FINANCIAL REPORT

For the year ended December 31, 2017

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, 2017.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the years ended December 31, 2017 and 2016, the notes contained therein to which readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 7, 2018 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 7, 2018.

SELECTED INFORMATION

(in thousands of dollars, except percentages, per share amounts and hours)	Three months ended December 31, **2017**	Three months ended December 31, 2016	Years ended December 31, **2017**	Years ended December 31, 2016	Years ended December 31, 2015
Revenue	**$ 43,262**	$ 33,043	**$ 175,908**	$ 97,527	$ 147,664
Gross margin	**4,522**	4,148	**31,924**	7,787	27,600
Gross margin %	**10%**	13%	**18%**	8%	19%
EBITDAS[1] from continuing operations[i]	**1,153**	(4,161)	**18,609**	(9,169)	14,696
Net loss from continuing operations[i][ii]	**(3,843)**	(9,832)	**(3,024)**	(62,622)	(19,034)
Per share – basic and diluted	**(0.03)**	(0.07)	**(0.02)**	(0.48)	(0.15)
Net loss[i][ii]	**(3,843)**	(25,411)	**(3,354)**	(90,629)	(22,485)
Per share – basic and diluted	**(0.03)**	(0.18)	**(0.02)**	(0.70)	(0.18)
Operating hours					
Coil tubing rigs	**11,215**	11,119	**48,425**	32,306	51,739
Pumpers	**14,581**	12,341	**60,857**	37,022	54,763

(in thousands of dollars, except fleet data)	As at December 31, **2017**	As at December 31, 2016	As at December 31, 2015
Total assets[iii]	**$ 219,448**	$ 209,270	$ 317,224
Long-term debt	**17,975**	11,250	25,543
Equipment fleet[iv]			
Coil tubing rigs	**30**	31	31
Pumpers	**26**	32	30

(i) The fourth quarter and year ended December 31, 2016 includes onerous lease contract expense of $4.8 million.
(ii) The year ended December 31, 2016 includes an impairment loss of $51.2 million, of which $5.4 million was recognized in the fourth quarter 2016. The year ended December 31, 2015 includes an impairment loss of $11.1 million.
(iii) Total assets as at December 31, 2015 include the service rig business which was sold in December 2016.
(iv) Fleet data represents the number of units at the end of the period.

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

INDUSTRY OVERVIEW

Canadian oilfield service activity improved in 2017 from the lows reached in 2016 as higher oil prices supported exploration and production ("E&P") companies' increased spending. In 2017, oil averaged approximately U.S. $52 per barrel (West Texas Intermediate ("WTI")) compared to approximately U.S. $43 per barrel (WTI) in 2016. Canadian natural gas prices, which reached 10 year lows in the first half of 2016, continued to be very volatile in 2017 due to pipeline outages and surplus supply. Well completions, a key indicator of industry activity in the western Canadian Sedimentary Basin ("WCSB") increased 87%[a] for the year, compared to the prior year.

HIGHLIGHTS

Fourth Quarter 2017

Revenue was $43.3 million, a 31% increase from the fourth quarter 2016, as both Essential Coil Well Service ("ECWS") and Tryton experienced stronger customer demand and ECWS benefitted from price increases implemented in the first quarter 2017. EBITDAS[1] increased $5.3 million compared to the fourth quarter 2016 due to higher revenue, partially offset by additional costs incurred in ECWS. Fourth quarter 2016 included an onerous lease contract expense and severance costs, which were not factors in the same period of 2017.

Highlights:

- ECWS revenue increased $4.4 million compared to the fourth quarter 2016. Higher revenue in the quarter was more than offset by costs associated with re-activating equipment, recruiting and training crews and unanticipated equipment repairs. Costs were incurred to recruit and train a larger workforce and ready equipment in anticipation of higher first quarter 2018 demand.
- Tryton revenue increased $5.6 million compared to the fourth quarter 2016 and generated a 20% gross margin. All service lines improved, with especially strong demand for conventional tools used to maintain producing wells and for abandonment work.
- On November 3, 2017, the Federal Court of Canada (the "Court") rendered a decision in Essential's favour with regard to a patent infringement litigation commenced by Packers Plus Energy Services Inc. ("Packers Plus" or "Packers"), ruling that the patent being asserted by them was not valid and that Essential did not infringe the patent (the "Decision"). Management was very pleased with the Decision which exonerates Essential of any wrongdoing regarding this litigation.

Year 2017

Revenue was $175.9 million, an 80% increase from 2016, due to stronger customer demand for both ECWS and Tryton and price increases for ECWS realized in the first quarter 2017. EBITDAS[1] was $18.6 million compared to negative $9.2 million in 2016, which included a one-time onerous lease contract expense and severance costs.

Highlights:

- ECWS operating hours increased 58% from the prior year. Customer demand, particularly in the Montney region of the WCSB, was focused on the completion of long-reach horizontal wells. ECWS revenue per hour increased due to higher prices realized in the first quarter 2017, which helped offset rising operating costs, including labour and maintenance costs, throughout the year.
- Tryton revenue increased in all service lines compared to the prior year, with particularly strong demand for the Multi-Stage Fracturing System® ("MSFS®") as key customers expanded their horizontal well completion programs. Revenue per job was higher for MSFS® tools as customers increased the number of stages per horizontal well.

