ESSENTIAL
ENERGY SERVICES

FINANCIAL REPORT

For the year ended December 31, 2021

ESSENTIAL
ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2021.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the years ended December 31, 2021 and 2020, the notes contained therein to which the readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 9, 2022 and was approved and authorized for issuance by the Board of Directors (the "Board") of the Company on March 9, 2022.

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares ("Shares") of the Company trade on the Toronto Stock Exchange ("TSX") under the symbol ESN. Additional information regarding Essential can be found under Essential's profile on SEDAR at www.sedar.com or the Company's website at www.essentialenergy.ca.

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended December 31,		For the years ended December 31,		
	2021	2020	**2021**	2020	2019
Revenue	**$ 35,104**	$ 24,554	**$ 121,208**	$ 96,173	$ 141,133
Gross margin	**5,105**	5,810	**23,228**	20,418	26,055
Gross margin %	**15%**	24%	**19%**	21%	18%
EBITDAS [1]	**2,423**	4,105	**15,181**	13,530	16,975
EBITDAS % [1]	**7%**	17%	**13%**	14%	12%
Net loss[i]	**(4,469)**	(4,226)	**(11,397)**	(16,810)	(1,556)
Per share - basic and diluted	**$ (0.03)**	$ (0.03)	**$ (0.08)**	$ (0.12)	$ (0.01)
Operating hours					
Coiled tubing rigs	**7,630**	7,047	**31,489**	28,468	38,752
Pumpers	**10,228**	9,242	**42,305**	35,977	48,773

	As at December 31,		
	2021	2020	2019
Working capital [1]	**$ 45,290**	$ 47,502	$ 47,151
Cash	**6,462**	6,082	846
Long-term debt	**-**	53	6,563

(i) The year ended December 31, 2020 includes an impairment loss of $10.3 million.

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

INDUSTRY OVERVIEW

Industry activity and commodity prices continued to exhibit strength in the fourth quarter of 2021, well ahead of the same prior year quarter. The price of West Texas Intermediate ("WTI") averaged US$77.33 per barrel in the fourth quarter of 2021. Canadian natural gas prices ("AECO") averaged $4.47 per gigajoule during the fourth quarter of 2021, the highest prices experienced in the last 7 years.

Commodity price-driven exploration and production ("E&P") company cash flow increases were significant in 2021. These funds have generally been applied to debt reduction and returning cash to shareholders through dividends and share repurchases.

Fourth quarter 2021 saw Canada's highest inflation rate since the early 1990s[(a)] which has increased overall cost structures. E&P companies generally have been reluctant to accept improved pricing for oilfield services; instead they have continued to focus on maximizing their own financial performance. Current oilfield service pricing is insufficient to generate appropriate returns relative to rising operational costs.

HIGHLIGHTS

Revenue for Essential for the three months ended December 31, 2021 was $35.1 million, $10.6 million higher than the same prior year quarter as a result of increased activity due to improved industry conditions.

Fourth quarter EBITDAS[(1)] was $2.4 million, $1.7 million lower than the same prior year period due to no funding in the fourth quarter of 2021 from the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and the Employee Retention Tax Credit program and Paycheque Protection Program in the U.S. (collectively, "Government Subsidy Programs"), compared to $2.0 million in the fourth quarter of 2020, and increased operating costs. While activity improved in the fourth quarter of 2021, customer pricing was not sufficient to offset rising operating costs, which negatively impacted EBITDAS[(1)].

Key operating highlights included:

- Essential Coil Well Service ("ECWS") fourth quarter 2021 revenue was $15.1 million, an increase of $2.1 million compared to the same prior year period due to improved activity. Gross margin was $2.1 million, $1.5 million lower than the prior year quarter due to no funding from Government Subsidy Programs and higher operating costs.
- Tryton fourth quarter 2021 revenue was $20.0 million, $8.5 million higher than the same prior year period due to significantly increased activity in the quarter. Compared to the fourth quarter of 2020, Multi-Stage Fracturing System ("MSFS®") revenue increased as customers increased spending on completion activities. Conventional tool revenue also improved as customer spending increased on production and abandonment activities. Gross margin was $3.3 million, $0.5 million higher than the prior year period due to higher activity, offset by no funding from Government Subsidy Programs and higher operating costs.

On November 25, 2021, Essential amended its Credit Facility (as defined herein). The Credit Facility has a maturity date of November 30, 2024 and allows Essential to borrow up to $25.0 million.

For the year ended December 31, 2021, Essential reported revenue of $121.2 million, $25.0 million higher than the prior year due to higher activity. For the year ended December 31, 2021, EBITDAS[(1)] was $15.2 million, $1.7 million higher than the prior year due to improved activity, offset by lower funding from Government Subsidy Programs and increased operating costs. For the year ended December 31, 2021, Essential received $4.4 million in funding under Government Subsidy Programs compared to $7.3 million in 2020.

Cash and Working Capital[(1)]

At December 31, 2021, Essential continued to be in a strong financial position with cash of $6.5 million and working capital[(1)] of $45.3 million. On March 9, 2022 Essential had $1.5 million of cash net of long-term debt. The decrease in cash since December 31, 2021 is largely due to working capital[(1)] changes.

(a) Source: Bank of Canada – Consumer Price Index

® MSFS is a registered trademark of Essential Energy Services Ltd.

OVERVIEW OF ESSENTIAL

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

Essential Coil Well Service

Coiled Tubing Rigs – Essential operates one of the largest coiled tubing well service fleets in Canada. Coiled tubing rigs provide completion, stimulation and work-over services on long-reach horizontal wells. Essential's coiled tubing rigs are typically equipped to work with coiled tubing ranging from 2 ⅜ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity, using 2 ⅜ inch coil, of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coiled tubing fleet is comprised of Generation I, II, III and IV coiled tubing rigs, which are differentiated by their capability to service wells with varying depths and well pressures. The varied rig size, reel capacity and coil diameter of Essential's coiled tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program. Essential operates masted and conventional coiled tubing rigs.

Coiled tubing rigs are typically hired by an E&P company to be involved in the completion of a horizontal well in the following areas:

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

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

Tryton

Essential's Tryton segment provides a wide range of downhole tools and rental services across the Western Canadian Sedimentary Basin and in the U.S. for completion, production and wellsite restoration of oil and natural gas wells, including:

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously. Tryton offers a variety of MSFS® tools that provide customers with a choice of completion technologies to use on their horizontal well completion program. The completion technology selected will vary based on wellbore characteristics and client preference. Revenue and cost parameters of each completion technology vary depending on the nature of the tools used and the services provided:
    - Ball & Seat – Tryton's Ball & Seat system uses open hole packers and sleeves, which are opened in sequential order by dropping progressively larger balls through a liner, to isolate and fracture each zone along the non-cased horizontal leg of a well. The number of zones, or "stages", that can be fractured using a Ball & Seat system is limited by the size specifications of the balls and seats used.

- Composite Bridge Plug – Tryton's Composite Bridge Plug, typically used in "plug-and-perf" completion programs, provides customers the ability to fracture an unlimited number of stages in the horizontal leg. These plugs are relatively quick to mill-out post-fracturing.
- Hybrid MSFS® – Tryton's Hybrid MSFS® combines Tryton's Ball & Seat system, installed closer to the "toe" of the horizontal leg of a well, with Tryton's Composite Bridge Plug, installed towards the "heel" of the well. The Hybrid MSFS® enables customers to fracture an unlimited number of stages in the horizontal leg.

- Conventional Tools – Conventional downhole tools are used in production, abandonment and wellsite restoration activities. Tryton offers a wide range of products, including downhole packers, tubing anchors, bridge plugs, sub-surface safety valves, cement retainers and related accessories.
- Rentals – Tryton Rentals offers oilfield service equipment, including specialty drill pipe and various other tools and handling equipment.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended December 31,		For the years ended December 31,	
	2021	2020	**2021**	2020
Revenue	**$ 35,104**	$ 24,554	**$ 121,208**	$ 96,173
Operating expenses	**29,999**	18,744	**97,980**	75,755
Gross margin	**5,105**	5,810	**23,228**	20,418
General and administrative expenses	**2,682**	1,705	**8,047**	6,888
EBITDAS [(1)]	**2,423**	4,105	**15,181**	13,530
Depreciation and amortization	**4,268**	4,729	**17,874**	19,141
Share-based compensation expense	**2,307**	2,536	**7,653**	2,107
Other (income) expense	**(61)**	593	**(31)**	(211)
Finance costs	**370**	446	**1,071**	1,604
Impairment loss	**-**	-	**-**	10,293
Loss before income taxes	**(4,461)**	(4,199)	**(11,386)**	(19,404)
Current income tax expense	**8**	27	**11**	30
Deferred income tax recovery	**-**	-	**-**	(2,624)
Income tax expense (recovery)	**8**	27	**11**	(2,594)
Net loss	**$ (4,469)**	$ (4,226)	**$ (11,397)**	$ (16,810)
Net loss per share				
Basic and diluted	**$ (0.03)**	$ (0.03)	**$ (0.08)**	$ (0.12)

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Revenue	**$ 15,134**	$ 13,059	**$ 59,253**	$ 53,623
Operating expenses	**13,020**	9,447	**48,221**	39,296
Gross margin	**$ 2,114**	$ 3,612	**$ 11,032**	$ 14,327
Gross margin %	**14%**	28%	**19%**	27%
Operating hours				
Coiled tubing rigs	**7,630**	7,047	**31,489**	28,468
Pumpers	**10,228**	9,242	**42,305**	35,977
Active equipment fleet (i) (ii)				
Coiled tubing rigs	**12**	11	**12**	11
Fluid pumpers	**10**	9	**10**	9
Nitrogen pumpers	**4**	4	**4**	4
Total equipment fleet (i) (iii)				
Coiled tubing rigs	**25**	29	**25**	29
Fluid pumpers	**13**	19	**13**	19
Nitrogen pumpers	**6**	8	**6**	8

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.
(ii) In January 2022, one additional quintuplex fluid pumper went into service.
(iii) Total equipment fleet was reduced in the third quarter of 2021 for shallow coiled tubing rigs and lower capacity pumpers which are no longer expected to be reactivated.

