,560**	$ 27,989	**$ 111,339**	$ 105,122
Operating expenses	**20,907**	18,115	**75,446**	69,717
Gross margin	**$ 10,653**	$ 9,874	**$ 35,893**	$ 35,405
Gross margin %	**34%**	35%	**32%**	34%
Downhole Tools & Rentals Revenue– revenue % of total				
Tryton MSFS®	**55%**	51%	**55%**	48%
Conventional Tools & Rentals	**45%**	49%	**45%**	52%

* Revenue for the year ended December 31, 2012 includes wireline operations which were disposed of on February 2, 2012.

During the fourth quarter of 2013, downhole tools & rentals revenue increased compared to the same quarter in the prior year. Revenue improved quarter-over-quarter in both the Canadian Tryton MSFS® and conventional tools and rentals service lines.

Downhole tools & rentals revenue increased on a year-to-date basis in 2013 compared to 2012 as a result of an increased contribution from the Canadian Tryton MSFS® product, offset by a decline in Canadian conventional tools and rentals revenue. Conventional tools and rentals revenue increased in the second half of 2013 compared to the second half of 2012, after declining compared to 2012 in the first half of the year. Demand for Essential's Tryton MSFS® product remained strong throughout the year due to quality service and innovative product design. Tryton MSFS® provides customers with cost-effective solutions for multi-stage horizontal well completions.

Essential's United States conventional downhole tools operation generated revenue in the fourth quarter of 2013, which was less than operating costs, resulting in a modest reduction in the division's gross margin during the quarter. United States operations commenced late in the third quarter of 2013.

A Statement of Claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in Canadian Federal Court which alleges products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. The Company filed its Statement of Defence and Counterclaim on November 22, 2013. Essential believes that the suit is without merit and is defending against the allegations. Proceedings of this nature can take years to resolve through the court process.

GENERAL AND ADMINISTRATIVE

(Thousands of dollars, except percentages)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
General and administrative expenses	**$ 4,627**	$ 4,671	**$ 17,176**	$ 16,353
As a % of revenue	**5%**	5%	**5%**	5%

General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at corporate and operational levels. General and administrative expenses remain in line with management's target of five percent of revenue.

DEPRECIATION AND AMORTIZATION

(Thousands of dollars)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
Depreciation and amortization expense	**$ 7,145**	$ 6,787	**$ 26,710**	$ 26,325

During the fourth quarter of 2013, and for the full year, depreciation and amortization expense increased slightly compared to 2012 due to additional depreciation charges related to assets commissioned in the latter part of 2012 and during 2013 as part of Essential's capital program. For the year-ended December 31, 2013, the increase in depreciation expense was offset by a decrease in depreciation related to disposal of the drilling operation in November 2012.

SHARE-BASED COMPENSATION

(Thousands of dollars)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
Share-based compensation expense	**$ 840**	$ 475	**$ 2,038**	$ 1,902

Share-based compensation expense increased in the fourth quarter of 2013 due to the introduction of the Restricted Share Unit ("RSU") Plan and the Deferred Share Unit ("DSU") Plan in August 2013. For the year ended December 31, 2013, share-based compensation expense was comparable to 2012. On January 8, 2014, Essential issued 655,000 share options and 728,500 RSUs. The 2014 RSU grant contains a performance based component for certain employees and a time vesting component for all employees.

OTHER EXPENSE

(Thousands of dollars)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
Other expense	**$ 839**	$ 2,750	**$ 4,385**	$ 1,648

Other expense for the year ended December 31, 2013 includes a $3.6 million expense for the write-off of deposits on two coil tubing rigs as the supplier was placed into receivership in September 2013. The remaining balance relates to losses on the sale of fixed assets sold during the period.

FINANCE COSTS

(Thousands of dollars)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
Finance costs	**$ 482**	$ 477	**$ 1,634**	$ 2,177

During the fourth quarter of 2013, finance costs were comparable to prior quarter. The average long-term debt balance outstanding for the fourth quarter of 2013 was $44 million compared to $43 million in 2012. For the year-ended December 31, 2013, finance costs decreased compared to prior year due to a decline in the average long-term debt balance. The average long-term debt balance outstanding for the twelve months ended December 31, 2013 was $35 million compared to $49 million in 2012.

INCOME TAXES

(Thousands of dollars)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
Current income tax expense	**$ 5,655**	$ 2,475	**$ 10,508**	$ 6,567
Deferred income tax expense (recovery)	**(3,734)**	1,354	**(3,200)**	4,959
Total income tax expense	**$ 1,921**	$ 3,829	**$ 7,308**	$ 11,526

During the fourth quarter of 2013, Essential simplified its legal entity structure which resulted in the elimination of the partnership tax deferral. The overall effective tax rate decreased for the year and in the fourth quarter of 2013 due to the realization of previously unrecognized losses.

DISCONTINUED OPERATIONS

As of December 31, 2013, Essential has sold all Colombian assets and the legal entity. Total proceeds generated from the sale of the Colombian assets and legal entity was approximately $3.7 million. In 2012, Essential committed to a plan to divest of its Colombian operations resulting in presentation of results as discontinued operations.

Net income (loss) from discontinued operations related to the Colombian business was as follows:

(Thousands of dollars, except per share amounts)	Three months ended December 31, **2013**	2012	Year ended December 31, **2013**	2012
Revenue	**$ -**	$ 1,032	**$ 1,887**	$ 5,275
Expenses	**48**	2,475	**2,788**	8,148
Disposal costs (recovery)	**(155)**	300	**377**	300
Loss (gain) on sale of assets	**(498)**	4,138	**1,875**	4,138
Income (loss) before income taxes	**605**	(5,881)	**(3,153)**	(7,311)
Current income tax (recovery)	**(1,043)**	-	**(1,043)**	-
Deferred income tax expense	**-**	1,745	**-**	1,590
Net income (loss) from discontinued operations	**$ 1,648**	$ (7,626)	**$ (2,110)**	$ (8,901)
Net income (loss) per share from discontinued operations				
Basic and diluted	**$ 0.01**	$ (0.06)	**$ (0.02)**	$ (0.07)

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS[1]

(Thousands of dollars, except per share amounts)	Three months ended December 31, 2013	2012	Year ended December 31, 2013	2012
Net cash flows from operating activities	**$ 12,273**	$ 16,683	**$ 43,790**	$ 60,535
Add:				
Changes in non-cash working capital	**2,510**	3,176	**12,247**	7,663
Funds flow from operations[1]	**$ 14,783**	$ 19,859	**$ 56,037**	$ 68,198
Per share – basic	**$ 0.12**	$ 0.16	**$ 0.45**	$ 0.55
Per share – diluted	**$ 0.12**	$ 0.16	**$ 0.44**	$ 0.54

WORKING CAPITAL

(Thousands of dollars, except ratios)	As at December 31, 2013	2012
Current assets	**$ 107,945**	$ 95,840
Current liabilities, excluding current portion of long-term debt	**(45,419)**	(37,594)
Working capital	**$ 62,526**	$ 58,246
Working capital ratio	**2.4:1**	2.5:1

CREDIT FACILITY

Essential's credit facility with its banking syndicate is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on lender's consent. The revolving term loan facility matures on May 30, 2014, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule. At December 31, 2013, the maximum of $100 million under the revolving facility was available to Essential.

The following table outlines the repayments, excluding interest, in the event that the credit facility is not renewed.

(Thousands of dollars)	As at December 31, 2013
Repayments are required as follows:	
Within one year	**$ 7,530**
Between one and two years	**13,033**
Between two and three years	**18,464**
	$ 39,027

As at December 31, 2013, all financial debt covenants were satisfied and all banking requirements were up-to-date. Essential does not currently anticipate any financial resource or liquidity issues to restrict its future operating, investing or financing activities and does not anticipate any issues with renewal of the credit facility in 2014. On March 5, 2014, Essential had long-term debt outstanding of $44.7 million.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

(Thousands of dollars)	Three months ended December 31, 2013	2012	Year ended December 31, 2013	2012
Well Servicing	**$ 13,539**	$ 15,764	**$ 41,227**	$ 46,799
Downhole Tools & Rentals	**1,460**	2,690	**3,785**	4,071
Corporate	**643**	67	**1,588**	892
Total equipment expenditures	**15,642**	18,521	**46,600**	51,762
Less proceeds on disposal of property and equipment	**(1,056)**	(16,592)	**(2,657)**	(24,876)
Net equipment expenditures[1]	**$ 14,586**	$ 1,930	**$ 43,943**	$ 26,886

During the fourth quarter 2013, three masted deep coil tubing rigs were expected to be delivered, one Generation III and two Generation IV rigs. Two of these rigs will be delivered in the first quarter of 2014 and the third rig is expected in the second quarter of 2014. On a year-to-date basis, equipment expenditures of $46.6 million were below expectations of $50.0 million due to the masted coil tubing delivery delays.

Throughout 2013, Essential commissioned the following assets:

- One Generation III masted deep coil tubing rig in the third quarter;
- Two nitrogen pumpers in the second quarter;
- Four mobile free standing, double service rigs (three of which are SAGD capable), one in each of the first and second quarters and two in the fourth quarter; and
- One double rod rig in the fourth quarter.