(a) Source: June Warren-Nickle's Energy Group

- Essential's capital expenditures were $20.2 million, comprised of $11.4 million of growth capital and $8.8 million of maintenance capital. A substantial portion of the growth capital was targeted at equipment to service long-reach horizontal wells, including fabrication of two quintuplex fluid pumpers expected to be delivered in the second quarter 2018, pumping support equipment and the cost to recertify and upgrade the Generation III coil tubing rigs and pumping equipment acquired in 2016.

Essential was financially well positioned at December 31, 2017 with debt outstanding of $18.0 million, an increase of $6.7 million from December 31, 2016. The increase was due to capital expenditures and increased working capital, primarily accounts receivable and inventory, as activity improved. Funded debt[(1)] to bank EBITDA[(1)] was 0.96x at the end of 2017. On March 7, 2018, Essential had $26.3 million of debt outstanding.

CORPORATE INFORMATION

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

Additional information regarding Essential, including the Financial Statements and the Annual Information Form for the year ended December 31, 2017, as well as the 2016 Annual MD&A, the Financial Statements and the Annual Information Form for the year ended December 31, 2016, can be found under Essential's profile on SEDAR at www.sedar.com.

OVERVIEW OF ESSENTIAL

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

Essential Coil Well Service

Coil Tubing Rigs – Essential operates the largest coil tubing fleet in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity of up to 7,900 meters using 2 ⅜ inch coil. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.

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

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

Pumpers – Coil tubing rigs are 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 coil tubing fleet. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coil tubing of fluids once the coil tubing work has been completed.

Tryton

Essential's Tryton segment provides production and completion tools and rentals for horizontal and vertical wells. Operations for this segment are well-placed geographically across the WCSB and in the U.S.

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

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

Patent Litigation

On October 23, 2013, Packers Plus filed a Statement of Claim in the Court against Essential alleging that certain products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus. Packers Plus subsequently limited its infringement allegations to just certain method claims in the patent.

Since filing its Statement of Defence and Counterclaim on November 22, 2013, Essential maintained that it did not infringe the patent and the Counterclaim pleaded further that the asserted patent claims were invalid because the methodology and equipment claimed in the patent were in use in the oil and natural gas industry prior to the patent's effective filing date of November 19, 2001 or represented nothing more than obvious variations over what was already known in the industry at the time. This position was supported by the existence of similar products, articles and other patents prior to the effective filing date of the patent.

The trial was completed in March 2017. There were two parts to the trial:

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

On November 3, 2017, the Court rendered a Decision in Essential's favour, ruling that the asserted patent was not valid and that Essential did not infringe the patent. The Court awarded costs in favor of Essential. Over the past four years, Essential incurred significant defence costs with respect to this litigation. Essential initiated the process with the Court to recover a portion of its legal costs.

In the written judgment dated December 6, 2017, the trial judge noted:

1. On the matter of invalidity based on prior disclosure by Packers Plus more than one year before it filed its patent application, the trial judge held: "The evidence simply does not support Packers' position on prior disclosure."

2. On the matter of invalidity based on obviousness of the subject matter of the patent, the trial judge ruled: "The ball-drop system combined with packers suitable for the use in open hole was known in the prior art, or was an obvious variation on prior art methods."
3. On the matter of infringement, Packers Plus was not able to establish any of the theories upon which it argued there had been infringement, namely direct infringement, induced infringement and infringement through acting in concert. The trial judge ruled that: "Packers has not produced evidence of direct infringement by anyone", he disagreed with the Packers Plus position that Essential induced others to infringe the patent and noted that in terms of liability for acting in concert with others, "…there is simply no evidence showing any such agreement between Essential and the other companies with whom it acted - operating companies, drilling companies, or fracturing companies."

On January 5, 2018, Packers Plus filed an appeal of the trial judge's rulings on validity and infringement (the "Appeal"). The filing of an appeal from a trial judgment is very common and does not diminish the significance of the Decision.

To have any claim of damages against Essential, Packers Plus must successfully overturn all of the following elements of the Decision:

1. The asserted patent is invalid due to prior disclosure; and
2. The asserted patent is invalid due to prior art/obviousness; and
3. Essential did not infringe the patent.

Based on the findings made by the trial judge and the strength of the written judgment in support of the Decision, Essential believes the Appeal is without merit. Subject to timing set by the Court to hear the Appeal and the release of its decision, the Appeal process could take up to two years.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Revenue	**$ 43,262**	$ 33,043	**$ 175,908**	$ 97,527
Operating expenses	**38,740**	28,895	**143,984**	89,740
Gross margin	**4,522**	4,148	**31,924**	7,787
General and administrative expenses	**3,369**	3,555	**13,315**	12,202
Onerous lease contract expense	**-**	4,754	**-**	4,754
EBITDAS[(1)] from continuing operations	**1,153**	(4,161)	**18,609**	(9,169)
Depreciation and amortization	**3,957**	3,747	**15,774**	17,110
Share-based compensation	**1,432**	1,238	**4,201**	2,758
Impairment loss	**-**	5,403	**-**	51,241
Other (income) expense	**(34)**	406	**708**	2,510
Finance costs	**278**	323	**1,233**	1,263
Loss before income tax from continuing operations	**(4,480)**	(15,278)	**(3,307)**	(84,051)
Current income tax recovery	**(752)**	(801)	**(960)**	(6,780)
Deferred income tax expense (recovery)	**115**	(4,645)	**677**	(14,649)
Income tax recovery	**(637)**	(5,446)	**(283)**	(21,429)
Net loss from continuing operations	**$ (3,843)**	$ (9,832)	**$ (3,024)**	$ (62,622)
Net loss from discontinued operations	**-**	(15,579)	**(330)**	(28,007)
Net loss	**$ (3,843)**	$ (25,411)	**$ (3,354)**	$ (90,629)
Net loss from continuing operations per share Basic and diluted	**$ (0.03)**	$ (0.07)	**$ (0.02)**	$ (0.48)
Net loss per share Basic and diluted	**$ (0.03)**	$ (0.18)	**$ (0.02)**	$ (0.70)