ECWS revenue for the three months ended December 31, 2021 was $15.1 million, an increase of $2.1 million compared to the same prior year period. Higher activity as a result of improved industry conditions and higher revenue per operating hour both contributed to increased revenue in the current quarter. During the fourth quarter of 2021, ECWS experienced modest price increases from customers mainly related to partial cost recovery; however, price increases accepted by customers to date have been quite nominal. The majority of the increase in revenue per operating hour was due to the nature of the work performed during the quarter compared to the same prior year period.

Gross margin for the fourth quarter 2021 was $2.1 million, $1.5 million lower than the same prior year period. Higher operating costs related to wages, fuel and repairs & maintenance ("R&M"), combined with no funding received under Government Subsidy Programs, resulted in lower gross margin in the quarter. Customer pricing improvements were nominal in the quarter and were not sufficient to cover the inflationary increase of operating costs, further compressing gross margin. Fourth quarter 2021 gross margin percentage was 14% compared to 28% in the same prior year period.

During the fourth quarter of 2021, ECWS activated the first of two quintuplex fluid pumpers acquired at the beginning of 2021. The second quintuplex fluid pumper went into service in January 2022.

For the year ended December 31, 2021, ECWS revenue was $59.3 million, $5.6 million higher than the prior year due to increased industry activity. Gross margin was $11.0 million, $3.3 million lower than the prior year primarily due to lower funding received from Government Subsidy Programs and higher operating costs in the current year. Gross margin percentage was 19% in the current year, lower than the 27% in the prior year.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Revenue	**$ 19,970**	$ 11,495	**$ 61,955**	$ 42,550
Operating expenses	**16,703**	8,759	**49,202**	34,761
Gross margin	**$ 3,267**	$ 2,736	**$ 12,753**	$ 7,789
Gross margin %	**16%**	24%	**21%**	18%
Tryton revenue - % of revenue				
Tryton MSFS®	**45%**	33%	**35%**	35%
Conventional Tools & Rentals	**55%**	67%	**65%**	65%

Tryton fourth quarter 2021 revenue was $20.0 million, an increase of $8.5 million compared to the same prior year period. Fourth quarter 2021 Tryton MSFS® revenue increased, compared to the prior year period, as customers increased spending on completion activities. Conventional tool revenue also improved compared to the prior year period as customer spending increased on production and abandonment activities due to improved industry conditions.

Gross margin for the fourth quarter of 2021 was $3.3 million, $0.5 million higher than the prior year due to a significant increase in activity offset by no funding received from Government Subsidy Programs. Gross margin in the quarter was further compressed by increased operating costs, primarily related to inventory and wages, and the inability to pass these increased costs onto customers in the form of higher prices. Fourth quarter 2021 gross margin percentage was 16%, compared to 24% in the same prior year period.

For the year ended December 31, 2021, Tryton revenue was $62.0 million, $19.4 million higher than 2020 due to improved industry conditions. Gross margin was $12.8 million, $5.0 million higher than the prior year as a result of significantly higher activity, offset by increased wages and inventory costs along with lower funding received under Government Subsidy Programs. As a percentage of revenue, gross margin improved to 21%, compared to 18% in the prior year as fixed costs were spread over a larger revenue base.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
General and administrative expenses	**$ 2,682**	$ 1,705	**$ 8,490**	$ 6,888
Patent litigation - cost recovery	**-**	-	**(443)**	-
General and administrative expenses	**$ 2,682**	$ 1,705	**$ 8,047**	$ 6,888

General and administrative expenses ("G&A") consist of wages, professional fees and other administrative costs. G&A for the three and twelve months ended December 31, 2021 increased compared to the same prior year periods mainly due to partial reinstatement of certain employee compensation programs that were temporarily suspended, or reduced, in 2020. As well, benefits received under Government Subsidy Programs were lower during the three and twelve months ended December 31, 2021, compared to the same prior year periods as the benefits received under these programs ended in the third quarter of 2021.

For the year ended December 31, 2021, G&A included $0.4 million recovery of 2019 post-trial expenses in connection with the Packers Plus Energy Services Inc. patent litigation (the "Patent Litigation"). All matters related to the Patent Litigation have now been concluded.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Depreciation and amortization expense	**$ 4,268**	$ 4,729	**$ 17,874**	$ 19,141

Depreciation expense for the three and twelve months ended December 31, 2021 was lower than the same prior year periods as a result of certain fixed assets becoming fully depreciated during 2021. In addition, the twelve months ended December 31, 2020 included $0.5 million related to one-time charges for assets fully depreciated as a result of useful life assumption changes implemented in 2020.

SHARE-BASED COMPENSATION

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Share-based compensation expense	**$ 2,307**	$ 2,536	**$ 7,653**	$ 2,107

Essential's liability for share-based compensation fluctuates based on Essential's share price and the number of share-based units outstanding at period end. When Essential's share price increases (decreases), the estimated amount of future payments also increases (decreases) and results in higher (lower) share-based compensation expense.

For the three months ended December 31, 2021, share-based compensation expense was $2.3 million, a decrease of $0.2 million compared to the same prior year period mainly due to a smaller change in share price compared to the change in share price in the same prior year period. For the three months ended December 31, 2021, Essential's share

price increased $0.04 per share when compared to September 30, 2021. During the three months ended December 31, 2020, Essential's share price increased $0.08 per share when compared to September 30, 2020.

For the twelve months ended December 31, 2021, share-based compensation expense was $7.7 million, an increase of $5.5 million compared to the prior year due to the change in share price and more units outstanding in the current year. For the twelve months ended December 31, 2021, Essential's share price increased $0.17 per share when compared to December 31, 2020. For the twelve months ended December 31, 2020, Essential's share price decreased $0.16 per share when compared to December 31, 2019.

OTHER INCOME

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Gain on disposal of assets	**$ (164)**	$ (82)	**$ (88)**	$ (399)
Realized foreign exchange (gain) loss	**(5)**	(3)	**(4)**	17
Unrealized foreign exchange loss	**59**	689	**54**	212
Other (expense) income	**49**	(11)	**7**	(41)
Other (income) expense	**$ (61)**	$ 593	**$ (31)**	$ (211)

For the three and twelve months ended December 31, 2021 and 2020, Essential realized a gain on disposal of assets related to the sale of surplus equipment no longer used in operations.

During the three and twelve months ended December 31, 2021 and 2020, the strengthening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange loss.

IMPAIRMENT LOSS

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Impairment loss	**$ -**	$ -	**$ -**	$ 10,293

During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American E&P companies' drilling and completion programs. As a result, Essential completed an impairment assessment at March 31, 2020 which determined that the recoverable amounts of the ECWS and Tryton segments were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on goodwill.

FINANCE COSTS

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Finance costs	**$ 370**	$ 446	**$ 1,071**	$ 1,604

Finance costs consist of interest expense related to lease liabilities, interest on long-term debt and amortization of deferred financing costs related to the Company's Credit Facility (as described below).

For the three months ended December 31, 2021, finance costs decreased compared to the same prior year period due to lower outstanding lease liabilities and lower standby fees.

For the year ended December 30, 2021, finance costs decreased compared to the prior year as Essential had no amounts outstanding under the Credit Facility during 2021. In comparison, for the year ended December 31, 2020, Essential had amounts outstanding under the Credit Facility which resulted in higher interest costs.

INCOME TAXES

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Current income tax expense	**$ 8**	$ 27	**$ 11**	$ 30
Deferred income tax recovery	**-**	-	**-**	(2,624)
Income tax expense (recovery)	**$ 8**	$ 27	**$ 11**	$ (2,594)

For the three and twelve months ended December 31, 2021, Essential did not recognize any amounts related to deferred income tax expense or recovery.

As at December 31, 2021, Essential was in an unrecognized deferred income tax asset position. An assessment was performed, which determined that Essential did not meet the criteria to recognize a deferred tax asset. For the year ended December 31, 2020, Essential recognized a deferred income tax recovery due to losses recorded in those periods.

FINANCIAL RESOURCES AND LIQUIDITY

NET CASH PROVIDED BY OPERATING ACTIVITIES

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Funds flow [1]	**$ 8**	$ 1,272	**$ 6,945**	$ 12,327
Changes in non-cash working capital [1]	**(646)**	(353)	**4,878**	4,495
Net cash provided by operating activities	**$ (638)**	$ 919	**$ 11,823**	$ 16,822

WORKING CAPITAL[1]

(in thousands of dollars, except ratios)	As at December 31, 2021	As at December 31, 2020
Current assets	**$ 68,740**	$ 61,890
Current liabilities	**(23,450)**	(14,388)
Working capital [1]	**$ 45,290**	$ 47,502
Working capital ratio [1]	**2.9:1**	4.3:1

Working capital[1] is comprised primarily of cash, accounts receivable and inventory, net of accounts payable and current portion of lease liability. As required, Essential uses its Credit Facility to meet the variable nature of its working capital[1] requirements for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees.

Management analyzes working capital[1] and working capital ratio[1] as part of the Company's overall capital management strategy to ensure adequate sources of capital are available to maintain operational activities, carry out the planned capital program and have sufficient cash sources to sustain the business.

CREDIT FACILITY

On November 25, 2021, Essential entered into a second amending agreement to its 2018 credit facility with a syndicate of lenders (the "Lenders") with revised terms and conditions. The amended credit facility (the "Credit Facility") is comprised of a $25.0 million revolving term loan facility. The Credit Facility matures on November 30, 2024, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not extended, any balance would be immediately due and payable on the maturity date.