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

(Thousands of dollars)	Three months ended December 31, 2013	2012	Year ended December 31, 2013	2012
Growth capital[1]	**$ 10,251**	$ 16,251	**$ 31,650**	$ 38,169
Maintenance capital[1]	**5,391**	2,270	**14,950**	13,593
Total equipment expenditures	**$ 15,642**	$ 18,521	**$ 46,600**	$ 51,762

Essential's 2014 capital budget, announced in October 2013, of $50 million is comprised of $33 million in growth capital and $17 million of maintenance capital. Essential's 2014 growth capital spending plan consists primarily of four masted deep coil tubing rigs, one quintiplex fluid pumper, one rod rig and rental equipment. In addition, $3 million of anticipated 2013 capital spending was deferred into 2014 due to the masted coil tubing delivery delays.

In 2012, Essential divested of its wireline and drilling rig operations for proceeds of $7.5 million and $16.8 million, respectively.

The Company believes that it has access to sufficient funds through internally generated cash flows and from undrawn committed credit facilities to meet current spending needs.

The following table shows the expected dates of the major equipment being built over 2014:

	Quantity	Expected Dates 2014 /2015
Deep masted coil tubing rigs (delayed Q4 2013 builds)	3*	Q1(2),Q2
Deep masted coil tubing rigs	4	Q3(2),Q4,Q2'15
Quintiplex fluid pumper	1	Q3
Double rod rig	1	Q4

* These equipment builds relate to Essential's 2013 capital budget.

SHARE CAPITAL

As at March 5, 2014, there were 125,563,010 common shares and 5,999,171 share options outstanding. Of the 5,999,171 share options, 3,781,152 were exercisable and "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:

	Amount
2014	$ 4,686
2015	4,376
2016	4,548
2017	3,902
2018	1,282
Thereafter	7,805
As at December 31, 2013	$ 26,599

Other commitments

Essential entered into agreements to build certain assets for $16.8 million of which approximately $15.5 million is expected to be paid in 2014 and $1.3 million is to be paid in 2015.

NORMAL COURSE ISSUER BID ("NCIB")

On March 20, 2013 the Company received approval from the TSX to implement an NCIB for Essential's common shares ("Shares"). Any Shares purchased by Essential pursuant to the NCIB will be for cancellation. The NCIB commenced on March 25, 2013 and will terminate on March 24, 2014 or at such earlier date as the NCIB is completed or terminated at the option of Essential. Under the NCIB, Essential may purchase up to 12,182,508 of its issued and outstanding Shares on the open market through the facilities of the TSX or other alternative trading systems.

For the year ended December 31, 2013, a total of 520,052 Shares were acquired and cancelled under the NCIB at an average cost of $2.35 per Share. Shareholders may obtain a copy of the "Notice of Intention to make a Normal Course Issuer Bid" that was filed by the Company with the TSX, free of charge, by contacting the Company.

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 by others, 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. Such officers have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective with no material weakness at the financial year-end of the Company for the foregoing purposes.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with International Financial Reporting Standards ("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 internal control over financial reporting. 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 1992 ("1992 Framework"). 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 internal controls over financial reporting, 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.

The Company's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the Company's annual filings for the year ended December 31, 2013, that the Company's internal controls over financial reporting, as defined in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are operating effectively and are suitably designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with IFRS.

In May 2013, COSO released an updated Internal Control – Integrated Framework ("2013 Integrated Framework"). Essential will be required to use the new 2013 Integrated Framework to evaluate the effectiveness of internal controls over financial reporting for the fiscal 2014 assessment as the 1992 Framework will be superseded at the end of the transition period, December 15, 2014.

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, deferred income tax assets and liabilities, and fair value less cost to sell on measurement of assets and liabilities held for sale and other cost estimates relating to discontinued operations. 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 also 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. 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.

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 its estimated useful lives and salvage values. For intangible assets, the amortization policies selected are intended to amortize the assets over their expected lives or contracted terms. The Company reviews its historical experience with similar assets to help ensure that these depreciation and amortization rates are appropriate. However, the actual useful life of the assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity.

Intangible Assets

Intangible assets are comprised of the values attributable to customer relationships, trade names, favourable leases 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 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. 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.

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 yields.

The RSU plan is for officers, employees, and consultants of the Company. RSU's 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. As determined by the Board, RSUs may vest evenly over a specified period on the anniversary of the grant date, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to profit and 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 profit or loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

DSUs are for non-employee directors ("Eligible Directors"), officers and employees of the Company. DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding expense is charged to profit and 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 profit or loss for the period.

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. The expense relating to any provision is presented in the consolidated statement of net income and other comprehensive income.

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 for most deductible temporary differences, carry-forward of unused tax credits and unused tax losses, 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, with certain exceptions being applied. 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.

Assets and Liabilities Held for Sale and Discontinued Operations

Financial results from continuing operations do not include the separate results of the Colombian operations which have been identified as discontinued operations. IFRS requires the results from the Colombian operations for the current and comparative periods be segregated on the Statement of Net Income and Comprehensive Income as discontinued operations. For the comparative period of 2012, the fair value less costs to sell of equipment that was in Colombia had been estimated using the best available information at that time and was presented as assets and liabilities held for sale in the statement of financial position. As of December 31, 2013, Essential has sold all the assets of its Colombian operations and its Colombian legal entity.

CHANGES IN ACCOUNTING POLICIES

The Company adopted the following new standards and amendments to standards as of January 1, 2013: IFRS 10, "Consolidated Financial Statements"; IFRS 11, "Joint Arrangements"; IFRS 12, "Disclosure of Interests in Other Entities"; and IFRS 13, "Fair Value Measurement". The adoption of these standards did not materially impact the Company.

FUTURE ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing the Consolidated Financial Statements for the year-ended December 31, 2013. The standards and interpretations are as follows and will be adopted on their respective effective dates: IFRS 9, "Financial Instruments" and IAS 32, "Financial Instruments-Presentation". These standards are not expected to have a significant impact on the Company.

RISKS AND UNCERTAINTIES

Volatility of Industry Conditions

The oilfield services business is directly affected by fluctuations in the level of oil and natural gas exploration, development and production activities carried on by its customers, which in turn is dictated by numerous factors, including world energy prices and government policies. Additionally, the business risks also include but are not limited to: seasonality, with typically lower second quarter and higher first, third and fourth quarter activity; availability of skilled workers; ability to retain key customers; and the environmental and safety risks inherent in the business. The demand, pricing and terms for oilfield services largely depend upon the level of industry activity for Canadian oil and natural gas exploration and development. Industry conditions are influenced by numerous factors that Essential has no control over, including but not limited to: oil and natural gas prices; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing.

The oil and gas services sector is highly reliant on the level of capital expenditures made by E&P companies who base their capital expenditures on several factors, including but not limited to oil and natural gas prices, production levels and access to capital. In recent years, commodity prices, and therefore, the level of drilling, production and exploration activity have been volatile. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the E&P companies and the demand for Essential's services. A significant, prolonged decline in commodity prices could have a material adverse effect on the oilfield services sector, results of operations and financial condition of Essential. The price of fuel, equipment and other input costs, insurance costs, interest rates, fluctuations in customers' business cycles and international, national and regional economic conditions are factors over which Essential has little or no control. A prolonged decline in commodity prices and field activity or significant increases in fuel prices, equipment prices, other input prices, interest rates or insurance costs, could reduce profitability and could adversely affect Essential's cash flow. Essential cannot predict the impact of future economic conditions and there is no assurance that the operations of Essential will continue to be profitable.

Seasonality

In the WCSB, the level of activity in the oilfield services sector is influenced by seasonal weather patterns. Spring breakup during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in restrictions on oilfield service activity. The duration of this period has a direct impact on Essential's operations. Spring breakup typically occurs earlier in the year in southern regions than it does in the northern regions. The timing and duration of spring breakup is dependent on weather patterns but generally begins in March and may continue into May or June.

The demand for oilfield services may also be affected by the severity of Canadian winters. If an unseasonably warm winter prevents sufficient freezing, Essential may not be able to access certain well sites and its operating results and financial condition may be adversely affected. At the other extreme, very cold weather may curtail operations for a period of time. During excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization of equipment, which can have a material adverse effect on Essential's business, results of operations, cash flows and financial condition.

Operations in Texas and Oklahoma are generally less impacted by seasonal conditions and experience different types of weather patterns and impacts. However, the level of business in these regions is very small compared to Essential's operations in Canada.

Competition

The oilfield services sector is highly competitive and to be successful Essential must provide services that meet the specific needs of its customers at competitive prices. The principal competitive factors for Essential's business are service quality, equipment availability, price, reliability, equipment performance, technical knowledge, experience and reputation for safety. Essential competes with companies that are smaller and larger than it. These competitors offer similar services in all geographic regions that Essential operates. As a result of competition, the utilization of Essential's equipment may be adversely impacted, which may affect Essential's business, results of operations, cash flows and financial condition.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to Essential. Variations in the exploration and development budgets of oil and natural gas companies, which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, have an effect upon Essential's ability to generate revenue and earnings. During periods of low utilization and intense competition, competitive pricing pressure may negatively impact Essential's revenue, results of operations, cash flows and financial condition.

Take Away Capacity for Essential's Customers

Essential's customers rely on various transportation methods to deliver the produced oil and natural gas to the end market including: pipelines, truck and railway, collectively referred to as "takeaway capacity". If such takeaway capacity becomes full and incremental capacity is not added, the production of hydrocarbons may be impacted and certain wells may be shut in. In 2012 and 2013, limited pipeline, rail export and refining capacity decreased the realized price for oil, particularly heavy oil, produced in Canada and as a result some E&P companies curtailed some capital spending. This could have a material adverse effect on Essential's business operations, results of operations, cash flows and financial condition.