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Revenue	**$ 22,002**	$ 17,564	**$ 93,896**	$ 53,638
Operating expenses	**21,072**	16,107	**79,314**	49,976
Gross margin	**$ 930**	$ 1,457	**$ 14,582**	$ 3,662
Gross margin %	**4%**	8%	**16%**	7%
Operating hours				
Coil tubing rigs	**11,215**	11,119	**48,425**	32,306
Pumpers	**14,581**	12,341	**60,857**	37,022
Equipment fleet[(i)]				
Coil tubing rigs[(iii)]	**30**	31	**30**	31
Fluid pumpers[(ii)]	**18**	21	**18**	21
Nitrogen pumpers[(iii)]	**8**	11	**8**	11

(i) Fleet data represents the number of units at the end of the period.
(ii) Essential retired three single fluid pumpers in 2017, one in the second quarter and two in the third quarter.
(iii) During the fourth quarter 2017, Essential retired one Generation I coil tubing rig and three nitrogen pumpers.

ECWS revenue for the fourth quarter 2017 was $22.0 million, a 25% increase compared to the fourth quarter 2016, but considerably less than management's expectations. Fourth quarter 2017 activity slowed as the quarter progressed as customers completed their 2017 capital programs. Long-reach horizontal well completions in the Montney region of the WCSB provided a market for the Generation III coil tubing rig and pumper packages. ECWS also saw increased demand for nitrogen pumpers. Compared to the same prior year period, lower revenue from the Generation II coil tubing rigs, single and twin fluid pumpers was offset by higher revenue from the Generation III coil tubing rigs and quintuplex fluid pumpers, as customer well specifications were at times beyond the capabilities of Generation II coil tubing rigs and twin fluid pumpers.

Pricing remained stable following price increases in the first quarter 2017, as there was sufficient equipment available to meet industry demand. Compared to the same prior year period, revenue per hour for ECWS was higher in the fourth quarter 2017.

Fourth quarter 2017 gross margin as a percentage of revenue was 4%, compared to 8% for the same prior year period. Higher revenue in the quarter was more than offset by costs associated with re-activating equipment, recruiting and training crews and unanticipated equipment repairs. At the end of the third quarter 2017, decisions were made to continue to recruit and train crews and to re-activate more equipment in preparation for an anticipated busy first quarter 2018. Training initiatives included using an extra employee on crews. Although highly effective for training, this significantly increased labour, travel and other related expenses. The activity slow-down in the fourth quarter, combined with higher incremental costs from larger crew sizes and maintaining non-chargeable personnel, disrupted financial performance and eroded margin. In addition, unanticipated equipment repairs due to component failures resulted in down-time, inefficient crew management and non-chargeable travel time, also eroding margin.

ECWS revenue in 2017 was $93.9 million, a 75% increase compared to the prior year due to higher industry activity and price increases realized in the first quarter 2017. ECWS activity increased 58% from the prior year, with the Generation III coil tubing rigs and pumpers experiencing significant year-over-year improvement in operating hours. Customer demand was focused on the completion of long-reach horizontal wells. Gross margin as a percentage of revenue in 2017 was 16%, a significant improvement over the prior year due to increased revenue and fixed costs representing a smaller portion of revenue.

SEGMENT RESULTS - *TRYTON*

(in thousands of dollars, except percentages)		Three months ended December 31, **2017**		2016		Years ended December 31, **2017**		2016
Revenue	**$**	**21,260**	$	15,655	**$**	**82,012**	$	44,383
Operating expenses		**17,074**		12,731		**62,555**		37,905
Gross margin	**$**	**4,186**	$	2,924	**$**	**19,457**	$	6,478
Gross margin %		**20%**		19%		**24%**		15%
Tryton revenue – % of revenue								
Tryton MSFS®		**44%**		53%		**49%**		43%
Conventional Tools & Rentals		**56%**		47%		**51%**		57%

Tryton fourth quarter 2017 revenue was $21.3 million, a 36% increase from the fourth quarter 2016. Both Canadian and U.S. operations benefitted from higher activity and a broader customer base. Canadian downhole tools revenue increased due to higher demand for conventional tools used in maintenance of producing wells and abandonment work, as well as higher MSFS® activity. Tryton U.S. revenue continued its quarter-over-quarter improvement, particularly in Texas, with stronger customer demand as activity continued to improve.

Tryton gross margin as a percentage of revenue was 20% for the three months ended December 31, 2017, similar to 19% realized in the same prior year period.

2017 Tryton revenue increased 85% compared to the prior year as a result of higher activity, particularly MSFS® tool revenue which improved 113%. This improvement was due to increased activity and revenue per job, as customers completing long-reach horizontal wells increased the number of stages per well. 2017 gross margin was 24% of revenue, a significant year-over-year improvement due to Tryton's variable cost structure and the absorption of fixed costs by higher revenue.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)		Three months ended December 31, **2017**		2016		Years ended December 31, **2017**		2016
General and administrative expenses	**$**	**3,369**	$	3,555	**$**	**13,315**	$	12,202

General and administrative expenses ("G&A") are comprised of wages, professional fees, office rent and other corporate and operational administrative costs. G&A for the year ended December 31, 2017 increased compared to 2016 due to reinstatement of employee compensation programs that were suspended during the industry downturn and higher legal fees related to the Packers Plus lawsuit.