The primary amendments to the terms and conditions in the Credit Facility included, among others, the following:

- certain financial covenants, with the covenant thresholds detailed in the table below;
- the amount available to be borrowed is $25 million. Prior to this amendment, the amount that could be borrowed was the lesser of (a) $25 million; (b) $15 million during the covenant relief period, which was scheduled to end on December 31, 2021; and (c) the borrowing base calculation. The covenant relief period and related restrictions along with the borrowing base calculation have been removed;
- distributions, in the form of dividends or a normal course issuer bid, are permitted provided no pending event of default or event of default, as defined in the Credit Facility, is continuing or would result from such distribution.

The Credit Facility also contains a number of positive and negative customary covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets; among other requirements and restrictions.

As at December 31, 2021 there were no amounts outstanding under the Credit Facility and $25.0 million was available. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities.

Financial Covenants

As at December 31, 2021, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

(in millions of dollars, except percentages)	Covenant Threshold	**As at December 31, 2021**
Funded debt to capitalization	≤ 50%	**N/A**
Funded debt to Bank EBITDA	≤ 3.5x	**N/A**
Fixed charge coverage ratio	≥ 1.25x	**27.65x**

Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash. It does not include the lease liability. Capitalization is defined in Essential's Credit Facility as the aggregate of its funded debt and equity. Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS[(1)], excluding severance costs ("Permitted Adjustments") and the impact of IFRS 16. Fixed charge coverage ratio is generally defined in Essential's Credit Facility as the ratio of Bank EBITDA less cash tax expense to the cash interest expense. Financial covenants are calculated in accordance with Essential's Credit Facility agreement which can be found on SEDAR.

PURCHASE OF PROPERTY AND EQUIPMENT

(in thousands of dollars)	For the three months ended December 31,		For the years ended December 31,	
	2021	2020	**2021**	2020
ECWS	**$ 1,375**	$ 124	**$ 5,620**	$ 1,125
Tryton	**836**	165	**1,888**	770
Corporate	**10**	-	**72**	49
Purchase of property and equipment	**2,221**	289	**7,580**	1,944
Less proceeds on disposal of equipment	**$ (259)**	$ (246)	**$ (1,351)**	$ (2,280)
Net equipment expenditures (proceeds) [(1)]	**$ 1,962**	$ 43	**$ 6,229**	$ (336)

Essential classifies its purchase of property and equipment as growth capital[(1)] and maintenance capital[(1)]:

(in thousands of dollars)	For the three months ended December 31,		For the years ended December 31,	
	2021	2020	**2021**	2020
Growth capital [(1)]	**$ 970**	$ -	**$ 3,807**	$ -
Maintenance capital [(1)]	**1,251**	289	**3,773**	1,944
Purchase of property and equipment	**$ 2,221**	$ 289	**$ 7,580**	$ 1,944

For the twelve months ended December 31, 2021, Essential's growth capital spending primarily related to the acquisition and refurbishment of two quintuplex fluid pumpers in ECWS and the purchase of specialty drill pipe in Tryton. One quintuplex fluid pumper went into service during the fourth quarter 2021 and the second quintuplex fluid pumper went into service in January 2022. For the twelve months ended December 31, 2021, Essential's maintenance capital spending was focused on costs incurred to maintain the active fleet.

For each of 2021 and 2020, asset dispositions primarily related to the sale of redundant, old or obsolete assets such as pickup trucks, shallow coiled tubing rigs and older, low capacity fluid and nitrogen pumpers. These assets had nominal value to the ongoing operations of Essential.

2022 Capital Budget

Essential's 2022 capital budget was set at $6 million for the purchase of property and equipment and relates to spending on maintenance activities. Essential will continue to monitor fleet activity and industry opportunities and adjust its spending as appropriate. The 2022 capital budget is expected to be funded with cash, operational cashflow and, if needed, the Credit Facility.

Share Capital

As at March 9, 2022, there were 141,853,313 Shares and 449,000 share options ("Share Options") outstanding. All of the 449,000 Share Options outstanding were exercisable and "in-the-money".

Commitments

Essential has lease commitments for office and shop premises with contractual undiscounted lease payments as follows:

(in thousands of dollars)	**As at December 31, 2021**	As at December 31, 2020
Less than one year	**$ 5,446**	$ 4,678
One to five years	**7,136**	8,305
	$ 12,582	$ 12,983

Related Party Transactions

As at December 31, 2021, Essential had lease agreements for shop premises with certain private corporations that are controlled by one of the Vice Presidents of the Company. The terms and conditions of these agreements are based on market rates for similar leases and are no more favourable than those available, or which might reasonably be expected to be available, in similar transactions on an arm's length basis.

For the year ended December 31, 2021, Essential incurred lease payments related to these shop premises of $0.7 million (2020 - $0.8 million). Future annual lease payments related to these shop premises are as follows:

(in thousands of dollars)	Amount
2022	$ 751
2023	228
2024	160
2025	160
2026	53
As at December 31, 2021	$ 1,352

NORMAL COURSE ISSUER BID ("NCIB")

On December 17, 2021, the Company received approval from the TSX to implement a NCIB for Essential's Shares. Any Shares purchased by Essential pursuant to the NCIB will be cancelled. The NCIB commenced on December 21, 2021 and will terminate on December 20, 2022, 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 10,374,478 of its issued and outstanding Shares on the open market through the facilities of the TSX and/or other alternative trading systems. In accordance with the provisions of the TSX Company Manual, the maximum number of Shares that may be purchased on one day may not exceed 23,482 Shares, which is 25% of the six-month average daily trading volume of Shares on the TSX, at November 30, 2021. The price which Essential will pay for any Shares purchased will be the prevailing market price of such Shares at the time of purchase. 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.

For the year ended December 31, 2021, no Shares were acquired and cancelled under the NCIB.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, interim or other reports are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2021, such officers have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's disclosure controls and procedures and have concluded that the Company's disclosure controls and procedures are effective with no material weakness as at December 31, 2021.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2021 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Critical Accounting Estimates

Preparation of consolidated financial statements requires that the Company make assumptions regarding accounting estimates for certain amounts contained within the consolidated financial statements. The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements 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 estimates used for the impairment provisions for trade receivables, net realizable value of inventory, depreciation and amortization, impairment of long-lived assets and goodwill, share-based compensation, provisions, lease liabilities and deferred income tax assets and liabilities. The identification of indications of impairment or reversal of previously recognized impairment losses requires management to apply significant judgement. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

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 expected credit losses. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. Given the cyclical nature of the oil and natural gas industry, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Net Realizable Value of Inventory

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

Depreciation and Amortization

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

The estimated useful lives, residual values and methods of depreciation for all asset classes are assessed as part of the Company's annual review of estimates. Adjustments, where applicable, are made on a prospective basis. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. In the second quarter of 2020, due to current and anticipated market conditions, Essential reviewed all asset classes to ensure proper alignment with future economic benefits. As a result of this review, effective April 1, 2020, Essential adjusted the useful life of certain assets as follows:

- Coiled tubing rigs and equipment – depreciated with an average life of 10 years (previously 8-20 years); and
- Other oilfield equipment – depreciated with an average life of 10 years (previously 10-15 years).

The change to the useful life of these assets resulted in additional depreciation expense for the three and twelve months ended December 31, 2020 of approximately $1.3 million and $4.9 million, respectively.

Impairment of Long-Lived Assets

At each reporting date, Essential assesses whether there is an indication that a long-lived asset or group of assets, including goodwill and intangible assets, may be impaired based on internal and external factors, including EBITDAS[(1)] expectations, expected industry activity levels, commodity price development and market capitalization. Long-lived assets include property and equipment, intangible assets and right-of use assets. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, forecasts and industry considerations affecting the Company and the CGU.

Leases

At inception, a contract is assessed to determine whether it is, or contains, a lease. A lease conveys the right to control the use of the leased item for a year of time in exchange for payment. Leases are capitalized at the commencement of the lease at the present value of the future lease payments. Obligations recorded under leases are reduced by the lease payments made, net of imputed interest. Leased assets are depreciated using the straight-line method over the lease term. Essential has applied judgment to determine the lease term of some lease contracts in which it is a lessee that include renewal options and discount rates.

Share-based Compensation

Share-based compensation is provided in respect of the Share Option, Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans.

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

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

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

Provisions

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

Deferred Income Tax Liabilities and Assets

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

RISKS AND UNCERTAINTIES

Certain information contained in this MD&A includes market and industry data that has been obtained from or is based upon estimates derived from third party sources, including industry publications, reports and websites. Although the data is believed to be reliable, Essential has not independently verified such information and cannot provide any assurance of its accuracy, currency, reliability or completeness.

For a discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form ("AIF") for the year ended December 31, 2021, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

Environmental and Climate Change Risks

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of Canadian and U.S. federal, provincial, state and local legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances used or produced in association with certain oil and natural gas industry operations.

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to Environmental, Social and Governance ("ESG") and climate reporting, the International Sustainability Standards Board has proposed an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not been quantified. There may be additional uncertainties related to assumptions and estimates with respect to climate change.

OUTLOOK

During the fourth quarter of 2021, the price for each of WTI and AECO continued to strengthen and both have further improved in early 2022. With these strong commodity prices, the outlook for industry drilling and completion activity in 2022 is optimistic. Industry analysts are generally projecting that E&P company spending in the Western Canadian Sedimentary Basin will be higher in 2022 than 2021 with the price of oil trading at its highest level since 2008. Strong commodity prices and the constant degradation effect of well declines is expected to drive an increase in spending on drilling and completions in the coming year.

Continuing with the theme established during 2021, although E&P company cash flows have been significant, this surplus cash flow has generally been applied to debt reduction and returning funds to shareholders through dividends and share repurchases. This is expected to continue into the foreseeable future. The industry E&P capital reinvestment ratio in Canada (capital spending as a percentage of cash flow) for 2021 was only 34% [(a)], compared to approximately 69% [(a)] over the past 5 years, and well over 100% [(a)] before 2017. This ratio is anticipated to remain similar in 2022 compared to 2021. However, as debt is reduced or eliminated, E&P companies may shift some of their focus back to incremental growth and well development spending.