Key Personnel

The successful operation of Essential's business depends upon the ability, expertise, judgment, discretion, integrity and good faith of Essential's directors, executive officers, managers, employees and consultants. In addition, the ability to operate its current fleet and expand its services depends upon its ability to attract qualified personnel as needed. The unexpected loss of key personnel, or the inability to retain or recruit skilled personnel could have a material adverse effect on Essential's business, growth possibilities, results of operations, cash flows and financial condition. The demand for skilled oilfield employees follows the cyclical nature of the oilfield services sector. As activity levels increase, the demand for qualified personnel increases. Currently the demand for skilled oilfield employees is high, and the supply of qualified workers is limited.

Foreign Currency Exchange Rates

Essential has only a small direct exposure to fluctuations of the Canadian dollar in relation to the U.S. dollar. The majority of Essential's revenues and expenses are denominated in Canadian dollars. Essential has recently expanded its downhole tools business into the United States and the amount of revenue and expense in U.S. dollars will increase, but it is expected to remain a small portion of the total business in the near future.

Essential has an indirect exposure to fluctuations of the Canadian dollar in relation to the U.S. dollar as many of its customers, the E&P companies, have revenue denominated in U.S. dollars but expenses denominated in Canadian dollars. Generally speaking, as the Canadian dollar decreases in value relative to the U.S. dollar, net cash flow increases for the E&P companies. This may increase their demand for oilfield services. As the Canadian dollar increases in value relative to the U.S. dollar, net cash flow decreases for the E&P companies. Less cash flow may decrease their demand for oilfield services.

Technology Risk

Essential's ability to meet customer demands may be influenced by advances and changes in technology. To the extent Essential does not keep up with changes in technology, demand for its services may be hindered. There is no assurance the Corporation will be able to keep up with changes in technology and failure to do so may have a material adverse effect on Essential's business operations, results of operations, cash flows and financial condition.

Other risk factors

For additional information that could impact the Company's business, see "Risk Factors" in the Company's Annual Information Form which is available on SEDAR at www.sedar.com.

OUTLOOK

Demand in well servicing continues to be driven by oil wells and horizontal completions, with an increasing shift to deeper, more complex wells. Industry trends in 2014 support Essential's strategy of introducing deeper, larger diameter masted coil tubing rigs. Essential is well positioned to benefit from the rising demand to complete complex, long-reach horizontal wells. Delivery delays impacting Essential's ability to utilize new masted coil tubing rigs, combined with associated incremental costs for commissioning, crews and training, are expected to adversely impact earnings in the first quarter of 2014. Activity in 2014 started off slower than 2013. The strength of the first quarter is dependent on the timing of spring breakup which impacts the duration of the winter drilling season.

The Petroleum Services Association of Canada is forecasting consistent activity expectations year-over-year compared to 2013. Generally speaking, E&P capital budgets for 2014 are consistent with 2013. Essential believes there are reasons for optimism for the second half of the year including: a weaker Canadian dollar which would increase E&P cash flows, improved access to equity capital markets for E&P companies and the rising price of natural gas.

While the longer term outlook still remains positive for the development of proposed liquefied natural gas ("LNG") projects in British Columbia, anticipated development has been delayed beyond initial 2014 expected timeframes. Development of the Montney, Horn River and Duvernay basins for LNG export is expected to increase the demand for oilfield services, including the demand for Essential's deep coil tubing and downhole tools & rentals.

The $50 million equipment expansion program for 2014 will add significant growth to Essential's masted deep coil tubing fleet. In addition to the two masted deep coil Generation III rigs that Essential has already taken delivery of, Essential expects to take delivery of one additional masted deep coil Generation III and four Generation IV rigs in 2014.

With the growing number of horizontal oil wells in recent years, the industry has been expecting an increase in demand for service rigs to perform work-over services on these wells. This demand has not yet materialized possibly due to new technologies prolonging primary production and/or capital allocation decisions made by E&P companies. Essential believes, in time, these wells will require work-over services, increasing the demand for service rigs. With Essential's investment in its service rig fleet, the Company expects to benefit from this potential demand.

Essential continues to expand its downhole tool operations in the southern United States, which it started in 2013, and expects to be cash flow positive in 2014.

Essential has a very strong balance sheet with $44.7 million of debt outstanding on March 5, 2014 and a debt to 2013 EBITDA ratio of 0.7x. Essential is well positioned to take advantage of future growth opportunities.

SUMMARY OF QUARTERLY DATA

(Thousands of dollars, except per share amounts, percentages and fleet data)	**Dec 31, 2013**	Sept 30, 2013	Jun 30, 2013	Mar 31, 2013	**Dec 31, 2012**	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
Well Servicing:								
Coil Well Service	**36,150**	33,037	9,433	49,621	**41,228**	33,857	18,697	42,414
Service Rigs	**25,593**	23,870	14,732	33,556	**26,012**	20,552	15,564	33,311
Other (i)	-	-	-	-	**786**	2,762	1,069	7,206
Total well servicing	**61,743**	56,907	24,165	83,177	**68,026**	57,171	35,330	82,931
Downhole Tools & Rentals (ii)	**31,560**	28,185	14,252	37,342	**27,989**	26,342	15,540	35,251
Inter-segment eliminations	**(480)**	(582)	-	-	-	-	-	-
Total revenue	**92,823**	84,510	38,417	120,519	**96,015**	83,513	50,870	118,182
Gross margin	**25,332**	21,414	(1,310)	37,832	**27,039**	23,012	3,904	36,740
Gross margin %	**27%**	25%	(3)%	31%	**28%**	28%	8%	31%
EBITDA(1)	**20,705**	17,132	(5,171)	33,426	**22,368**	19,261	(42)	32,755
EBITDA %(1)	**22%**	20%	(13)%	28%	**23%**	23%	0%	28%
Continuing operations								
Net income (loss)	**9,478**	4,292	(8,958)	19,205	**8,050**	8,343	(5,453)	19,823
Per share – basic and diluted	**$0.07**	$0.03	$(0.07)	$0.15	**$0.06**	$0.07	$(0.04)	$0.16
Net income (loss) attributable to shareholders of Essential	**11,126**	3,843	(11,501)	18,627	**678**	8,660	(5,923)	18,893
Per share – basic and diluted	**$0.09**	$0.03	$(0.09)	$0.15	**$0.01**	$0.07	$(0.05)	$0.15
Total assets	**423,963**	409,613	380,728	436,301	**406,853**	415,653	393,377	430,674
Total long-term debt	**39,027**	40,484	14,592	35,603	**35,563**	50,474	41,198	57,238
Utilization (iii)								
Coil tubing rigs – deep	**74%**	73%	18%	110%	**95%**	79%	32%	102%
Pumpers	**55%**	47%	14%	73%	**57%**	50%	33%	69%
Service rigs	**53%**	50%	28%	69%	**54%**	45%	34%	68%
Operating Hours								
Coil tubing rigs – deep	**18,257**	17,724	4,125	24,765	**22,777**	18,301	7,262	23,236
Pumpers	**16,612**	14,418	4,241	20,481	**15,328**	11,919	7,504	13,865
Service rigs	**26,557**	25,084	14,234	34,364	**27,310**	22,632	16,183	35,188
Downhole Tools & Rentals - revenue % of total								
Tryton MSFS®	**55%**	55%	40%	60%	**51%**	52%	40%	47%
Conventional Tools & Rentals	**45%**	45%	60%	40%	**49%**	48%	60%	53%
Equipment fleet (iv)								
Canada								
Masted deep coil tubing rigs	**15**	15	14	14	**16**	16	16	16
Conventional deep coil tubing rigs	**12**	12	11	11	**11**	10	9	9
Coil tubing rigs - other	**18**	18	19	19	**19**	19	20	24
Service rigs	**55**	54	56	56	**55**	55	53	58
Nitrogen pumpers	**14**	15	15	13	**13**	10	10	10
Fluid pumpers	**18**	18	18	18	**18**	16	16	15
Rod rigs	**13**	12	14	14	**14**	14	14	14

(i) Other revenue included revenue from Essential's drilling operation until its disposal in November 2012.
(ii) Revenue for Downhole Tools & Rentals included revenue from Essential's wireline business which was disposed of in February 2012.
(iii) Utilization is calculated using a 10 hour day.
(iv) Fleet data represents the number of units at the end of the period.

Essential reviews the circumstance of each rig near the end of its service period to determine whether the rig should be disposed of, retired or refurbished. During 2013, Essential removed the following assets from its equipment fleet:

- One single service rig and one nitrogen pumper in the fourth quarter;
- One double service rig, one single service rig and two rod rigs in the third quarter;
- One double service rig in the second quarter; and
- Two masted coil tubing rigs in the first quarter.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "budget", "scheduled", "forecast" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including expectations regarding: capital spending, in-service timing of new equipment, demand for new equipment, future cash flow and earnings, the future areas of development in the WCSB, the level and type of drilling activity, completion activity, work-over activity, production activity and required oilfield services in the WCSB, the business, operations and revenues of the Company in addition to general economic conditions, Essential's ability to meet the changing needs of the WCSB market, the capital spending programs of E&P companies, Essential's positioning for the future, the second half of 2014 may include: a weaker Canadian dollar which would increase E&P cash flows, improved access to equity capital markets for E&P companies and rising natural gas prices, development of the Montney, Horn River and Duvernay basins for LNG export is expected to increase the demand for oilfield services (including the demand for Essential's deep coil tubing and downhole tools & rentals), the addition of the new masted deep coil tubing rigs will position Essential to benefit from the rising demand to complete complex, long-reach horizontal wells, horizontal oil wells will require work-over services thereby increasing the demand for service rigs, the downhole tool operations in the United States will be cash flow positive in 2014, the new generation masted deep coil tubing rigs have the capability to work on long-reach horizontal wells and are well-suited to work in deep, high pressure basins including the Montney, Horn River and Duvernay, Essential does not anticipate any financial resource or liquidity issues to restrict its future operating, investing or financing activities, and does not anticipate any issues with renewal of the credit facility in 2014.

Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Company can give no assurance that such statements and information will prove to be correct. Since forward-looking statements and information 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 under "Risks and Uncertainties" in this MD&A, 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 other unforeseen conditions associated with the sale of the Colombian business; 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 reliance on the forward-looking statements and forward-looking information. Readers are cautioned that the foregoing list of factors is not exhaustive.

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 through the SEDAR website at www.sedar.com for the Company.

The forward-looking statements and information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

[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 earnings and net earnings 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, capital programs and pay dividends. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net earnings and net earnings per share as calculated in accordance with IFRS.

EBITDA[a] (Earnings before finance costs, income taxes, depreciation, amortization, transaction costs, non-controlling interest earnings, losses or gains on disposal of equipment, results of discontinued operations and share-based compensation, which includes both equity-settled and cash-settled transactions) – This measure is considered an indicator of Essential's ability to generate funds flow in order to fund required working capital, service debt, fund capital programs and pay dividends.

EBITDA %[a] – This measure is considered an indicator of Essential's ability to generate funds flow as calculated by EBITDA[a] divided by revenue.

Funds flow or funds flow from operations[b] – This measure is an indicator of Essential's ability to generate funds flow[b] in order to fund working capital, principal debt repayments, capital programs and pay dividends. Funds flow or funds flow from operations is defined as cash flow from operations before changes in non-cash operating working capital. This measure is useful in assessing Essential's operational cash flow as it provides cash generated in the period excluding the timing of non-cash operating working capital. This reflects the ability of the operations of Essential to meet the above noted funding requirements.

Working capital – Working capital is calculated as current assets less current liabilities.

Growth capital – Growth capital is capital spending which is intended to result in incremental increases in revenue. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired equipment less proceeds on the disposal of retired equipment. Such additions do not provide incremental increases in revenue. Maintenance capital is a key component in understanding the sustainability of Essential's business as cash resources retained within Essential must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation.

Net equipment expenditures[c] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to assess net cash flows related to the financing of Essential's oilfield services equipment.

[a] EBITDA is reconciled to the IFRS measure, net income from continuing operations, in the table "Results of Operations".
[b] Funds flow is reconciled to the IFRS measure, net cash flow from operating activities, in the table "Funds Flow from Operations".
[c] 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".

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements 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 Accountants, has been engaged, as approved by a vote of shareholders at the Company's most recent annual general and special 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 5, 2014

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, 2013 and 2012, and the consolidated statements of comprehensive income, 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Calgary, Canada
March 5, 2014

Chartered Accountants

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Thousands)	As at December 31 2013	2012
Assets		
Current		
Trade and other accounts receivable *(notes 6 and 27)*	**$ 76,640**	$ 71,835
Inventories *(note 7)*	**27,979**	20,699
Prepayments	**3,326**	3,306
	107,945	95,840
Non-current		
Property and equipment *(note 8)*	**230,292**	211,304
Intangible assets *(note 9)*	**30,712**	36,555
Goodwill *(note10)*	**55,014**	55,014
	316,018	302,873
Assets held for sale *(note 5)*	**-**	8,140
Total assets	**$ 423,963**	$ 406,853
Liabilities		
Current		
Bank indebtedness	**$ 2,112**	$ 1,835
Trade and other payables *(note 11)*	**36,161**	32,354
Dividends payable *(note 12)*	**3,765**	3,100
Income taxes payable	**3,381**	305
Current portion of long-term debt *(note 13)*	**7,603**	-
	53,022	37,594
Non-current		
Long-term debt *(note 13)*	**31,424**	35,563
Deferred tax liabilities *(note 14)*	**26,360**	29,560
	57,784	65,123
Liabilities held for sale *(note 5)*	**-**	1,731
Total liabilities	**110,806**	104,448
Commitments and contingencies *(note 25)*		
Equity		
Share capital *(note 15)*	**262,177**	258,772
Retained earnings	**46,622**	38,276
Other reserves *(note 16)*	**4,358**	5,363
Equity attributable to shareholders of Essential	**313,157**	302,411
Non-controlling interest *(note 17)*	**-**	(6)
Total equity	**313,157**	302,405
Total liabilities and equity	**$ 423,963**	$ 406,853

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Signed "Garnet K. Amundson"

Garnet K. Amundson
Director

Signed "James A. Banister"

James A. Banister
Director

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

(Thousands, except per share amounts)	For the years ended December 31 **2013**	2012
Revenue	**$ 336,269**	$ 348,580
Operating expenses *(note 18)*	**253,001**	257,885
Gross margin	**83,268**	90,695
General and administrative expenses *(note 19)*	**17,176**	16,353
	66,092	74,342
Depreciation and amortization *(notes 8 and 9)*	**26,710**	26,325
Share-based compensation *(note 23)*	**2,038**	1,902
Other expense *(note 21)*	**4,385**	1,648
Operating profit from continuing operations	**32,959**	44,467
Finance costs *(note 22)*	**1,634**	2,177
Net income before income tax from continuing operations	**31,325**	42,290
Current income tax expense	**10,508**	6,567
Deferred income tax expense (recovery)	**(3,200)**	4,959
Total income tax expense *(note 14)*	**7,308**	11,526
Net income from continuing operations	**24,017**	30,764
Loss from discontinued operations, net of tax *(note 5)*	**(2,110)**	(8,901)
Net income	**21,907**	21,863
Unrealized foreign exchange loss from continuing operations	**(54)**	-
Unrealized foreign exchange gain (loss) from discontinued operations	**(224)**	1,431
Reclassification of foreign exchange from discontinued operations	**(664)**	-
Other comprehensive income (loss)	**(942)**	1,431
Comprehensive income	**20,965**	23,294
Net income (loss) attributable to:		
Shareholders of Essential	**$ 22,095**	$ 22,308
Non-controlling interest	**(188)**	(445)
	$ 21,907	$ 21,863
Comprehensive income (loss) attributable to:		
Shareholders of Essential	**$ 21,153**	$ 23,669
Non-controlling interest	**(188)**	(375)
	$ 20,965	$ 23,294
Net income per share from continuing operations *(note 24)*		
Basic and diluted, attributable to shareholders of Essential	**$ 0.19**	$ 0.25
Net income per share *(note 24)*		
Basic, attributable to shareholders of Essential	**$ 0.18**	$ 0.18
Diluted, attributable to shareholders of Essential	**$ 0.17**	$ 0.18
Comprehensive income per share *(note 24)*		
Basic and diluted, attributable to shareholders of Essential	**$ 0.17**	$ 0.19

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Thousands)	For the years ended December 31 **2013**	2012
Equity attributable to shareholders of Essential:		
Share capital		
Balance, January 1	**$ 258,772**	$ 257,775
Exercise of options *(note 15)*	**4,491**	997
Shares repurchased in normal course issuer bid *(note 15)*	**(1,086)**	-
Balance, December 31	**$ 262,177**	$ 258,772
Retained earnings		
Balance, January 1	**$ 38,276**	$ 28,651
Net income	**22,095**	22,308
Dividends *(note 12)*	**(13,749)**	(12,389)
Equity transferred *(note 17)*	**-**	(294)
Balance, December 31	**$ 46,622**	$ 38,276
Other Reserves		
Balance, January 1	**$ 5,363**	$ 2,402
Other comprehensive income (loss) *(note 16)*	**(942)**	1,361
Equity-settled share-based compensation	**1,177**	1,902
Shares cancelled under normal course issuer bid *(note 16)*	**(140)**	-
Exercise of options	**(1,100)**	(302)
Balance, December 31	**$ 4,358**	$ 5,363
Total equity attributable to shareholders of Essential	**$ 313,157**	$ 302,411
Equity attributable to non-controlling interest:		
Balance, January 1	**$ (6)**	$ 75
Loss attributed to non-controlling interest	**(188)**	(445)
Unrealized foreign exchange gain (loss) on discontinued operations	**(4)**	70
Equity transferred	**-**	294
De-recognition of non-controlling interest *(note 17)*	**198**	-
Balance, December 31	**$ -**	$ (6)
Total equity	**$ 313,157**	$ 302,405