ONEROUS LEASE CONTRACT

(in thousands of dollars)		Three months ended December 31, **2017**		2016		Years ended December 31, **2017**		2016
Onerous lease contract expense	**$**	**-**	$	4,754	**$**	**-**	$	4,754

When the contractual obligations of a lease exceed the benefits expected to be received under it, International Financial Reporting Standards ("IFRS") require the present value of the minimum future contractual lease payments be recorded as an expense in the reporting period. In 2016, Essential recognized an onerous lease expense related to Calgary office space that was no longer used following staff reductions and the sale of the service rig business.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Depreciation and amortization expense	**$ 3,957**	$ 3,747	**$ 15,774**	$ 17,110

Depreciation and amortization for the year ended December 31, 2017 was lower than the same period in 2016 due to a one-time depreciation charge related to a change in estimate that reduced certain assets' expected lives and an impairment loss recognized on ECWS equipment and intangible assets, both in the first quarter 2016.

SHARE-BASED COMPENSATION

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Share-based compensation expense	**$ 1,432**	$ 1,238	**$ 4,201**	$ 2,758

For the year ended December 31, 2017, share-based compensation was higher than the same prior year period due to the issuance of Deferred Share Units and Restricted Share Units during the first quarter 2017.

OTHER (INCOME) EXPENSE

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Loss (gain) on disposal and write-down of assets	**$ 8**	$ 663	**$ (176)**	$ 2,151
Realized foreign exchange loss (gain)	**44**	10	**68**	(4)
Unrealized foreign exchange (gain) loss	**(82)**	(287)	**834**	346
Other (income) expense	**(4)**	20	**(18)**	17
Other (income) expense	**$ (34)**	$ 406	**$ 708**	$ 2,510

The strengthening of the Canadian dollar in relation to the U.S. dollar during the year ended December 31, 2017 resulted in foreign exchange losses. The loss on disposal and write-down of assets in the prior year included disposal of equipment that was retired and no longer used in operations.

IMPAIRMENT LOSS

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Impairment loss	**$ -**	$ 5,403	**$ -**	$ 51,241

IFRS requires the Company to assess the carrying value of assets in the cash generating units when there are impairment indicators. During the fourth quarter 2016, Essential recognized an impairment related to the partially completed Generation IV coil tubing rigs of $5.4 million, reducing the carrying values and previously paid deposits to their estimated net realizable values. During the first quarter 2016, the Company recognized an impairment charge of $45.8 million: $28.5 million on ECWS equipment and $17.3 million on intangible assets.

FINANCE COSTS

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Finance costs	**$ 278**	$ 323	**$ 1,233**	$ 1,263

For the year ended December 31, 2017, finance costs were consistent with the same period in 2016. The higher interest rate on the Company's revolving credit facility in 2017 was offset by lower average long-term debt outstanding compared to the same prior year period.

INCOME TAXES

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Current income tax recovery	**$ (752)**	$ (801)	**$ (960)**	$ (6,780)
Deferred income tax expense (recovery)	**115**	(4,645)	**677**	(14,649)
Income tax recovery	**$ (637)**	$ (5,446)	**$ (283)**	$ (21,429)

For the three and twelve months ended December 31, 2017, the current income tax recovery related to 2017 losses that will be applied to recover income taxes paid in previous years. The income tax recovery for the three months and year ended December 31, 2016 related to the tax recoveries on operating losses and the tax effect of the impairment loss recorded in the first and fourth quarters of the prior year.

DISCONTINUED OPERATIONS

In December 2016, Essential sold its service rig business for total consideration of $28.2 million. For the year ended December 31, 2017, expenses from discontinued operations primarily related to incremental reclamation costs on leased properties occupied by Essential until the end of the first quarter 2017.

Net loss from discontinued operations was as follows:

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Revenue	**$ -**	$ 4,135	**$ -**	$ 15,950
Expenses, impairment loss and loss on sale of discontinued operations	**-**	23,394	**451**	54,083
Loss before income tax	**-**	(19,259)	**(451)**	(38,133)
Income tax recovery	**-**	(3,680)	**(121)**	(10,126)
Net loss from discontinued operations	**$ -**	$ (15,579)	**$ (330)**	$ (28,007)

FINANCIAL RESOURCES AND LIQUIDITY

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

(in thousands of dollars, except per share amounts)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Net cash provided by (used in) operating activities	**$ 7,581**	$ 572	**$ 10,481**	$ (32)
Less changes in non-cash working capital[1]	**6,829**	(26)	**(4,885)**	(302)
Operating cash flow before changes in non-cash operating working capital[1]	**$ 752**	$ 598	**$ 15,366**	$ 270
Per share – basic and diluted	**$ 0.01**	$ -	**$ 0.11**	$ -

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at December 31, 2017**	As at December 31, 2016
Current assets	**$ 74,883**	$ 66,413
Current liabilities	**(24,712)**	(20,613)
Working capital[1]	**$ 50,171**	$ 45,800
Working capital ratio	**3.0:1**	3.2:1

Working capital is comprised primarily of accounts receivable and inventory. Working capital typically grows through the first, third and fourth quarters of the year when industry activity is stronger. Essential uses its revolving credit facility ("Credit Facility") to meet the variable nature of its working capital needs for the cost of carrying inventory and customer accounts receivable. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt initially tends to increase and in periods of lower activity, debt initially declines.