During 2021, cost inflation of wages, fuel, inventory and R&M activities increased Essential's cost structure and is continuing into 2022. Cost inflation in Canada has been significant and general inflation recently passed 5% [(b)] in January 2022 for the first time since September 1991. As well, there is concern that supply chain disruptions could further increase costs in the oilfield services sector in the year. Given inflation risk and rising costs, current oilfield service pricing is insufficient for Essential to generate appropriate returns or support the expansion of crews and activation of additional equipment.

So far, E&P companies have been reluctant to accept pricing increases for oilfield services other than nominal cost recovery for components such as fuel, as E&P companies seek to maximize financial performance by controlling costs. Even at today's activity levels, the oilfield services sector in Canada is experiencing labor shortages. Retaining and attracting personnel to the oilfield services sector is a challenge in today's market. Logical supply-demand dynamics suggest the need for future price increases as E&P companies compete for limited oilfield service crews and equipment.

To date, first quarter 2022 activity has been relatively steady and ahead of activity in the same prior year quarter. However, despite improved activity, gross margin percentage is expected to be reduced compared to first quarter 2021 as a result of no government subsidies in 2022, combined with increased operating costs primarily driven by inflation and minimal improvements in customer pricing.

ECWS has the industry's largest active and total deep coiled tubing fleet. This includes ECWS's eight coiled tubing rigs with capacity greater than 6,500 meters, which the Company estimates is more than one third of the Canadian industry fleet for this type of specialized completions equipment. With the addition of two quintuplex fluid pumpers, ECWS's active fleet includes 12 coiled tubing rigs and 11 fluid pumpers. ECWS is not crewing this entire active fleet. Maintenance of an active fleet above what is currently crewed allows customers to have access to preferred, efficient equipment for differing completion techniques and formation/well pad needs. As the industry continues to recover, ECWS has additional inactive equipment available for reactivation.

With the expected industry completions activity recovery in 2022, Tryton anticipates increased demand for its MSFS® completion downhole tools. Tryton's conventional downhole tool business in each of Canada and the U.S. is also expected to improve.

Essential is well-positioned to benefit from the anticipated service-industry recovery cycle. Essential's strengths include its well-trained workforce, industry leading coiled tubing fleet, value-adding downhole tool technologies and sound financial footing. As industry activity improves, Essential will focus on obtaining appropriate pricing for its services. Essential is committed to meeting the growing demands of its key customers, the continued focus on ESG initiatives, maintaining its strong financial position and developing its cash flow generating businesses. On March 9, 2022, Essential had cash net of long-term debt of $1.5 million. Essential's ongoing financial stability is a strategic advantage as the industry continues to transition into a period of expected growth.

(a) Source: ARC Energy Charts – February 28, 2022
(b) Source: Bank of Canada – Consumer Price Index – January 2022

SUMMARY OF QUARTERLY DATA

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

The unprecedented economic and industry downturn has disrupted typical historic oilfield services seasonal and quarterly patterns in western Canada as E&P companies prioritize cash flow spending decisions in addition to weather and access issues.

The following table provides the Company's quarterly information for the past eight quarters:

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Dec 31, 2021**	Sept 30, 2021	June 30, 2021	Mar 31, 2021	**Dec 31, 2020**	Sept 30, 2020	June 30, 2020	Mar 31, 2020
Essential Coil Well Service	**15,134**	14,908	13,355	15,856	**13,059**	9,909	6,116	24,539
Tryton	**19,970**	18,605	9,086	14,294	**11,495**	9,332	4,839	16,884
Total revenue	**35,104**	33,513	22,441	30,150	**24,554**	19,241	10,955	41,423
Gross margin	**5,105**	6,094	5,291	6,738	**5,810**	5,314	876	8,418
Gross margin %	**15%**	18%	24%	22%	**24%**	28%	8%	20%
EBITDAS [(1)]	**2,423**	4,441	3,429	4,888	**4,105**	4,033	(492)	5,884
Bank EBITDA [(1)]	**1,128**	3,255	2,217	3,836	**3,038**	3,193	(691)	4,687
Net (loss) income [(i)]	**(4,469)**	684	(5,019)	(2,593)	**(4,226)**	(1,529)	(6,030)	(5,025)
Per share - basic and diluted	**(0.03)**	0.00	(0.04)	(0.02)	**(0.03)**	(0.01)	(0.04)	(0.04)
Total assets	**159,086**	162,794	157,616	161,283	**159,863**	163,188	161,531	183,999
Cash	**6,462**	10,885	11,627	6,251	**6,082**	6,625	5,664	959
Long-term debt	**-**	-	301	53	**53**	145	665	8,544
Operating hours								
Coiled tubing rigs	**7,630**	7,816	7,414	8,629	**7,047**	5,348	3,060	13,013
Pumpers	**10,228**	10,827	9,647	11,603	**9,242**	7,131	3,712	15,892
Tryton - % of revenue								
Tryton MSFS®	**45%**	39%	10%	34%	**33%**	40%	34%	35%
Conventional Tools & Rentals	**55%**	61%	90%	66%	**67%**	60%	66%	65%

(i) The quarter ended March 31, 2020 includes an impairment loss of $10.3 million.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains "forward-looking statements" and "forward-looking information" (collectively referred to herein as "forward-looking statements") within the meaning of applicable securities legislation. Such forward-looking statements include, without limitation, forecasts, estimates, expectations and objectives for future operations that are subject to a number of material factors, assumptions, risks and uncertainties, many of which are beyond the control of the Company.

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "anticipates", "believes", "focus", "forecast", "forward", "projects", "maintain", "intends", "estimates", "continues", "future", "outlook", "opportunity", "aim", "probable", "seek", "budget", "ongoing" and similar expressions, or are events or conditions that "will", "would", "may", "likely", "could", "should", "can", "typically", "traditionally" or "tends to" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the carrying values of Essential's assets and liabilities; Essential's capital spending budget and expectations of how it will be funded; the NCIB; critical accounting estimates and the impact thereof; risks and uncertainties; climate change and related regulations and compliance; general economic activity; oil and natural gas industry and oilfield services sector activity and outlook; the impact of E&P cashflow increases, the deployment of incremental cash flow and E&P capital spending; the industry E&P capital reinvestment ratio in Canada; oilfield service pricing, including the possible implications of current pricing on future growth; the Company's capital management strategy and financial position; Essential's strengths, focus, outlook, activity levels, cost structure, gross margin percentage, impact of inflation, supply chain implications, active and inactive equipment, market share and crew counts; and Essential's cash position as a strategic advantage.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Essential including, without limitation: the potential impact of the COVID-19 pandemic on Essential; supply chain disruptions; oil and natural gas industry exploration and development and the geographic region of such activity; that Essential will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Essential's capital and operating requirements as needed; and certain cost assumptions.

Although the Company believes that the material factors, expectations and assumptions expressed in such forward-looking statements are reasonable based on information available to it on the date such statements are made, undue reliance should not be placed on the forward-looking statements because the Company can give no assurances that such statements and information will prove to be correct and such statements are not guarantees of future performance. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual performance and results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: known and unknown risks, including those set forth in the Company's AIF (a copy of which can be found under Essential's profile on SEDAR at www.sedar.com); a significant expansion of COVID-19 pandemic and the impacts thereof; the risks associated with the oilfield services sector, including 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, market, climate 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 including those in the event of an epidemic, natural disaster or other event; global economic events; changes to Essential's financial position and cash flow, and the higher degree of uncertainty related to the estimates and judgements made in the preparation of financial statements; the availability of qualified personnel, management or other key inputs; cost increases of key inputs; currency exchange fluctuations; changes in political and security stability; potential industry developments; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive and should refer to "Risk Factors" set out in the AIF.

Statements, including forward-looking statements, contained in this MD&A are made as of the date they are given and the Company disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with applicable securities regulatory authorities and may be accessed under Essential's profile on SEDAR at www.sedar.com.

[1]Non-IFRS and Other Financial Measures

Throughout this MD&A, certain terms that are not specifically defined under IFRS are considered non-IFRS and other financial measures as defined in National Instrument 52-112. These non-IFRS and other financial measures are used to analyze Essential's operations. These measures are identified and presented, where appropriate, together with reconciliations to the most directly comparable IFRS measure. These measures are intended to supplement Essential's results provided in accordance with IFRS. In addition to the primary measures of net loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net loss and net loss per share as calculated in accordance with IFRS.

Funds Flow – Funds flow is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other companies. Management believes that in addition to net cash provided by operating activities, the most directly comparable IFRS measure, funds flow is a useful measure to enhance investors understanding of Essential's cash flow and ability to fund principal debt repayments and capital programs. Funds flow is generally defined as net cash provided by operating activities before changes in non-cash operating working capital. Funds flow is presented on the Consolidated Statements of Cash Flows. A reconciliation of funds flow is provided in the Consolidated Statements of Cash Flows in Essential's consolidated financial statements.

EBITDAS and EBITDAS % – EBITDAS is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other companies. EBITDAS % is a non-IFRS ratio and is calculated as EBITDAS divided by total revenue. Management believes that in addition to net loss, the most directly comparable IFRS measure, EBITDAS is a useful measure to enhance investors understanding of Essential's results from its principal business activities prior to consideration of how those activities are financed, how the results are taxed and how the results are impacted by non-cash charges. EBITDAS is generally defined as earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, write-down of assets, impairment loss, foreign exchange gains or losses, and share-based compensation, which includes both equity-settled and cash-settled transactions. These adjustments are relevant as they provide another measure which is considered an indicator of Essential's results from its principal business activities. EBITDAS % is used as a supplemental financial measure by management to evaluate cost efficiency.