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	For the years ended December 31 **2013**	2012
Operating activities:		
Net income from continuing operations	**$ 24,017**	$ 30,764
Non-cash adjustments to reconcile net income for the year to operating cash flow:		
Depreciation and amortization *(notes 8 and 9)*	**26,710**	26,325
Deferred income tax expense (recovery) *(note 14)*	**(3,200)**	4,959
Share-based compensation *(note 23)*	**1,177**	1,902
Provision (recovery) for impairment of trade accounts receivable *(note 6)*	**810**	(87)
Finance costs *(note 22)*	**1,634**	2,177
Write-off of vendor deposit *(note 21)*	**3,567**	-
Loss on disposal of assets *(note 21)*	**1,322**	2,158
Operating cash flow before changes in working capital	**56,037**	68,198
Change in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(6,708)**	10,556
Inventories	**(7,280)**	(2,879)
Prepayments	**(20)**	(531)
Trade and other accounts payable	**(2,358)**	(9,987)
Current taxes payable	**4,119**	(4,822)
Net cash provided by operating activities from continuing operations	**43,790**	60,535
Investing activities:		
Purchase of property, equipment and intangibles *(notes 8 and 9)*	**(46,600)**	(51,762)
Non-cash investing working capital in trade and other accounts payable	**5,873**	3,567
Proceeds on disposal of equipment *(notes 8 and 9)*	**2,657**	24,876
Proceeds from sale of assets held for sale	**3,063**	-
Net cash used in investing activities from continuing operations	**(35,007)**	(23,319)
Financing activities:		
Borrowings (repayment) in long-term debt	**3,464**	(27,251)
Proceeds from exercise of share options	**3,389**	695
Repurchase of shares	**(1,226)**	-
Dividends paid *(note 12)*	**(13,083)**	(9,290)
Finance costs *(note 22)*	**(1,634)**	(2,177)
Net cash used in financing activities from continuing operations	**(9,090)**	(38,023)
Foreign exchange loss gain on cash held in a foreign currency	**30**	77
Net decrease in cash	**(277)**	(730)
Bank indebtedness, beginning balance, discontinued operations *(note 5)*	-	(1,269)
Cash (bank indebtedness), beginning of the year	**(1,835)**	164
Bank indebtedness, end of year	**$ (2,112)**	$ (1,835)
Supplemental cash flow information		
Cash taxes paid	**$ 6,370**	$ 11,506
Cash interest and standby fees paid	**1,402**	1,897

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2013 and 2012
(All tabular amounts in thousands unless otherwise stated, except for per share amounts)

1. AUTHORIZATION OF FINANCIAL STATEMENTS & STATEMENT OF COMPLIANCE WITH IFRS

The Consolidated Financial Statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential or the "Company") for the years ended December 31, 2013 and 2012 were authorized by the Board of Directors on March 5, 2014. Essential is a publicly traded oilfield services company incorporated under the laws of the province of Alberta. Essential is listed on the Toronto Stock Exchange ("TSX") and trades under the symbol ESN.

Based in Calgary, Alberta, Essential provides oilfield services to oil and gas producers in western Canada and the United States. The address of the registered office is 3400, 350 – 7 Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

The Financial Statements of Essential have been prepared in accordance with *International Financial Reporting Standards* ("IFRS"), as issued by the International Accounting Standards Board (IASB).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) STATEMENT OF COMPLIANCE

The Financial Statements for the year ended December 31, 2013, including comparatives, have been prepared using accounting policies in compliance with IFRS, as issued by the IASB.

b) BASIS OF PRESENTATION

The Financial Statements have been prepared on a historical cost basis except for the fair values assigned to certain equipment on transition to IFRS. The Financial Statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

c) PRINCIPLES OF CONSOLIDATION

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

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 consolidated 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 statement of financial position are translated at the closing rate at the date of the statement of financial position;

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

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

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 cost of the acquisition 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 Statement of Net Income and Comprehensive Income.

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) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Financial results from continuing operations do not include the separate 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 Statement of Net Income and Comprehensive Income as discontinued operations. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as net income or loss, net of tax from discontinued operations in the Consolidated Statement of Net Income and Comprehensive Income.

For the comparative period of 2012, the fair value less costs to sell equipment was estimated using the best available information at that time and was presented as assets and liabilities held for sale in the Statement of Financial Position. At the time the estimate was made, it involved uncertainties inherent in making assumptions regarding unknown future outcomes and events. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

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 tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the 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 tax relating to items recognized directly in equity is recognized in equity and not in the Consolidated Statement of Net Income and Comprehensive Income.

Deferred income tax

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 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 profit nor taxable profit 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 remeasured 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 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 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 profit nor taxable profit 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 profit 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 tax relating to items recognized directly in equity is recognized in equity and not in the Consolidated Statement of Net Income and Comprehensive Income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax 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.

Share Option Plan

The Share Option Plan is available to certain key employees. 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 share 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 RSU Plan is for officers, employees, and consultants of the Company. RSU's represent the right to receive a cash payment or its equivalent in common shares at the time of vesting, at the option of the Company. As determined by the Board, RSUs may vest evenly over a specified period on the anniversary of the grant date, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to share-based compensation expense and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in share-based compensation expense. The RSU expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

DSUs are for non-employee directors, officers and employees of the Company. 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 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 share-based compensation expense for the period.

The estimates used to determine fair value and forfeiture rates may involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. In addition, the dilutive effect of outstanding options and RSU's are reflected as additional share dilution in the computation of diluted earnings per share.

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 profit and loss (including held-for-trading),
b. loans and receivables,
c. held to maturity, or
d. available for sale.

Financial assets at fair value through profit or loss

Cash is classified as "held-for-trading". Financial assets recognized at fair value through profit or loss include financial assets designated as held-for-trading and financial assets designated upon initial recognition at fair value through profit or 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 profit and loss are carried in the Consolidated Statement of Financial Position at fair value with gains or losses recognized in the Consolidated Statement of Net Income and Comprehensive Income.

Loans and receivables

Trade and other 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.

Financial liabilities

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 profit or loss (including held-for-trading), or
b) other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities recognized at fair value through profit or loss includes those designated as held-for-trading and as fair value through profit or loss upon initial recognition. At December 31, 2013, 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 is 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 day-to-day servicing and repairs and maintenance are recognized in the Consolidated Statement of Net Income and Comprehensive Income 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. However, 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
Service rigs and equipment – certifications	24,000 hours	Hours of service
Service rigs and equipment – frames	20-40 years	Straight-line
Service rigs and equipment – other	8-20 years	Straight-line
Coil tubing rigs and equipment – certifications	24,000 hours	Hours of service
Coil tubing rigs and equipment – frames	20-30 years	Straight-line
Coil tubing rigs and equipment – other	8-15 years	Straight-line
Oilfield equipment	10-15 years	Straight-line
Vehicles	5-10 years	Straight-line
Office and computer equipment	3-10 years	Straight-line
Other	5-12 years	Straight-line
Leaseholds	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 Statement of Net Income and Comprehensive Income in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate.

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 on a straight-line basis over the lease term.

m) INTANGIBLE ASSETS

Intangible assets are comprised of the values attributable to computer software, customer relationships, trade names and favourable leases 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 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
Trade names	3 - 5 years
Favourable leases	Over lease term
Computer software	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 Statement of Net Income and Comprehensive Income 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	purchase cost on a specific cost basis
Coil tubing	purchase cost on a first-in-first-out 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 Essential 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 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, 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 Statement of Net Income and Comprehensive Income. 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 Statement of Net Income and Comprehensive Income.

s) Non-controlling Interest

Non-controlling interest on the Consolidated Statement of Financial Position is represented by contributions made by the non-controlling partner, plus or minus the accumulated earnings (loss) attributable to the non-controlling interest, less distributions.

3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICIES

a) Changes in accounting policies

The Company adopted the following new standards and amendments to standards as of January 1, 2013:

Effective January 1, 2013, Essential adopted, as required, IFRS 10, "Consolidated Financial Statements" (“IFRS 10”), IFRS 11, "Joint Arrangements" (“IFRS 11”), IFRS 12, "Disclosure of Interests in Other Entities" (“IFRS 12”) and IFRS 13, "Fair Value Measurement" (“IFRS 13”).

IFRS 10, "Consolidated Financial Statements" replaced the risk and rewards approach for establishing control, adding three elements in the definition of control: 1) power over an investee; 2) exposure to variable returns from its involvement with the investee; and 3) the ability to use its power to affect returns from the investee. This standard did not impact Essential.

IFRS 11, "Joint Arrangements" redefines "joint operations" and "joint ventures". Under a joint operation, parties have the right to the assets and obligation of the arrangement, accounting for their share of the assets, liabilities, revenue and expenses. Under a joint venture, parties have the rights to the net assets of the arrangement and thus account for the arrangement as an investment using the equity method. This standard did not impact Essential.

IFRS 12, "Disclosure of Interests in Other Entities" outlines the required disclosures for interests in subsidiaries and joint arrangements. The standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity’s interests in subsidiaries and joint arrangements. This standard did not impact Essential.

IFRS 13, "Fair Value Measurement" provides a common definition of fair value, establishes a framework for measuring fair value under IFRS, and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required. This standard did not materially impact Essential. There have been no changes to Essential’s methodology for determining fair value for its financial assets and liabilities from the adoption of this standard. Disclosures related to fair value measurement can be found in Note 27.

b) Future accounting policies

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2013. The standards and interpretations are as follows and will be adopted on their respective effective dates:

Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9") will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 will be published in three phases, of which two phases have been published. The first and second phases have been published and address the classification and measurement of financial instruments and hedge accounting, respectively. The third phase will address impairment of financial instruments.

For phase one, the classification and measurement of financial instruments, this new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In addition, for financial liabilities, where the fair value option is applied, the change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the Consolidated Statement of Net Income. This standard is not expected to have a significant impact on Essential's Consolidated Financial Statements.

For phase two, updated hedge accounting guidelines were issued and will update hedge effectiveness testing, risk components and cost of hedging. In addition, improvements have been made to disclosure requirements. Essential does not currently apply hedge accounting, therefore, this new standard will not impact the Company.

A mandatory effective date for IFRS 9 has not been announced.