CREDIT FACILITY

Essential's Credit Facility is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent. The Credit Facility was renewed on June 15, 2016 and matures on May 31, 2019. It is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At December 31, 2017, the maximum of $40 million under the Credit Facility was available to Essential.

The Credit Facility contains a number of terms and conditions, including:

- financial covenants:

Quarter Ending	Funded Debt[1] to Capitalization	Funded Debt[1] to Bank EBITDA[1][i]	Fixed Charge Coverage Ratio[1][i]
December 31, 2017	≤ 50%	≤ 4.25x	≥ 1.25x
March 31, 2018	≤ 50%	≤ 3.50x	≥ 1.25x
June 30, 2018	≤ 50%	≤ 3.50x	≥ 1.25x
September 30, 2018	≤ 50%	≤ 3.25x	≥ 1.25x
December 31, 2018	≤ 50%	≤ 3.00x	≥ 1.25x
March 31, 2019	≤ 50%	≤ 3.00x	≥ 1.25x

(i) Calculated on a trailing 12 month basis.

- an equity cure provision where proceeds from equity offerings may be applied to the calculation of Bank EBITDA[(1)] in the funded debt[(1)] to Bank EBITDA[(1)] covenant and the fixed charge coverage[(1)] covenant;
- a monthly borrowing base is required when funded debt[(1)] to Bank EBITDA[(1)] (excluding the equity cure, if applicable) is greater than 2.00x; and
- restrictions on dividends and acquisitions when funded debt[(1)] to Bank EBITDA[(1)] (excluding the equity cure, if applicable) is greater than 3.00x.

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. As at December 31, 2017, all financial debt covenants and banking requirements under the Credit Facility were up-to-date.

	Covenant Threshold	**As at December 31, 2017**
Funded debt[(1)] to capitalization	≤ 50%	**10%**
Funded debt[(1)] to Bank EBITDA[(1)]	≤ 4.25x	**0.96x**
Fixed charge coverage ratio[(1)]	≥ 1.25x	**16.0x**

As at December 31, 2017, Essential had a consolidated funded debt[(1)] balance of $18.1 million, consisting of long-term debt plus deferred financing fees, net of cash. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On March 7, 2018, Essential had $26.3 million of debt outstanding.

EQUIPMENT EXPENDITURES

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Essential Coil Well Service	**$ 4,448**	$ 353	**$ 15,880**	$ 7,788
Tryton	**1,808**	1,393	**3,991**	2,769
Corporate	**34**	37	**348**	70
Total equipment expenditures	**6,290**	1,783	**20,219**	10,627
Less proceeds on disposal of property and equipment	**(891)**	(1,550)	**(2,660)**	(3,569)
Net equipment expenditures[(1)]	**$ 5,399**	$ 233	**$ 17,559**	$ 7,058

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

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Growth capital[(1)]	**$ 4,521**	$ 1,386	**$ 11,382**	$ 7,761
Maintenance capital[(1)]	**1,769**	397	**8,837**	2,866
Total equipment expenditures	**$ 6,290**	$ 1,783	**$ 20,219**	$ 10,627

2017 growth capital spending related to the fabrication of two new quintuplex fluid pumpers expected to be delivered in the second quarter 2018, pumping support equipment, costs to recertify and upgrade the coil tubing rigs and pumping equipment acquired in 2016 and rental drill pipe. The fluid pumpers support Essential's deep coil tubing fleet working on long-reach horizontal wells where greater pumping capacity is required due to the depths and pressures of these wells.

Essential's 2018 capital budget is $13 million, comprised of $5 million of growth capital and $8 million of maintenance capital. Growth capital consists of costs to retrofit one Generation IV coil tubing rig, the addition of one nitrogen pumper, coil support equipment and $1.5 million of carryover capital to complete the two quintuplex fluid pumpers started in 2017.

SHARE CAPITAL

As at March 7, 2018, there were 141,856,813 common shares and 6,021,249 share options outstanding. Of the 6,021,249 share options, 3,605,410 were exercisable of which 1,297,080 were "in-the-money".

COMMITMENTS

Operating leases

Essential has entered into operating leases for office and shop premises with future annual lease payments, as follows:

(in thousands of dollars)		Amount
2018	$	5,823
2019		5,788
2020		5,184
2021		4,356
2022		4,265
Thereafter		3,119
As at December 31, 2017	$	28,535

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2017, 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, 2017.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

transparent; the thorough review of the Company's financial statements by management; and the existence of a Company whistle-blower policy.

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2017 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES

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

Provision for Impairment of Trade Receivables

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

Net Realizable Value of Inventory

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

Depreciation and Amortization

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

Intangible Assets

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

Impairment of Long-Lived Assets

At each reporting date Essential assesses whether there is an indication that an asset or group of assets, including goodwill and intangible assets, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, forecasts and industry considerations affecting the Company and the CGU.