The following table reconciles Bank EBITDA and EBITDAS[1] to net loss:

(in thousands of dollars)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
Bank EBITDA	**$ 1,128**	$ 3,038	**$ 10,436**	$ 10,227
Impact of lease accounting under IFRS	**(1,295)**	(1,086)	**(4,895)**	(4,422)
Permitted Adjustments	**-**	19	**150**	1,119
EBITDAS	**$ 2,423**	$ 4,105	**$ 15,181**	$ 13,530
Share-based compensation expense	**2,307**	2,536	**7,653**	2,107
Other (income) expense	**(61)**	593	**(31)**	(211)
Impairment loss	**-**	-	**-**	10,293
Depreciation and amortization	**4,268**	4,729	**17,874**	19,141
Finance costs	**370**	446	**1,071**	1,604
Loss before income tax	**$ (4,461)**	$ (4,199)	**$ (11,386)**	$ (19,404)
Income tax expense (recovery)	**8**	27	**11**	(2,594)
Net loss	**$ (4,469)**	$ (4,226)	**$ (11,397)**	$ (16,810)

The following table calculates EBITDAS %:

(in thousands of dollars, except percentages)	For the three months ended December 31, 2021	2020	For the years ended December 31, 2021	2020
EBITDAS	**$ 2,423**	$ 4,105	**$ 15,181**	$ 13,530
Revenue	**$ 35,104**	$ 24,554	**$ 121,208**	$ 96,173
EBITDAS %	**7%**	17%	**13%**	14%

OTHER FINANCIAL MEASURES

Growth capital – Growth capital is capital spending which is intended to result in incremental revenue. The determination of what constitutes growth capital involves judgement by management. A reconciliation of growth capital to the Consolidated Statements of Cash Flows is provided in the *Purchase of Property and Equipment* table in the *Financial Resources and Liquidity section of this MD&A.*

Maintenance capital – Maintenance capital is capital spending that is incurred in order to refurbish, replace or extend the life of existing equipment. The determination of what constitutes maintenance capital involves judgement by management. A reconciliation of maintenance capital to the Consolidated Statements of Cash Flows is provided in the *Purchase of Property and Equipment* table in the *Financial Resources and Liquidity section of this MD&A.*

Net equipment expenditures – This measure is calculated as the purchase of property and equipment less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to managing Essential's property and equipment. A reconciliation of net equipment expenditures to the Consolidated Statements of Cash Flows is provided in the *Purchase of Property and Equipment* table in the *Financial Resources and Liquidity section of this MD&A.*

Working capital – Working capital is calculated as current assets less current liabilities. A reconciliation of working capital to the Consolidated Statements of Financial Position is provided in the *Working Capital* table in the *Financial Resources and Liquidity section of this MD&A.*

Working capital ratio – Working capital ratio is calculated as current assets divided by current liabilities. A reconciliation of working capital ratio to the Consolidated Statements of Financial Position is provided in the *Working Capital* table in the *Financial Resources and Liquidity section of this MD&A.*

Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2021

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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 "Jeff B. Newman"

JEFF B. NEWMAN
Chief Financial Officer

March 9, 2022

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of Essential Energy Services Ltd. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Financial Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Assessment of indicators of impairment of the Essential Coil Well Service, Tryton Tools and Rentals cash generating units ("Company's CGUs")

Description of the matter

We draw attention to Note 2(O), Note 3 and Note 6 to the financial statements. The Company assesses at each reporting date whether there is an indication that a long-lived asset or group of assets, identified as a CGU, may be impaired. The assessment of the existence of impairment indicators is based on internal and

external factors, including revenue and earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, foreign exchange gains or losses and share based compensation expense ("EBITDAS") expectations, expected industry activity levels, commodity price development and market capitalization, and requires the Company to apply significant judgment. As at December 31, 2021, the Company determined no indicators of impairment exist for the Essential Coil Well Service, Tryton Tools and Rentals CGUs.

Why the matter is a key audit matter

We identified the assessment of indicators of impairment of the Company's CGUs as a key audit matter. Significant auditor judgement was required in evaluating the internal and external factors included in the Company's indicators of impairment analysis.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Company's assessment of impairment indicators by:

- comparing internal and external factors, including expected industry activity levels and commodity price development analyzed by the Company to relevant external market data or the Company's internal source documents
- comparing the Company's budgeted 2022 revenues and EBITDAS to actual 2021 revenues and EBITDAS and considering the impact of changes in conditions and events affecting the Company's CGUs
- evaluating the changes in market capitalization over the year and its impact on the Company's impairment indicator analysis.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Financial Report for the year ended December 31, 2021".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Financial Report for the year ended December 31, 2021" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we

conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Reinier Deurwaarder.

Signed "KPMG LLP"

Chartered Professional Accountants

Calgary, Canada
March 9, 2022

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)		**As at December 31, 2021**		As at December 31, 2020
Assets				
Current				
Cash	**$**	**6,462**	$	6,082
Trade and other accounts receivable *(note 4)*		**29,341**		22,026
Inventory *(note 5)*		**31,111**		32,157
Prepayments and deposits		**1,826**		1,625
		68,740		61,890
Non-current				
Property and equipment *(note 6)*		**81,532**		89,460
Right-of-use lease asset *(note 10)*		**8,814**		8,513
		90,346		97,973
Total assets	**$**	**159,086**	$	159,863
Liabilities				
Current				
Trade and other accounts payable *(note 7)*	**$**	**14,399**	$	8,905
Share-based compensation *(note 17)*		**4,115**		1,369
Income taxes payable *(note 9)*		**23**		25
Current portion of lease liability *(note 10)*		**4,913**		4,089
		23,450		14,388
Non-current				
Share-based compensation *(note 17)*		**6,188**		3,443
Long-term debt *(note 8)*		**-**		53
Long-term lease liability *(note 10)*		**6,622**		7,801
		12,810		11,297
Total liabilities		**36,260**		25,685
Equity				
Share capital *(note 11)*		**272,732**		272,732
Deficit		**(156,607)**		(145,210)
Other reserves *(note 12)*		**6,701**		6,656
Total equity		**122,826**		134,178
Total liabilities and equity	**$**	**159,086**	$	159,863

See accompanying notes to the consolidated financial statements.

Signed "Garnet K. Amundson"

Garnet K. Amundson
Director

Signed "James A. Banister"

James A. Banister
Director

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

(in thousands of dollars, except per share amounts)	For the years ended December 31, **2021**	2020
Revenue *(note 23)*	**$ 121,208**	$ 96,173
Operating expenses *(note 13)*	**97,980**	75,755
Gross margin	**23,228**	20,418
General and administrative expenses *(note 14)*	**8,047**	6,888
Depreciation and amortization *(notes 6 and 10)*	**17,874**	19,141
Share-based compensation expense *(note 17)*	**7,653**	2,107
Impairment loss *(note 6)*	**-**	10,293
Other income	**(31)**	(211)
Operating loss	**(10,315)**	(17,800)
Finance costs	**1,071**	1,604
Loss before taxes	**(11,386)**	(19,404)
Current income tax expense	**11**	30
Deferred income tax recovery	**-**	(2,624)
Income tax expense (recovery) *(note 9)*	**11**	(2,594)
Net loss	**(11,397)**	(16,810)
Unrealized foreign exchange gain (*note 12)*	**35**	295
Comprehensive loss	**$ (11,362)**	$ (16,515)
Net loss per share (*note 18)*		
Basic and diluted	**$ (0.08)**	$ (0.12)
Comprehensive loss per share *(note 18)*		
Basic and diluted	**$ (0.08)**	$ (0.12)

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of dollars)	For the years ended December 31, **2021**	2020
Equity:		
Share Capital		
Balance, January 1 and December 31 *(note 11)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (145,210)**	$ (128,400)
Net loss	**(11,397)**	(16,810)
Balance, December 31	**$ (156,607)**	$ (145,210)
Other reserves		
Balance, January 1	**$ 6,656**	$ 6,339
Other comprehensive gain	**35**	295
Share-based compensation *(note 17)*	**10**	22
Balance, December 31 *(note 12)*	**$ 6,701**	$ 6,656
Total equity	**$ 122,826**	$ 134,178

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	For the years ended December 31, **2021**	2020
Operating Activities:		
Net loss	**$ (11,397)**	$ (16,810)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization *(notes 6 and 10)*	**17,874**	19,141
Deferred income tax recovery *(note 9)*	**-**	(2,624)
Share-based compensation *(note 17)*	**10**	22
(Recovery) provision for impairment of trade receivable *(note 4)*	**(525)**	1,100
Finance costs	**1,071**	1,604
Impairment loss *(note 6)*	**-**	10,293
Gain on disposal of assets *(note 16)*	**(88)**	(399)
Funds flow	**6,945**	12,327
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(6,747)**	1,571
Inventory	**960**	4,236
Income taxes payable	**(2)**	(7)
Prepayments and deposits	**(201)**	164
Trade and other accounts payable	**5,377**	(2,353)
Share-based compensation	**5,491**	884
Net cash provided by operating activities	**11,823**	16,822
Investing Activities:		
Purchase of property and equipment *(note 6)*	**(7,580)**	(1,944)
Non-cash investing working capital in trade and other accounts payable	**120**	(257)
Proceeds on disposal of equipment	**1,351**	2,280
Net cash (used in) provided by investing activities	**(6,109)**	79
Financing Activities:		
Decrease in long-term debt *(note 8)*	**(53)**	(6,697)
Finance costs paid	**(377)**	(543)
Payments of lease liability *(note 10)*	**(4,895)**	(4,422)
Net cash used in financing activities	**(5,325)**	(11,662)
Foreign exchange loss on cash held in a foreign currency	**(9)**	(3)
Net increase in cash	**380**	5,236
Cash, beginning of year	**6,082**	846
Cash, end of year	**$ 6,462**	$ 6,082

See accompanying notes to the consolidated financial statements.