Offsetting Financial Assets and Financial Liabilities

IAS 32, "Financial Instruments: Presentation" was issued in December 2011 to address offsetting financial assets and financial liabilities. The standard amends IAS 32 Financial Instruments: Presentation to provide clarification on the application of the offsetting rules. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014. This standard is not expected to have a significant impact on the Company's Consolidated Financial Statements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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 date of the Consolidated 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, share-based compensation, provisions, deferred income tax assets and liabilities, and fair value less cost to sell on measurement of assets and liabilities held for sale and other cost estimates relating to discontinued operations. 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 Consolidated Financial Statements of changes in such estimates in future years could also be material.

5. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

In 2012, Essential committed to a plan to divest of its Colombian operations resulting in presentation of results as discontinued operations. As of December 31, 2013, Essential had sold all Colombian assets and the legal entity.

Prior to the sale, the assets and liabilities had been reclassified on the Consolidated Statement of Financial Position as held for sale:

	As at December 31 2013	2012
Assets held for sale:		
Cash	**$ -**	$ 261
Trade and other receivables	**-**	868
Inventories	**-**	153
Prepayments	**-**	273
Property and equipment	**-**	6,585
	$ -	$ 8,140

	As at December 31 2013	2012
Liabilities held for sale:		
Trade and other payables	**$ -**	$ 1,731
	$ -	$ 1,731

Losses from discontinued operations related to Colombia are as follows:

	For the years ended December 31 2013	2012
Revenue	**$ 1,887**	$ 5,275
Expenses	**2,788**	8,148
Disposal costs	**377**	300
Loss on sale of assets	**1,875**	4,138
Loss before income taxes	**(3,153)**	(7,311)
Current income tax (recovery)	**(1,043)**	-
Deferred income tax expense	**-**	1,590
Net loss from discontinued operations	**(2,110)**	(8,901)
Unrealized foreign exchange gain (loss) on discontinued operations	**(224)**	1,431
Reclassification of foreign exchange gain on discontinued operations	**(664)**	-
Comprehensive loss from discontinued operations, net of tax	**$ (2,998)**	$ (7,470)
Comprehensive loss from discontinued operations attributable to:		
Shareholders of Essential	**$ (2,810)**	$ (7,083)
Non-controlling interest	**(188)**	(387)
	$ (2,998)	$ (7,470)
Net loss from discontinued operations	**$ (2,110)**	$ (8,901)
Net loss per share from discontinued operations		
Basic and dilutive	**$ (0.02)**	$ (0.07)

	For the years ended December 31 2013	2012
Net cash flows provided by (used in) discontinued operations:		
Operating	**$ (420)**	$ 412
Investing	**3,222**	(654)
Financing	**(3,063)**	(766)
	$ (261)	$ (1,008)

6. TRADE AND OTHER ACCOUNTS RECEIVABLE

		As at December 31
	2013	2012
Trade receivables, net of provision	**$ 76,358**	$ 69,271
Other receivables	**282**	2,564
	$ 76,640	$ 71,835

Trade receivables are non-interest bearing, generally due on 30-90 day terms and are shown net of a provision for impairment. Other accounts receivable are non-interest bearing.

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

		As at December 31
	2013	2012
Canadian dollar	**$ 74,266**	$ 68,118
United States dollar	**2,092**	1,153
	$ 76,358	$ 69,271

The aging analysis of trade receivables is as follows:

		As at December 31
	2013	2012
< 31 days	**$ 31,458**	$ 30,955
31-60 days	**27,146**	26,187
61-90 days	**12,206**	7,585
>90 days	**5,548**	4,544
	$ 76,358	$ 69,271

The provision for impairment of receivables of $1.0 million (2012 - $0.3 million) is included in the amounts over 90 days old. The movements in the provision during the period were as follows:

	For the year ended December 31 2013	For the year ended December 31 2012
Balance, beginning of the year	**$ 314**	$ 1,642
Provision for receivables impairment	**810**	255
Receivables written off against the provision in the year	**(162)**	(1,241)
Unused amount reversed	**-**	(342)
Balance, end of the year	**$ 962**	$ 314

The addition and release of the provision for impairment of receivables has been included in operating expense in the Consolidated Statement of Net Income and Comprehensive Income. Amounts included in the provision are generally written off when there is no expectation of recovering additional cash.

7. INVENTORIES

		As at December 31
	2013	2012
Downhole tools	**$ 19,924**	$ 13,632
Coil tubing products	**8,055**	7,067
	$ 27,979	$ 20,699

Inventory charged through operating expenses in the Consolidated Statement of Net Income and Comprehensive Income for the year ended December 31, 2013 was $49.3 million (2012 - $44.7 million).

8. PROPERTY AND EQUIPMENT

As at December 31, 2013	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Service rigs and equipment	**$ 100,438**	**$ 23,821**	**$ 76,617**
Coil tubing rigs and equipment	**126,847**	**24,400**	**102,447**
Oilfield equipment	**42,968**	**16,297**	**26,671**
Vehicles	**28,265**	**7,752**	**20,513**
Office and computer equipment	**3,875**	**2,167**	**1,708**
Land	**482**	**-**	**482**
Other	**4,288**	**2,434**	**1,854**
	$ 307,163	**$ 76,871**	**$ 230,292**

As at December 31, 2012	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	$ 90,799	$ 20,269	$ 70,530
Coil tubing rigs and equipment	118,460	18,978	99,482
Oilfield equipment	32,606	12,799	19,807
Vehicles	23,010	5,986	17,024
Office and computer equipment	3,364	1,555	1,809
Land	482	-	482
Other	4,100	1,930	2,170
	$ 272,821	$ 61,517	$ 211,304

Included in service rigs and equipment, coil tubing rigs and equipment and oilfield equipment is $20.5 million (December 31, 2012 - $25.9 million) of assets under construction which will not be depreciated until put into use.

	For the year ended December 31 2013	For the year ended December 31 2012
Net book value, beginning of the year	**$ 211,304**	$ 202,704
Additions	**46,243**	51,371
Disposals	**(6,743)**	(22,418)
Depreciation	**(20,510)**	(20,353)
Currency translation adjustment	**(2)**	-
Net book value, end of the year	**$ 230,292**	$ 211,304

Included in disposals is $3.6 million in impaired deposits. The amount had been paid to a fabrication company for two coil tubing rigs which were previously recorded as assets under construction within coil tubing and other equipment. During the year, the fabricator was placed into receivership and as a result Essential will not take delivery of these two coil tubing rigs. The impairment of the deposit has been charged to other expenses for the year ended December 31, 2013.

In February 2012, Essential divested of its wireline operations for proceeds of $7.5 million. In November 2012, Essential divested of five hybrid coil drilling rigs for proceeds of $16.8 million.

9. INTANGIBLE ASSETS

As at December 31, 2013	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 43,115**	**$ 13,598**	**$ 29,517**
Trade names	**3,159**	**3,159**	**-**
Computer software	**4,126**	**2,931**	**1,195**
Favourable leases	**500**	**500**	**-**
	$ 50,900	**$ 20,188**	**$ 30,712**

As at December 31, 2012	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 43,115	$ 9,375	$ 33,740
Trade names	3,159	1,751	1,408
Computer software	3,769	2,362	1,407
Favourable leases	500	500	-
	$ 50,543	$ 13,988	$ 36,555

	For the year ended December 31 2013	For the year ended December 31 2012
Net book value, beginning of the year	**$ 36,555**	$ 44,750
Additions	**357**	391
Disposals	**-**	(2,614)
Amortization	**(6,200)**	(5,972)
Net book value, end of the year	**$ 30,712**	$ 36,555

10. GOODWILL

	For the year ended December 31 2013	For the year ended December 31 2012
Net book value, beginning of the year	**$ 55,014**	$ 57,425
Sale of drilling assets	**-**	(2,411)
Net book value, end of the year	**$ 55,014**	$ 55,014

Goodwill of $55 million is allocated to the coil tubing rig and service rig CGUs in the amounts of $43.9 million and $11.1 million, respectively, as these represent the lowest level for which information about goodwill is available and monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount, including goodwill, of each CGU is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use. In the absence of any information about the fair value of a CGU, the recoverable amounts for the CGU's have been determined based on value-in-use calculations, using discounted cash flow projections. The cash flows were projected over a five-year period based on historical experience, budgets, industry considerations and economic conditions and trends, extrapolated thereafter at a growth rate of 1.8% per annum and discounted at a rate of 15.4%. A 1.8% and 2.9% change in the discount rate would cause an impairment loss to be recognized in the coil tubing rig and service rig CGUs, respectively.

As a result of the analysis, the Company concluded that the recoverable amount of each of the CGUs exceeded their carrying values. The process for determining fair value is subjective and requires management to exercise judgment in determining future growth rates, discount rates, tax implications and other. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represent its best estimate. 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.