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

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

Provisions

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

Onerous Lease Contract

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

Deferred Income Tax Liabilities and Assets

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

FUTURE ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2018 and have not been applied in preparing the Consolidated Financial Statements for the year-ended December 31, 2017. The standards and interpretations are as follows and will be adopted on their respective effective dates: IFRS 2, "Share-Based Payments," effective January 1, 2018; IFRS 9, "Financial Instruments," effective January 1, 2018; IFRS 15, "Revenue from Contracts with Customers," effective January 1, 2018; and IFRS 16, "Leases," effective January 1, 2019. Essential is evaluating the potential impact these standards are expected to have on the Company and its financial statements.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form for the year ended December 31, 2017, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's Annual Information Form. The risks and uncertainties in Essential's Annual Information Form are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business.

OUTLOOK

Analyst and industry associations are generally forecasting industry activity and E&P spending in the WCSB in 2018 will be similar to 2017. Canadian oil and natural gas prices are generally forecast to continue to trade significantly below their U.S. benchmarks due to oversupply and export capacity constraints in the WCSB.

Until oil and natural gas market access is addressed, Canadian oil and natural gas activity is anticipated to remain constrained due to the inability to access world markets and achieve higher commodity pricing. These issues likely will not be resolved in the near term and are hindered by political and regulatory uncertainty in Canada, delaying resolution to allow projects to proceed. This is not helpful or constructive to the Canadian oilfield service outlook.

ECWS believes it has sufficient trained crews and activated equipment to meet anticipated customer demand through the first quarter 2018. To date, first quarter 2018 activity has been consistent with the same period in 2017 and on its peak day ECWS had 15 coil tubing rigs and 12 fluid pumpers working. Competitive pricing pressure remains a factor and prices are consistent with fourth quarter 2017. Demand for Generation III coil tubing rigs and quintuplex fluid pumpers is strong as customers complete longer reach horizontal wells, particularly in the Montney and Duvernay region of the WCSB.

Tryton continues to experience strong demand for its conventional and MSFS® tools, including demand for its new composite bridge plug and re-designed cemented-in Viking sleeve system. These tools, introduced in 2017, have been well received by customers looking for new tools and techniques to efficiently and cost-effectively complete longer reach horizontal wells and increase stage count per well. During the first quarter 2018, Tryton used its composite bridge plug, in conjunction with its MSFS® Ball & Seat tools, to complete two 90-stage MSFS® jobs in the Montney region and used its Viking sleeve system to complete a 53-stage job in a single tool run in the Cardium region. These tools demonstrate Tryton's ongoing commitment to develop innovative products and solutions to meet the needs of their customers.

The timing of spring breakup and operational performance in the month of March may impact activity in the first quarter in comparison to 2017, when favourable weather conditions extended industry activity to the end of March. Activity in the second half of 2018 will depend on E&P spending, and is difficult to forecast at this time.

Essential's 2018 capital budget is $13 million, comprised of $5 million of growth capital and $8 million of maintenance capital. Growth capital is targeted to address customer requirements for longer reach horizontal wells retrofitting one Generation IV coil tubing rig, adding a nitrogen pumper and completing two quintuplex fluid pumpers.

With long-term debt at March 7, 2018 of $26.3 million, Essential believes it is financially well-positioned to meet its working capital and capital spending requirements. The increase in debt from December 31, 2017 reflects increased accounts receivables for services provided in the first quarter 2018.

SUMMARY OF QUARTERLY DATA

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

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

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

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Dec 31, 2017**	Sept 30, 2017	June 30, 2017	Mar 31, 2017	**Dec 31, 2016**	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016
Essential Coil Well Service	**22,002**	28,606	14,569	28,719	**17,564**	13,896	6,422	15,756
Tryton	**21,260**	20,145	13,076	27,531	**15,655**	12,256	5,583	10,889
Inter-segment eliminations	-	-	-	-	**(176)**	(139)	(90)	(89)
Total revenue	**43,262**	48,751	27,645	56,250	**33,043**	26,013	11,915	26,556
Gross margin	**4,522**	11,524	1,484	14,394	**4,148**	3,899	(1,578)	1,318
Gross margin %	**10%**	24%	5%	26%	**13%**	15%	(13)%	5%
EBITDAS[1] from continuing operations[i]	**1,153**	8,541	(1,291)	10,206	**(4,161)**	1,418	(4,224)	(2,202)
Bank EBITDA[1]	**1,220**	8,624	(1,272)	10,224	**11,541**	1,418	(4,208)	(469)
Continuing operations								
Net (loss) income[i][ii]	**(3,843)**	2,344	(5,005)	3,480	**(9,832)**	(3,253)	(7,159)	(42,378)
Per share – basic and diluted	**(0.03)**	0.02	(0.04)	0.02	**(0.07)**	(0.03)	(0.06)	(0.34)
Net (loss) income[i][ii]	**(3,843)**	2,344	(5,005)	3,150	**(25,411)**	(3,814)	(7,486)	(53,918)
Per share – basic and diluted	**(0.03)**	0.02	(0.04)	0.02	**(0.18)**	(0.03)	(0.06)	(0.43)
Total assets	**219,448**	223,695	208,337	227,646	**209,270**	242,781	238,450	246,713
Long-term debt	**17,975**	20,606	13,337	18,169	**11,250**	31,781	26,894	27,053
Operating hours								
Coil tubing rigs	**11,215**	13,751	7,039	16,420	**11,119**	7,662	3,848	9,677
Pumpers	**14,581**	18,094	9,529	18,653	**12,341**	10,127	4,336	10,218
Total equipment fleet[iii]								
Coil tubing rigs[iv]	**30**	31	31	31	**31**	26	26	32
Fluid pumpers	**18**	18	20	21	**21**	18	18	18
Nitrogen pumpers[iv]	**8**	11	11	11	**11**	10	12	12
Tryton - % of revenue								
Tryton MSFS®	**44%**	48%	42%	59%	**53%**	45%	15%	40%
Conventional Tools & Rentals	**56%**	52%	58%	41%	**47%**	55%	85%	60%