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the years ended December 31, 2021, and 2020 were approved by the Board of Directors of Essential ("Board of Directors") on March 9, 2022.

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

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

The Financial Statements for the year ended December 31, 2021, including comparative information, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

B) BASIS OF PRESENTATION

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

C) PRINCIPLES OF CONSOLIDATION

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

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

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

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

D) FOREIGN CURRENCY TRANSLATION

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

i. assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position;
ii. income and expenses for the consolidated statements of net loss and comprehensive loss are translated using the exchange rates on the date of 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 purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is recognized directly in the consolidated statements of net loss and comprehensive loss.

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

F) REVENUE RECOGNITION

Essential recognizes revenue when it transfers control over a product or service to a customer. Revenue is measured based on the consideration specified in the contract with the customer.

Nature of products and services

The following is a description of principal activities, separated by reportable segments, from which Essential generates its revenue.

i) Essential Coil Well Service ("ECWS")

ECWS generates revenue from providing completion, production, and workover services with its fleet of coiled tubing rigs, fluid pumpers, nitrogen pumpers and ancillary equipment. Products and services may be provided separately or in bundled packages.

For bundled packages, ECWS accounts for individual products and services separately if they are distinct (i.e. if a product and service is separately identifiable from other products and services in the bundled package) and if the customer can benefit from it. The consideration is allocated between the separate products and services in a bundle based on their stand-alone selling prices.

For all products and services provided by ECWS, revenue is recognized as the product is sold or services are rendered, which is normally based on hours.

ii) Tryton

Tryton generates revenue from the sale, rental and service of downhole tools and the rental of oilfield equipment. Downhole tools may be sold or rented separately or in bundled packages. Oilfield equipment is rented separately.

For bundled packages, Tryton accounts for individual products and services separately if they are distinct (i.e. if a product and service is separately identifiable from other products and services in the bundled package) and if the customer can benefit from it. The consideration is allocated between separate products and services in a bundle based on their standalone selling prices.

For downhole tools sold separately, revenue is recognized when the product is sold. For bundled packages, revenue for products sold is recognized upon completion of the contract and revenue for services is recognized as rendered. For rental of tools and oilfield equipment, revenue is recognized as services are rendered, which is normally based on rental days.

G) GOVERNMENT GRANTS

Government grants that compensate Essential for expenses incurred are recognized in the consolidated statements of net loss and comprehensive loss in the periods in which the qualifying expenses are recognized. For government grants with specific conditions, Essential recognizes associated amounts in the consolidated statements of net loss and comprehensive loss only if there is reasonable assurance that Essential will comply with the conditions.

For the year ended December 31, 2021, government grants related to the Canadian Emergency Wage Subsidy program of $2.7 million (2020 – $6.4 million) were included in the consolidated statements of net loss and comprehensive loss. For the year ended December 31, 2021, $2.4 million (2020 – $5.3 million) was recorded as a reduction to operating expenses and $0.3 million (2020 – $1.1 million) was recorded as a reduction to general and administrative expenses.

For the year ended December 31, 2021, government grants related to the Canadian Emergency Rent Subsidy program of $0.9 million (2020 – $0.3 million) were included in the consolidated statements of net loss and comprehensive loss. For the year ended December 31, 2021, $0.7 million (2020 - $0.2 million) was recorded as a reduction to operating expenses and $0.2 million (2020 – $0.1 million) was recorded as a reduction to general and administrative expenses.

For the year ended December 31, 2021, government grants related to the U.S. Employment Retention Tax Credit program of $0.3 million (2020 – $nil) were included in the consolidated statements of net loss and comprehensive loss and recorded as a reduction to operating expenses.

As at December 31, 2021, Essential had no amounts outstanding (December 31, 2020 - $0.1 million) on the Paycheck Protection Plan Loans ("PPP Loans"). The PPP Loans were used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they were incurred. For the year ended December 31, 2021, $0.5 million (2020 - $0.6 million) in forgivable amounts were recorded as a reduction to operating expenses in the consolidated statements of net loss and comprehensive loss.

H) INCOME TAXES

Current income taxes

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

Deferred income taxes

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

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

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

Deferred income tax assets are re-measured at each reporting date and recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

I) SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan

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

Restricted Share Unit Plan

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. RSUs represent the right to receive a cash payment at the time of vesting. As determined by the Board of Directors, RSUs may vest over a specified period, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding share-based compensation expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU share-based compensation expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

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

J) FINANCIAL INSTRUMENTS

Fair value hierarchy

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

i. Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
ii. 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; and
iii. 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.

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:

i. fair value through net loss; or
ii. amortized cost.

Financial assets at fair value through net loss

Cash is recognized at fair value through net loss. Gains or losses resulting from the periodic revaluation are recognized in the consolidated statements of net loss and comprehensive loss.

Amortized cost

Trade and other accounts receivable 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:

i. fair value through net loss; or
ii. amortized cost.

Amortized cost

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

K) PROPERTY AND EQUIPMENT

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

Depreciation is recorded using either a straight-line method or unit of production method, net of salvage value, over the estimated useful lives of the assets. The Company reviews its historical experience with similar assets to help ensure that these depreciation rates are appropriate. The actual useful life of the assets may differ from the original estimate

due to factors such as technological obsolescence and maintenance activity. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

Depreciation rates are as follows:

Category	Period	Method
Coiled rigs – certifications	24,000 hours	Hours of service
Coiled tubing rigs, pumpers and equipment	Up to 10 years	Straight-line
Other oilfield equipment	Up to 10 years	Straight-line
Vehicles	Up to 8 years	Straight-line
Office and computer equipment	Up to 10 years	Straight-line
Leasehold improvements	Varied	Over lease term

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

The estimated useful lives, residual values, and methods of depreciation for all asset classes are assessed as part of the Company's annual review of estimates. Adjustments, where applicable, are made on a prospective basis. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

In the second quarter of 2020, due to current and anticipated market conditions, Essential reviewed all asset classes to ensure proper alignment with future economic benefits. As a result of this review, effective April 1, 2020, Essential adjusted the useful life of certain assets as follows:

- Coiled tubing rigs and equipment – depreciated with an average life of 10 years (previously 8-20 years); and
- Other oilfield equipment – depreciated with an average life of 10 years (previously 10-15 years).

This change to the useful life of these assets resulted in additional depreciation expense for the year ended December 31, 2020 of approximately $4.9 million.

L) LEASES

Essential's leases are primarily related to office and shop premises.

At inception, a contract is assessed to determine whether it is, or contains, a lease. A lease conveys the right to control the use of the leased item for a period of time in exchange for payment. Leases are capitalized at the commencement of the lease at the present value of the future lease payments. Obligations recorded under leases are reduced by the lease payments made, net of imputed interest. Leased assets are depreciated using the straight-line method over the lease term.

Essential has applied judgment to determine the lease term of some lease contracts in which it is a lessee and includes renewal options and discount rates.

M) INVENTORY

Inventory is valued at the lower of cost and net realizable value.

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

Tryton tools	weighted average cost basis
Coiled tubing	specific cost basis
Supplies	first-in, first-out cost basis

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

N) 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 expected credit losses. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. The provision for impairment of trade receivables involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

O) IMPAIRMENT OF LONG-LIVED ASSETS

At each reporting date, the Company assesses whether there is an indication that a long-lived asset or group of assets may be impaired based on internal and external factors, including revenue and earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, foreign exchange gains or losses and share based compensation expense ("EBITDAS") expectations, expected industry activity levels, commodity price development and market capitalization. Long-lived assets include property and equipment and right-of use assets. If any such indication exists, 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. Essential's three CGUs are ECWS, Tryton Tools and Rentals. The recoverable amount is the higher of the CGUs fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized in the consolidated statements of net loss and comprehensive loss. After an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the CGUs revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 based on internal and external factors, including revenue and EBITDAS expectations, expected industry activity levels, oilfield service pricing, commodity price development and market capitalization. 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 CGUs recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of net loss and comprehensive loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the CGUs revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

P) 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 income or expense relating to any provision is presented in the consolidated statements of net loss and comprehensive loss.

3. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements involves the use of estimates and approximations based on information available as at the date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the estimates used for the impairment provisions for trade receivables, net realizable value of inventory, depreciation and amortization, impairment of long-lived assets and goodwill, share-based compensation, provisions, lease liabilities and deferred income tax assets and liabilities. The identification of indications of impairment or reversal of previously recognized impairment losses requires management to apply significant judgement. 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, including those related regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

COVID-19 UPDATE

During 2020 and continuing through 2021, the COVID-19 global pandemic resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which included the implementation of travel bans, self-imposed quarantine periods and social distancing, caused material disruption to businesses globally resulting in an unprecedented economic slowdown. Global equity markets experienced significant volatility. Governments and central banks reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

COVID-19, or a variant of COVID-19, has the potential to spread rapidly and may result in loss of the Company's key personnel, the inability to retain or recruit skilled personnel, or potential disruptions to employees' ability to perform their duties. This could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows.

The breadth of the impact of the COVID-19 pandemic on investors, business, the global economy and financial and commodity markets may also have a material adverse impact on the Company's business, financial condition, results of operations, cash flows and the trading price of the Company's securities.

CHANGING REGULATION

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of Canadian and U.S. federal, provincial, state and local legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances used or produced in association with certain oil and natural gas industry operations.

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to Environmental, Social and Governance ("ESG") and climate reporting, the International Sustainability Standards Board has proposed an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not been quantified. There may be additional uncertainties related to assumptions and estimates with respect to climate change.

4. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31,	
	2021	2020
Trade accounts receivable, net of provision	**$ 29,256**	$ 21,616
Other receivables	**85**	410
	$ 29,341	$ 22,026

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

Trade accounts receivable include accrued receivables which primarily relate to Essential's rights to consideration for work completed but not invoiced at the reporting date.