11. TRADE AND OTHER PAYABLES

		As at December 31
	2013	2012
Trade accounts payable	**$ 17,151**	$ 17,409
Accrued payables	**7,290**	4,920
Payroll	**9,405**	9,879
Other	**2,315**	146
	$ 36,161	$ 32,354

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

		As at December 31
	2013	2012
Canadian dollar	**$ 17,122**	$ 17,084
United States dollar	**29**	325
	$ 17,151	$ 17,409

12. DIVIDENDS PAYABLE

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

Record date	**Payment date**	**Total dividend**	**Amount per share**
2013			
December 31, 2013	**January 15, 2014**	**$ 3,765**	**$ 0.030**
September 30, 2013	**October 15, 2013**	**3,755**	**0.030**
June 28, 2013	**July 15, 2013**	**3,126**	**0.025**
March 28, 2013	**April 15, 2013**	**3,102**	**0.025**
2012			
December 31, 2012	January 15, 2013	$ 3,100	$ 0.025
September 28, 2012	October 15, 2012	3,100	0.025
June 29, 2012	July 13, 2012	3,096	0.025
March 30, 2012	April 13, 2012	3,094	0.025

13. LONG-TERM DEBT

		As at December 31 2013		As at December 31 2012
Term loan	**$**	**39,100**	$	35,800
Deferred financing costs		**(73)**		(248)
		39,027		35,552
Finance leases		**-**		11
		39,027		35,563
Less: current portion of long-term debt		**7,603**		-
Non-current portion of long-term debt	**$**	**31,424**	$	35,563

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on the lender's consent. The $100 million revolving term loan matures on May 30, 2014, is renewable annually at the lender's consent and is collateralized by a general security agreement over the Company's assets. Should the revolving term loan facility not be renewed, debt repayments would be required over a two year period based on a three year amortization schedule.

As at December 31, 2013, all financial debt covenants were satisfied and all banking requirements were up to date.

The following table outlines the repayments, excluding interest, in the event that the Credit Facility is not renewed.

		As at December 31 2013
Repayments are required as follows:		
Within one year	$	7,530
Between one and two years		13,033
Between two and three years		18,464
	$	39,027

14. INCOME TAXES

Components of income tax expense		**For the year ended December 31 2013**		For the year ended December 31 2012
Current income tax expense	**$**	**10,508**	$	6,567
Deferred income tax expense (recovery) related to the origination and reversal of temporary differences		**(3,200)**		4,959
Total income tax expense	**$**	**7,308**	$	11,526

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

	For the year ended December 31 2013	For the year ended December 31 2012
Earnings before income taxes	**$ 31,325**	$ 42,290
Statutory tax rate	**25.0%**	25.0%
Expected income tax expense	**7,831**	10,573
Increase (decrease) resulting from:		
Share based compensation	**294**	476
Derecognition of goodwill on sale of assets	**-**	603
Items not deductible for tax	**456**	263
Impact of foreign tax rates	**(214)**	-
Utilization of operating losses not previously recognized	**(945)**	-
Other	**(114)**	(389)
Total income tax expense	**$ 7,308**	$ 11,526

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

	2013	As at December 31 2012
Deferred tax assets		
Foreign operating loss	**$ 764**	$ -

	2013	As at December 31 2012
Deferred tax liabilities		
Property and equipment	**$ (22,971)**	$ (20,648)
Intangible assets	**(4,206)**	(6,069)
Loss carry-forwards	**-**	929
Deferred partnership income	**-**	(3,293)
Share issuance costs	**218**	354
Other	**(165)**	(833)
Deferred tax liabilities	**$ (27,124)**	$ (29,560)
Net deferred tax liabilities	**$ (26,360)**	$ (29,560)

15. SHARE CAPITAL

Authorized

The authorized share capital of Essential consists of an unlimited number of common 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.

Issued

	Number of Common Shares	Amount
As at January 1, 2012	123,439	$ 257,775
Shares issued on exercise of options	522	997
As at December 31, 2012	123,991	$ 258,772
Shares issued on exercise of options *(note 23a)*	**2,025**	**4,491**
Shares repurchased in normal course issuer bid	**(520)**	**(1,086)**
As at December 31, 2013	**125,496**	**$ 262,177**

On March 20, 2013 the Company received approval from the TSX to implement a Normal Course Issuer Bid ("NCIB") for Essential's common shares ("Shares"). Any Shares purchased by Essential pursuant to the NCIB will be for cancellation. The NCIB commenced on March 25, 2013 and will terminate on March 24, 2014 or at such earlier date as the NCIB is completed or terminated at the option of Essential. Under the NCIB, Essential may purchase up to 12,182,508 of its issued and outstanding Shares on the open market through the facilities of the TSX or other alternative trading systems.

For the year ended December 31, 2013, a total of 520,052 Shares were acquired and cancelled under the NCIB at an average cost of $2.35 per Share. Any excess amount paid for these shares, relative to their carrying amount, was recorded as a reduction of contributed surplus.

16. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2012	$ 2,875	$ (473)	$ 2,402
Share based compensation	1,902	-	1,902
Exercise of options	(302)	-	(302)
Unrealized foreign exchange gain on discontinued operations	-	1,361	1,361
As at December 31, 2012	**4,475**	**888**	**5,363**
Share based compensation	**1,177**	**-**	**1,177**
Exercise of options	**(1,100)**	**-**	**(1,100)**
Shares cancelled under normal course issuer bid *(note 15)*	**(140)**	**-**	**(140)**
Unrealized foreign exchange loss on foreign operations	**-**	**(54)**	**(54)**
Unrealized foreign exchange loss on discontinued operations	**-**	**(224)**	**(224)**
Reclassification of foreign exchange gain on discontinued operations	**-**	**(664)**	**(664)**
As at December 31, 2013	**$ 4,412**	**$ (54)**	**$ 4,358**

17. NON-CONTROLLING INTEREST

		As at December 31
	2013	2012
Balance, January 1	**$ (6)**	$ 75
Loss attributed to non-controlling interest	**(188)**	(445)
Unrealized foreign exchange gain (loss) on discontinued operations	**(4)**	70
Equity transferred	**-**	294
De-recognition of non-controlling interest	**198**	-
Balance, December 31	**$ -**	$ (6)

Essential owned 95% and the Partner owned 5% of Essential Colombia; income and losses were allocated accordingly. In the fourth quarter of 2013, Essential entered into an agreement with the Partner to settle their 5% interest in the Colombian entity. As of December 31, 2013, Essential sold all assets held for sale and its Colombian legal entity.

18. OPERATING EXPENSES

	For the year ended December 31 2013	For the year ended December 31 2012
Employee costs *(note 20)*	**$ 109,759**	$ 114,148
Materials and related costs	**68,713**	68,255
Travel	**22,464**	23,050
Repairs and maintenance	**18,045**	19,999
Fuel	**13,665**	14,814
Subcontracting	**8,164**	7,741
Occupancy costs	**4,980**	4,582
Other	**7,211**	5,296
	$ 253,001	$ 257,885

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31 2013	For the year ended December 31 2012
Employee costs *(note 20)*	**$ 9,071**	$ 8,518
Professional fees	**1,742**	1,725
Occupancy costs	**1,940**	1,578
Other	**4,423**	4,532
	$ 17,176	$ 16,353

20. EMPLOYEE COSTS

	For the year ended December 31 2013	For the year ended December 31 2012
Wages and salaries	$ 115,042	$ 120,153
Share-based compensation	2,038	1,902
Other benefits	3,788	2,513
	$ 120,868	$ 124,568
Employee costs are included in:		
Operating expenses *(note 18)*	$ 109,759	$ 114,148
General and administrative expenses *(note 19)*	9,071	8,518
Share-based compensation	2,038	1,902
	$ 120,868	$ 124,568

21. OTHER EXPENSE

	For the year ended December 31 2013	For the year ended December 31 2012
(Gain) loss on sale of assets *(notes 8 and 9)*	$ 1,322	$ (2,743)
Derecognition of goodwill on sale of assets *(note 10)*	-	2,411
Derecognition of intangible assets on sale of assets *(note 9)*	-	2,490
Write-off of vendor deposit *(note 8)*	3,567	-
Transactions costs	-	497
Foreign exchange gain	(176)	(33)
Other	(328)	(974)
	$ 4,385	$ 1,648

22. FINANCE COSTS

	For the year ended December 31 2013	For the year ended December 31 2012
Bank borrowings	$ 1,632	$ 2,156
Lease financing	2	21
	$ 1,634	$ 2,177

23. SHARE-BASED COMPENSATION

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

The maximum number of share options issuable under the Share Option Plan and the RSU Plan together may not exceed 9% of the Company's outstanding shares. As at December 31, 2013, the maximum number of share options allowed was 11,294,701 (2012 – 12,399,140).

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

	For the period ended December 31 **2013**	2012
Equity-settled share options	**$ 1,177**	$ 1,902
Restricted Share Units	**750**	-
Cash-settled Deferred Share Units	**111**	-
Total share-based compensation expense	**$ 2,038**	$ 1,902

(a) Share Option Plan

Under the Company's Share Option Plan, certain key personnel of the Company are eligible to receive options to acquire Essential 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 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 of the Company 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 year ended December 31 2013		For the year ended December 31 2012	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**7,374**	**$ 1.91**	6,271	$ 2.04
Issued	**818**	**2.26**	2,595	2.10
Exercised	**(2,025)**	**1.72**	(552)	1.27
Expired	**(395)**	**2.66**	(299)	6.93
Forfeited	**(328)**	**2.14**	(641)	2.09
Outstanding, end of year	**5,444**	**$ 1.97**	7,374	$ 1.91
Exercisable, end of year	**2,642**	**$ 1.79**	3,320	$ 1.79

The fair value of share options issued during the period was between $0.53 – $0.76 per option (2012 - $0.58 - 1.10), estimated using the Black-Scholes option pricing model using the following underlying assumptions:

	2013	2012
Risk-free interest rate	**1.11 – 1.56%**	0.9 – 1.4%
Expected volatility	**45.0 – 58.5%**	48.2 – 72.2%
Expected term	**2.7 – 4.2 years**	2.8 – 4.5 years
Expected forfeiture rate	**7.9 – 18.2%**	7.9 – 19.2%
Dividend yield	**4.2 – 4.6%**	nil – 5.0%
Fair value per option issued	**$0.53 – 0.76**	$0.48 – 1.10

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 tables summarize information about the share options outstanding as at December 31, 2013 and December 31, 2012:

As at December 31, 2013

Exercise Prices	**Options Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise price (per option)**	**Number of Options Exercisable**
$0.91 – $1.91	**874**	**1.09**	**$1.15**	**874**
$1.92 – $2.60	**4,570**	**2.94**	**$2.13**	**1,768**

As at December 31, 2012

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise price (per option)	Number of Options exercisable
$0.84 – $2.14	4,616	2.9	$1.65	1,859
$2.15 – $2.67	2,758	2.3	$2.36	1,461
	7,374	2.7	$1.91	3,320

On January 8, 2014, Essential issued 655,000 shares options to key officers and employees of the Company with an exercise price of $2.90 per share option.