(i) The quarter ended December 31, 2016 includes an onerous lease contract expense of $4.8 million.
(ii) The quarters ended December 31, 2016 and March 31, 2016 include an impairment loss of $5.4 million and $45.8 million, respectively.
(iii) Fleet data represents the number of units at the end of the period.
(iv) During the fourth quarter 2017, Essential retired one Generation I coil tubing rig and three nitrogen pumpers.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "projects", "forecasts", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the grounds upon which Packers Plus could have a successful claim for damages or other relief against Essential; Essential's belief that the Appeal is without merit; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the Company's capital budget, including certain growth and maintenance capital expenditures and in-service timing; the amount expected to be paid for Essential's "other commitments"; adoption of future accounting policies; E&P industry activity and market conditions; export capacity constraints in the WCSB; sufficiency of Essential's personnel and equipment; demand for Essential's equipment and services; Tryton's development of products and solutions for customer needs; and the Company's outlook and financial position.

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

Actual performance and results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: known and unknown risks, including those set forth in the Company's Annual Information Form (a copy of which can be found under Essential's profile on SEDAR at www.sedar.com); the risks associated with the oilfield services sector (e.g. demand, pricing and terms for oilfield services; current and expected oil and natural gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety and environmental risks); integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties, incentive programs and environmental regulations; stock market volatility and the inability to access sufficient capital from external and internal sources; the ability of the Company's subsidiaries to enforce legal rights in foreign jurisdictions; general economic, market or business conditions; global economic events; changes to Essential's financial position and cash flow; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; risks and uncertainty related to distribution and pipeline constraints; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive.

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

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

[1]Non-IFRS Measures

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

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS from continuing operations, including the equity cure, excluding onerous lease contract expense and severance costs ("Permitted Adjustments").

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

EBITDAS (Earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal of equipment, write-down of assets, impairment loss, foreign exchange gains or losses, and share-based compensation, which includes both equity-settled and cash-settled transactions) – These adjustments are relevant as they provide another measure which is considered an indicator of Essential's results from its principal business activities.

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

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Bank EBITDA	**$ 1,220**	$ 11,541	**$ 18,796**	$ 8,282
Equity cure	**-**	10,400	**-**	10,400
Permitted Adjustments	**67**	5,302	**187**	7,051
EBITDAS from continuing operations	**$ 1,153**	$ (4,161)	**$ 18,609**	$ (9,169)
Share-based compensation	**1,432**	1,238	**4,201**	2,758
Other (income) expense	**(34)**	406	**708**	2,510
EBITDA from continuing operations	**$ (245)**	$ (5,805)	**$ 13,700**	$ (14,437)
Depreciation and amortization	**3,957**	3,747	**15,774**	17,110
Impairment loss	**-**	5,403	**-**	51,241
Finance costs	**278**	323	**1,233**	1,263
Loss before income tax from continuing operations	**$ (4,480)**	$ (15,278)	**$ (3,307)**	$ (84,051)
Total income tax recovery	**(637)**	(5,446)	**(283)**	(21,429)
Net loss from continuing operations	**$ (3,843)**	$ (9,832)	**$ (3,024)**	$ (62,622)

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

(in thousands of dollars, except ratios)	Trailing 12 months ended December 31, 2017
Bank EBITDA	**$ 18,796**
Less current income tax recovery	**(960)**
	$ 19,756
Finance costs	**$ 1,233**
Fixed charge coverage ratio	**16.0x**

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash.

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

Maintenance capital – Equipment additions that are incurred in order to refurbish, replace or extend the life of previously acquired equipment. Such additions do not provide incremental revenue.

Net equipment expenditures[i] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to the financing of Essential's capital program.

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

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

Consolidated Financial Statement

Essential Energy Services Ltd.

December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Allan Mowbray"

ALLAN MOWBRAY
Vice President, Finance and
Chief Financial Officer

March 7, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Essential Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

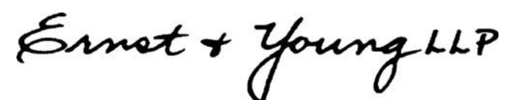
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Essential Energy Services Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Calgary, Canada

March 7, 2018

Chartered Professional Accountants

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)	As at December 31, **2017**	2016
Assets		
Current		
Cash	**$ 46**	$ 143
Trade and other accounts receivable *(note 6)*	**35,919**	29,300
Inventories *(note 7)*	**35,683**	27,077
Income taxes receivable *(note 15)*	**1,129**	8,119
Prepayments and deposits	**2,106**	1,774
	74,883	66,413
Non-current		
Property and equipment *(note 8)*	**139,734**	137,039
Intangible assets *(note 9)*	**1,387**	2,132
Goodwill *(note 10)*	**3,444**	3,686
	144,565	142,857
Total assets	**$ 219,448**	$ 209,270
Liabilities		
Current		
Trade and other accounts payable *(note 11)*	**$ 22,504**	$ 19,312
Share-based compensation *(note 22)*	**1,498**	689
Current portion of onerous lease contract *(note 13)*	**710**	612
	24,712	20,613
Non-current		
Long-term onerous lease contract *(note 13)*	**3,432**	4,142
Share-based compensation *(note 22)*	**4,397**	2,179
Long-term debt *(note 14)*	**17,975**	11,250
Deferred tax liabilities *(note 15)*	**8,129**	7,519
	33,933	25,090
Total liabilities	**58,645**	45,703
Commitments and contingencies *(note 24)*		
Equity		
Share capital *(note 16)*	**272,732**	272,732
Deficit	**(117,956)**	(114,602)
Other reserves *(note 17)*	**6,027**	5,437
Total equity	**160,803**	163,567
Total liabilities and equity	**$ 219,448**	$ 209,270