The aging analysis of trade accounts receivable is as follows:

	As at December 31,	
	2021	2020
0-30 days	**$ 12,719**	$ 7,635
31-60 days	**9,191**	7,907
61-90 days	**5,429**	4,568
> 90 days	**1,917**	1,506
	$ 29,256	$ 21,616

Essential considers a trade accounts receivable balance past due when it exceeds normal customer payment terms, which can range from 30 days to greater than 90 days. The provision for impairment of trade accounts receivable is included in the amounts over 90 days and has been included in operating expenses in the consolidated statements of net loss and comprehensive loss. Uncollectable amounts included in the provision are written off against the provision when there is no expectation of recovery. The movements in the provision during the period were as follows:

	For the years ended December 31,	
	2021	2020
Balance, beginning of year	**$ 1,706**	$ 1,068
(Recovery) provision for receivables impairment	**(525)**	1,100
Receivables written off against the provision	**(678)**	(462)
Balance, end of year	**$ 503**	$ 1,706

5. INVENTORY

	As at December 31,	
	2021	2020
Tryton tools	**$ 20,091**	$ 20,807
Coiled tubing and supplies	**11,020**	11,350
	$ 31,111	$ 32,157

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2021 was $39.3 million (2020 – $27.5 million).

6. PROPERTY AND EQUIPMENT

	As at December 31,	
Carrying Amount	**2021**	2020
Coiled tubing rigs, pumpers and equipment	**$ 53,468**	$ 57,836
Other oilfield equipment	**17,046**	19,141
Vehicles	**9,957**	11,062
Office and computer equipment	**224**	332
Other	**837**	1,089
	$ 81,532	$ 89,460

Cost 2021	**Balance, beginning of year**	**Additions**	**Transfers**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coiled tubing rigs, pumpers and equipment	**$ 147,203**	**$ 4,020**	**$ -**	**$ (3,457)**	**$ -**	**$ 147,766**
Other oilfield equipment	**57,761**	**1,985**	**87**	**(802)**	**-**	**59,031**
Vehicles	**29,668**	**1,334**	**-**	**(468)**	**(4)**	**30,530**
Office and computer equipment	**3,525**	**-**	**-**	**-**	**-**	**3,525**
Other	**10,142**	**241**	**-**	**-**	**-**	**10,383**
	$ 248,299	**$ 7,580**	**$ 87**	**$ (4,727)**	**$ (4)**	**$ 251,235**

Cost 2020	Balance, beginning of year	Additions	Transfers	Disposals	Effects of movements in exchange rates	Balance, end of year
Coiled tubing rigs, pumpers and equipment	$ 146,665	$ 538	$ -	$ -	$ -	$ 147,203
Other oilfield equipment	59,535	749	226	(2,742)	(7)	57,761
Vehicles	34,022	582	-	(4,915)	(21)	29,668
Office and computer equipment	4,056	8	-	(539)	-	3,525
Other	10,078	67	-	-	(3)	10,142
	$ 254,356	$ 1,944	$ 226	$ (8,196)	$ (31)	$ 248,299

Accumulated Depreciation 2021	**Balance, beginning of year**	**Depreciation**	**Disposals**	**Impairment**	**Effects of movements in exchange rates**	**Balance, end of year**
Coiled tubing rigs, pumpers and equipment	**$ 89,367**	**$ 7,749**	**$ (2,818)**	**$ -**	**$ -**	**$ 94,298**
Other oilfield equipment	**38,620**	**3,714**	**(349)**	**-**	**-**	**41,985**
Vehicles	**18,606**	**2,265**	**(297)**	**-**	**(1)**	**20,573**
Office and computer equipment	**3,193**	**108**	**-**	**-**	**-**	**3,301**
Other	**9,053**	**493**	**-**	**-**	**-**	**9,546**
	$ 158,839	**$ 14,329**	**$ (3,464)**	**$ -**	**$ (1)**	**$ 169,703**

Accumulated Depreciation 2020	Balance, beginning of year	Depreciation	Disposals	Impairment	Effects of movements in exchange rates	Balance, end of year
Coiled tubing rigs, pumpers and equipment	$ 77,709	$ 7,766	$ 33	$ 3,859	$ -	$ 89,367
Other oilfield equipment	34,022	4,550	(1,977)	2,030	(5)	38,620
Vehicles	18,914	2,844	(3,812)	671	(11)	18,606
Office and computer equipment	3,613	119	(539)	-	-	3,193
Other	8,661	391	-	-	1	9,053
	$ 142,919	$ 15,670	$ (6,295)	$ 6,560	$ (15)	$ 158,839

Included in property and equipment is $1.4 million (December 31, 2020 - $0.4 million) of assets under construction which will not be depreciated until put into service.

As at December 31, 2021, management determined no indicators of impairment to exist for the ECWS, Tryton Tools and Rentals CGUs. During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American exploration & production companies' drilling and completion programs. As a result, Essential completed an impairment assessment at March 31, 2020 which determined that the recoverable amounts of the ECWS, Tryton Tools and Rentals CGUs were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Rentals assets and $3.7 million on Tryton Tools goodwill.

7. TRADE AND OTHER ACCOUNTS PAYABLE

		As at December 31, 2021		2020
Trade accounts payable	**$**	**8,591**	$	5,093
Accrued payables		**3,390**		2,341
Accrued payroll		**1,967**		1,342
Other		**451**		129
	$	**14,399**	$	8,905

8. LONG-TERM DEBT

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility is comprised of a $25.0 million revolving term loan facility which was undrawn at December 31, 2021 and 2020. The Credit Facility matures on November 30, 2024, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date.

The following table reconciles the change in long-term debt to cash flow arising from financing activities:

		For the years ended December 31, **2021**		2020
Balance, beginning of year	**$**	**53**	$	6,563
Cash changes:				
Decrease in long-term debt		**(53)**		(6,697)
Non-cash changes:				
Deferred financing costs for Credit Facility renewal		**(132)**		(207)
Amortization of deferred financing fees		**132**		394
Balance, end of year	**$**	**-**	$	53

9. INCOME TAXES

	For the years ended December 31,	
	2021	2020
Current income tax expense	**$ 11**	$ 30
Deferred income tax recovery	**-**	(2,624)
Total income tax expense (recovery)	**$ 11**	$ (2,594)

The government of Alberta reduced the corporate income tax rate to 8% effective July 1, 2020. Previously, this decrease was to be phased in starting July 1, 2019 with annual reductions every year on January 1 until reduced to 8% on January 1, 2022.

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

	For the years ended December 31,	
	2021	2020
Loss before income taxes	**$ (11,386)**	$ (19,404)
Statutory tax rate	**23.95%**	24.80%
Expected income tax recovery	**(2,727)**	(4,812)
Increase (decrease) resulting from:		
Changes in tax rates	**2**	277
Items not deductible for tax	**58**	67
Taxes related to prior years	**1,721**	-
Share-based compensation	**2**	5
Non-deductible goodwill impairment	**-**	940
Change in assets not recognized	**960**	1,043
Other	**(5)**	(114)
Total income tax expense (recovery)	**$ 11**	$ (2,594)

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

	As at December 31,	
	2021	2020
Property and equipment	**$ (8,532)**	$ (8,746)
Net operating losses	**6,426**	6,667
Right-of-use lease asset and liability	**640**	802
Other	**1,466**	1,277
Deferred tax liabilities	**$ -**	$ -

The Company has non-capital loss carryforwards in Canada of $36.2 million (2020 - $32.1 million) which expire between 2037 and 2041 and non-capital loss carryforwards in the United States of $10.4 million (2020 - $9.2 million), which will expire between 2033 and 2041. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered. As at December 31, 2021, there are deductible temporary differences of $23.0 million (2020 - $17.8 million) that are not being recognized.

10. LEASES

Essential's leases are primarily related to office and shop premises.

Right-of-use lease asset

	For the years ended December 31,	
	2021	2020
Beginning of year	**$ 8,513**	$ 12,600
Additions	**3,638**	1,252
Modifications	**210**	(1,836)
Depreciation	**(3,545)**	(3,472)
Foreign exchange loss	**(2)**	(31)
End of year	**$ 8,814**	$ 8,513

Lease liability

	As at December 31, 2021	2020
Maturity analysis - contractual undiscounted cash flow		
Less than one year	**$ 5,446**	$ 4,678
One to five years	**7,136**	8,305
Total undiscounted lease liability, end of year	**$ 12,582**	$ 12,983
Discounted value of future lease payments		
Current portion of lease liability	**$ 4,913**	$ 4,089
Long-term portion of lease liability	**6,622**	7,801
Lease liability included in the statements of financial position	**$ 11,535**	$ 11,890

For the year December 31, 2021, Essential recognized $0.7 million (2020 - $0.9 million) of finance costs related to the lease liability in its consolidated statements of net loss and comprehensive loss and $4.9 million (2020 - $4.4 million) of total cash outflow for leases in the consolidated statement of cash flows.

11. SHARE CAPITAL

Authorized

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

	Number of Common shares (000's)	Amount
As at December 31, 2021, December 31, 2020 and January 1, 2020	**141,857**	$ **272,732**

On December 17, 2021, the Company received approval from the TSX to implement a Normal Course Issuer Bid ("NCIB") for Essential's Common Shares. Any Common Shares purchased by Essential pursuant to the NCIB will be for cancellation. The NCIB commenced on December 21, 2021 and will terminate on December 20, 2022, 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 10,374,478 of its issued and outstanding Common Shares on the open market through the facilities of the TSX and/or other alternative trading systems.

For the year ended December 31, 2021, no Common Shares were acquired and cancelled under the NCIB.

12. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income	Total
As at January 1, 2020	$ 5,870	$ 469	$ 6,339
Share-based compensation	22	-	22
Unrealized foreign exchange gain	-	295	295
As at December 31, 2020	$ 5,892	$ 764	$ 6,656
Share-based compensation	**10**	**-**	**10**
Unrealized foreign exchange gain	**-**	**35**	**35**
As at December 31, 2021	**$ 5,902**	**$ 799**	**$ 6,701**

13. OPERATING EXPENSES

	For the years ended December 31,	
	2021	2020
Materials and related costs	**$ 40,305**	$ 30,507
Employee costs *(notes 2 and 15)*	**31,758**	25,280
Repairs and maintenance	**9,244**	6,166
Fuel	**5,097**	3,480
Subcontracting	**4,408**	3,099
Travel	**2,944**	2,985
Occupancy costs *(note 2)*	**1,114**	1,533
Other	**3,110**	2,705
Operating expenses	**$ 97,980**	$ 75,755

14. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31,	
	2021	2020
Employee costs *(notes 2 and 15)*	**$ 5,097**	$ 3,499
Professional fees	**1,399**	1,384
Patent litigation - cost recovery	**(443)**	-
Other	**1,994**	2,005
General and administrative expenses	**$ 8,047**	$ 6,888

15. EMPLOYEE COSTS

	For the years ended December 31,	
	2021	2020
Wages and salaries *(note 2)*	**$ 34,847**	$ 26,477
Share-based compensation *(note 17)*	**7,653**	2,107
Other benefits	**2,008**	2,302
	$ 44,508	$ 30,886
Employee costs are included in:		
Operating expenses *(note 13)*	**$ 31,758**	$ 25,280
General and administrative expenses *(note 14)*	**5,097**	3,499
Share-based compensation *(note 17)*	**7,653**	2,107
	$ 44,508	$ 30,886

16. OTHER INCOME

	For the years ended December 31,	
	2021	2020
Gain on disposal of assets	**$ (88)**	$ (399)
Realized foreign exchange (gain) loss	**(4)**	17
Unrealized foreign exchange loss	**54**	212
Other loss (gain)	**7**	(41)
Other income	**$ (31)**	$ (211)

17. SHARE-BASED COMPENSATION

The Company offers the following share-based compensation plans: Share Option Plan, RSU and DSU Plan. Components of the Company's share-based compensation expense are as follows:

	For the years ended December 31,	
	2021	2020
Share Options	**$ 10**	$ 22
Restricted share units	**5,302**	1,210
Deferred share units	**2,341**	875
Share-based compensation expense	**$ 7,653**	$ 2,107

a) Share Option Plan

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

At December 31, 2021 and 2020, the maximum number of Share Options issuable under the Share Option Plan may not exceed 6% of the Company's outstanding Common Shares. As at December 31, 2021, the maximum number of Share Options allowed for issuance was 8,511,409 (2020 – 8,511,409).

	For the year ended December 31, 2021		For the year ended December 31, 2020	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of year	**3,263**	**$ 0.62**	4,428	$ 0.77
Issued	**-**	**-**	-	-
Expired	**(1,785)**	**0.57**	(1,165)	1.19
Forfeited	**-**	**-**	-	-
Outstanding, end of year	**1,478**	**$ 0.68**	3,263	$ 0.62
Exercisable, end of year	**1,329**	**$ 0.72**	2,965	$ 0.65

The following table summarizes information with respect to the Share Options outstanding:

Exercise Prices	**Options Outstanding (000's)**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price (per option)**	**Number of Options Exercisable (000's)**
As at December 31, 2021				
$0.32	**448**	**2.02**	**$ 0.32**	**299**
$0.83	**1,030**	**0.03**	**$ 0.83**	**1,030**
	1,478	**0.63**	**$ 0.68**	**1,329**
As at December 31, 2020				
$0.32 - $0.50	448	3.02	$ 0.32	150
$0.51 - $0.83	2,815	0.51	$ 0.67	2,815
	3,263	0.86	$ 0.62	2,965

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. Grants generally vest in three equal instalments but can be issued with time vesting and/or performance vesting feature(s). The performance-based units vest when certain conditions

are met. Essential's liability as at December 31, 2021 was $5.1 million (December 31, 2020 – $1.9 million) of which $4.1 million is due within one year (December 31, 2020 – $1.4 million).

The following table summarizes information with respect to RSUs outstanding:

	For the years ended December 31,	
Number of RSUs (000's)	**2021**	2020
Outstanding, beginning of year	**14,483**	8,077
Issued	**11,263**	10,720
Vested	**(7,999)**	(3,372)
Forfeited	**(585)**	(942)
Outstanding, end of year	**17,162**	14,483

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Essential's liability at December 31, 2021 was $5.2 million (December 31, 2020 – $2.9 million) of which $nil is due within one year (December 31, 2020 – $nil).

The following table summarizes information with respect to DSUs outstanding:

	For the years ended December 31,	
Number of DSUs (000's)	**2021**	2020
Outstanding, beginning of year	**11,464**	5,551
Issued	**2,456**	6,241
Redeemed	**(81)**	(328)
Forfeited	**(322)**	-
Outstanding, end of year	**13,517**	11,464

18. EARNINGS PER SHARE

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

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

	For the years ended December 31,	
(000's)	**2021**	2020
Basic and diluted	**141,857**	141,857

19. CONTINGENCIES

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

20. RELATED PARTY TRANSACTIONS

a) Transactions with key management personnel

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

Key management personnel compensation is comprised of the following:

	For the years ended December 31,	
	2021	2020
Salaries and other benefits	**$ 2,347**	$ 1,630
Share-based compensation (equity and cash settled)	**1,986**	1,961
	$ 4,333	$ 3,591

b) Related party transactions

As at December 31, 2021, Essential had lease agreements for shop premises with certain private corporations that are controlled by one of the Vice Presidents of the Company. The terms and conditions of these agreements are based on market rates for similar leases and are no more favourable than those available, or which might reasonably be expected to be available, in similar transactions on an arm's length basis.

For the year ended December 31, 2021, Essential incurred lease payments related to these shop premises of $0.7 million (2020 - $0.8 million). Future annual lease payments related to these shop premises are as follows:

	Amount
2022	751
2023	228
2024	160
2025	160
2026	53
As at December 31, 2021	**$** 1,352

21. CAPITAL DISCLOSURES

	As at December 31, 2021	2020
Long-term debt	**$ -**	$ 53
Equity	**122,826**	134,178
Total capitalization	**$ 122,826**	$ 134,231

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, share buy-backs or using existing debt facilities, subject to availability, controlling the amount of dividends issued to shareholders and making adjustments to its capital expenditure program.

22. FINANCIAL INSTRUMENTS

Designation and valuation of financial instruments

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash, trade and other accounts receivable, trade and other accounts 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	Fair value through net loss
Trade and other accounts receivable	Amortized cost
Trade and other accounts payable	Amortized cost
Long-term debt	Amortized cost

Fair values

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.

The fair value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates. Essential considers these inputs as Level 2 in the fair value hierarchy.

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and natural 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, 2021, the Company earned revenue from 504 customers (2020 – 409 customers) with five of these customers representing 48% of revenue (2020 – 41% of revenue), with one customer representing approximately 27% of revenue (2020 –20%). As at December 31, 2021, approximately 50% of the trade accounts receivable balance was due from five companies (2020 – 53%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated

that a 1% change to interest rates on the long-term debt would result in less than a $0.1 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2020 – $0.1 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 capital markets. 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.

23. SEGMENTED INFORMATION

Essential has two operating segments, ECWS and Tryton, and a non-operating segment, corporate ("Corporate").

Essential's reportable segments are based on services offered. The basis of accounting for transactions between reportable segments is done at fair market value.

a) ECWS

The ECWS segment provides completion and production services throughout western Canada. The ECWS fleet is comprised of coiled tubing rigs, fluid pumpers, nitrogen pumpers and ancillary equipment.

b) Tryton

The Tryton segment provides downhole tools and rental services in Canada and the U.S.

c) Corporate

The Corporate segment is comprised of corporate costs and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. For the year ended December 31, 2021, the Corporate segment includes $7.5 million (2020 - $7.7 million) of corporate costs and certain operational costs, and $9.1 million (2020 – $4.3 million) of share-based compensation expense, depreciation and amortization, finance costs and foreign exchange loss/gain.

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

As at and for the year ended December 31, 2021	**ECWS**	**Tryton**	**Corporate**	**Consolidated**
Revenue	**$ 59,253**	**$ 61,955**	**$ -**	**$ 121,208**
Gross margin	**$ 11,032**	**$ 12,753**	**$ (557)**	**$ 23,228**
(Loss) income before taxes	**$ (1,601)**	**$ 6,795**	**$ (16,580)**	**$ (11,386)**
Depreciation and amortization	**$ 12,201**	**$ 4,737**	**$ 936**	**$ 17,874**
Total assets	**$ 97,534**	**$ 58,762**	**$ 2,790**	**$ 159,086**
Total liabilities	**$ 16,799**	**$ 12,253**	**$ 7,208**	**$ 36,260**
Purchase of property and equipment	**$ 5,620**	**$ 1,888**	**$ 72**	**$ 7,580**

As at and for the year ended December 31, 2020	ECWS	Tryton	Corporate	Consolidated
Revenue	$ 53,623	$ 42,550	$ -	$ 96,173
Gross margin	$ 14,327	$ 7,789	$ (1,698)	$ 20,418
Loss before taxes	$ (3,573)	$ (3,861)	$ (11,970)	$ (19,404)
Impairment	$ 5,159	$ 5,134	$ -	$ 10,293
Depreciation and amortization	$ 12,520	$ 5,593	$ 1,028	$ 19,141
Total assets	$ 100,776	$ 53,571	$ 5,516	$ 159,863
Total liabilities	$ 14,202	$ 9,070	$ 2,413	$ 25,685
Purchase of property and equipment	$ 1,125	$ 770	$ 49	$ 1,944

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Felicia Bortolussi[2]

Robert T. German[1, 3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2, 3]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

ATB Financial

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Jeff B. Newman
Chief Financial Officer

Karen Perasalo
Vice President, Finance and Corporate Secretary

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