(b) Restricted Share Units

The RSU Plan authorizes the Board of Directors of the Company to grant RSUs to persons who are officers and employees of, or consultants to, the Company. RSUs granted to a participant represent a right to receive a cash payment or its equivalent in fully paid shares at the time of vesting. The redemption value of each RSU will be equal to the volume weighted average trading price of the Company’s common shares for the five trading days immediately preceding the vesting date.

On August 12, 2013, 587,500 RSUs were granted to officers and employees of the Company, vesting in three equal instalments of one-third on each of the following dates: January 6, 2014, 2015 and 2016, respectively. The RSUs that vested on January 6, 2014 were settled in cash and paid to participants, less applicable withholdings, within fifteen days of the vesting date. The RSUs that vest on January 6, 2015 and 2016 may be settled with cash or shares, as determined by the Board of Directors.

The RSU liability is measured at fair value on the grant date and is subsequently revalued at the end of each reporting period, with any changes in fair value recognized in the Consolidated Statement of Net Income and Comprehensive Income recorded in “share-based compensation”. The compensation is recognized over the vesting period, on a graded vesting schedule representing the vested portions of the fair value of the granted units. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of units that will eventually vest. Compensation expense and the associated liability related to the RSUs as at and for the year ended December 31, 2013 is $0.8 million (2012 – nil). The total number of RSUs outstanding as at December 31, 2013 is 587,500.

On January 8, 2014, Essential issued 728,500 RSUs to persons who are officers and employees of, or consultants to, the Company. The 2014 grant contains both a performance based and time vesting feature for certain officers and employees.

(c) Deferred Share Units

Participation in the DSU Plan is restricted to non-employee directors ("Eligible Directors"), officers and employees of the Company. A DSU gives the DSU participant a right of redemption in the form of a lump sum cash payment, less applicable withholding taxes, within fifteen days of the DSU Participant ceasing to be an Eligible Director, officer or employee of the Company. The redemption value of each DSU will be equal to the volume weighted average trading price of the Company's common shares for the five trading days preceding the date a DSU participant ceases to be an Eligible Director, officer or employee of the Company.

On August 14, 2013, 100,000 DSUs were granted to Eligible Directors of the Company, vesting one year from the grant date. The liability for the DSUs is measured at fair value on the grant date and is subsequently revalued at the end of each reporting period, with any changes in fair value recognized in the Consolidated Statement of Net Income and Comprehensive Income and recorded in "share-based compensation". The DSU Plan expense recorded for the year ended December 31, 2013 is $0.1 million (2012 – nil). The carrying amount of the liability as at December 31, 2013 is $0.1 million (2012 – nil). The total number of DSUs outstanding at December 31, 2013 is 100,000. There were no DSUs redeemed during the year.

24. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to shareholders of Essential by the weighted average number of shares in issue.

In calculating the diluted earnings per share, share options and RSUs outstanding have been taken into account where the impact of these is dilutive.

	For the year ended December 31 2013	For the year ended December 31 2012
Basic	**124,643**	123,815
Dilutive common shares from share options and RSUs	**1,800**	1,404
Total diluted	**126,443**	125,219
Net income attributable to Essential from continuing operations	**$ 24,017**	$ 30,764
Net income attributable to Essential	**$ 22,095**	$ 22,308
Comprehensive income attributable to Essential	**$ 21,153**	$ 23,669
Net income per share from continuing operations		
Basic and diluted attributable to shareholders of Essential	**$ 0.19**	$ 0.25
Net income per share		
Basic, attributable to shareholders of Essential	**$ 0.18**	$ 0.18
Diluted, attributable to shareholders of Essential	**$ 0.17**	$ 0.18
Comprehensive income per share		
Basic and diluted, attributable to shareholders of Essential	**$ 0.17**	$ 0.19

25. 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
2014	$	4,686
2015		4,376
2016		4,548
2017		3,902
2018		1,282
Thereafter		7,805
	$	26,599

Other commitments

Essential entered into agreements to build certain assets for $16.8 million of which approximately $15.5 million is expected to be paid in 2014 and $1.3 million is to be paid in 2015.

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; however, their ultimate resolution is not expected to have a material adverse effect on the Company.

A Statement of Claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in Canadian Federal Court. The Statement of Claim alleges products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes the suit is without merit and is defending itself against the allegations.

26. CAPITAL DISCLOSURE

The Company's capital structure consists of the following:

				As at December 31
		2013		2012
Long-term debt	**$**	**39,027**	$	35,563
Equity attributable to shareholders of Essential		**313,157**		302,411
Total capitalization	**$**	**352,184**	$	337,974

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.

Essential is subject to externally imposed capital requirements associated with its Credit Facility. These capital requirements include the following financial ratios: (i) current assets to current liabilities shall not be less than 1.25; (ii) funded debt to capitalization shall not exceed 50%; (iii) funded debt to trailing twelve month EBITDA (EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, stock based compensation, impairments and extra-ordinary items) shall not exceed 3.00; (iv) fixed charge coverage ratio for the trailing twelve months shall not be less than 1.25; and (v) all distributions shall not exceed distributable cash flow for the trailing twelve months. As at December 31, 2013, the Company was in compliance with these covenants.

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, bank indebtedness, trade and other receivables, trade and other payables, dividends payable, income taxes 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 and bank indebtedness	Held-for-trading
Trade and other receivables	Loans and receivables
Trade and other payables	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 and there have been no known changes to Essential's credit standing. 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, 2013, the Company earned revenues from more than 500 customers (2012 - 600 customers) with five of these customers representing 31% of revenue (2012 - 25% of revenue). As at December 31, 2013, approximately 34% of the total accounts receivable balance was due from five companies (2012 – 24%).

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 income 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 $0.3 million change to Consolidated Statement of Net Income and Comprehensive Income on an annualized basis (2012 - $0.5 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. SEGMENTED INFORMATION

Essential has two operating segments, Well Servicing and Downhole Tools & Rentals, and a non-operating segment, Corporate and eliminations, whereby transactions between segments are eliminated upon consolidation.

a) Well Servicing

The Well Servicing segment provides well completion, production and workover services throughout the Western Canadian Sedimentary Basin. The Well Servicing segment is comprised of a fleet of coil tubing rigs, service rigs and ancillary equipment and drilling rigs prior to their disposal in November 2012.

b) Downhole Tools & Rentals

The Downhole Tools & Rentals segment is comprised of the Canadian and US downhole tools divisions, rentals division and wireline services, prior to the disposal of wireline in February 2012.

Selected financial information for continuing operations by operating segment and Corporate is as follows:

As at and for the year ended December 31, 2013

	Well Servicing	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	**$ 225,992**	**$ 111,339**	**$ (1,062)**	**$ 336,269**
Net income (loss) before income taxes	**$ 21,817**	**$ 32,228**	**$ (22,720)**	**$ 31,325**
Depreciation and amortization	**$ 22,918**	**$ 2,736**	**$ 1,056**	**$ 26,710**
Total assets	**$ 354,374**	**$ 65,479**	**$ 4,110**	**$ 423,963**
Total liabilities	**$ 45,295**	**$ 8,981**	**$ 56,530**	**$ 110,806**
Equipment expenditures	**$ 41,227**	**$ 3,785**	**$ 1,588**	**$ 46,600**

As at and for the year ended December 31, 2012

	Well Servicing	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	$ 243,458	$ 105,122	$ -	$ 348,580
Net income (loss) before income taxes	$ 30,566	$ 32,244	$ (20,520)	$ 42,290
Depreciation and amortization	$ 21,975	$ 3,073	$ 1,277	$ 26,325
Total assets	$ 340,543	$ 54,370	$ 3,800	$ 398,713
Total liabilities	$ 31,046	$ 7,490	$ 64,181	$ 102,717
Equipment expenditures	$ 46,799	$ 4,071	$ 892	$ 51,762

29. COMPARATIVE AMOUNTS

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

Corporate Information

Directors

James Banister,[2] *Chairman*

Garnet Amundson [3]

Michael Black [2]

Robert German [1,3]

Nicholas Kirton [1,2]

Robert Michaleski [1]

Andrew Zaleski [3]

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

Management

Garnet Amundson

President & Chief Executive Officer

Don Webster

Chief Operating Officer

Allan Mowbray

Vice President, Finance & Chief Financial Officer

Jeff Newman

Senior Vice President, Corporate

Kevin Job

Senior Vice President, Operations

Karen Perasalo

Vice President, Investor Relations &
Corporate Secretary

Auditors

Ernst & Young LLP

Bankers

National Bank of Canada

Toronto Dominion Bank

HSBC Bank Canada

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

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