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, **2017**	2016
Revenue	**$ 175,908**	$ 97,527
Operating expenses *(notes 18 and 20)*	**143,984**	89,740
Gross margin	**31,924**	7,787
General and administrative expenses *(notes 19 and 20)*	**13,315**	12,202
Onerous lease contract expense *(note 13)*	**-**	4,754
Depreciation and amortization *(notes 8 and 9)*	**15,774**	17,110
Share-based compensation *(note 22)*	**4,201**	2,758
Impairment loss *(notes 8 and 9)*	**-**	51,241
Other expenses *(note 21)*	**708**	2,510
Operating loss from continuing operations	**(2,074)**	(82,788)
Finance costs	**1,233**	1,263
Loss before income taxes from continuing operations	**(3,307)**	(84,051)
Current income tax recovery	**(960)**	(6,780)
Deferred income tax expense (recovery)	**677**	(14,649)
Income tax recovery *(note 15)*	**(283)**	(21,429)
Net loss from continuing operations	**(3,024)**	(62,622)
Loss from discontinued operations, net of tax *(note 5)*	**(330)**	(15,012)
Loss on sale of discontinued operations, net of tax *(note 5)*	**-**	(12,995)
Net loss from discontinued operations	**(330)**	(28,007)
Net loss	**(3,354)**	(90,629)
Unrealized foreign exchange gain (loss) from continuing operations *(note 17)*	**133**	(40)
Unrealized foreign exchange loss from discontinued operations *(notes 5 and 17)*	**-**	(39)
Other comprehensive income (loss)	**133**	(79)
Comprehensive loss	**$ (3,221)**	$ (90,708)
Net loss per share from continuing operations *(note 23)*		
Basic and diluted	**$ (0.02)**	$ (0.48)
Net loss per share *(note 23)*		
Basic and diluted	**$ (0.02)**	$ (0.70)
Comprehensive loss per share *(note 23)*		
Basic and diluted	**$ (0.02)**	$ (0.70)

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, 2017	2016
Equity:		
Share capital		
Balance, January 1	**$ 272,732**	$ 262,977
Shares issued on equity raise, net of tax *(note 16)*	-	9,755
Balance, December 31	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (114,602)**	$ (23,595)
Net loss	**(3,354)**	(90,629)
Dividends *(note 12)*	-	(378)
Balance, December 31	**$ (117,956)**	$ (114,602)
Other reserves		
Balance, January 1	**$ 5,437**	$ 5,176
Other comprehensive income (loss) *(note 17)*	**133**	(79)
Equity-settled share-based compensation *(note 17)*	**457**	340
Balance, December 31	**$ 6,027**	$ 5,437
Total equity	**$ 160,803**	$ 163,567

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, **2017**	2016
Operating activities:		
Net loss from continuing operations	**$ (3,024)**	$ (62,622)
Non-cash adjustments to reconcile net loss for the period to operating cash flow:		
Onerous lease contract expense *(note 13)*	**-**	4,754
Depreciation and amortization	**15,774**	17,110
Deferred income tax expense (recovery) *(note 15)*	**677**	(14,649)
Share-based compensation *(note 22)*	**457**	340
Provision for impairment of trade accounts receivable *(note 6)*	**450**	682
Finance costs	**1,208**	1,263
Impairment loss *(notes 8 and 9)*	**-**	51,241
(Gain) loss on disposal and write-down of assets *(note 21)*	**(176)**	2,151
Operating cash flow before changes in non-cash operating working capital	**15,366**	270
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(7,714)**	(3,531)
Inventories	**(8,672)**	(118)
Income taxes receivable	**5,845**	(3,256)
Prepayments and deposits	**(339)**	443
Trade and other accounts payable	**3,589**	4,230
Onerous lease contract	**(621)**	-
Share-based compensation	**3,027**	1,930
Net cash provided by (used in) operating activities from continuing operations	**10,481**	(32)
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 8 and 9)*	**(20,219)**	(10,627)
Non-cash investing working capital in trade and other accounts payable	**1,568**	(772)
Proceeds on disposal of equipment	**2,660**	3,569
Net cash used in investing activities from continuing operations	**(15,991)**	(7,830)
Financing activities:		
Increase (decrease) in long-term debt	**6,650**	(14,293)
Issuance of shares *(note 16)*	**-**	9,575
Dividends paid *(note 12)*	**-**	(756)
Net finance costs paid	**(1,124)**	(1,263)
Net cash provided by (used in) financing activities from continuing operations	**5,526**	(6,737)
Foreign exchange gain (loss) on cash held in a foreign currency	**10**	(28)
Net increase (decrease) in cash	**26**	(14,627)
Net (decrease) increase in cash, discontinued operations *(note 5)*	**(123)**	13,728
Cash, beginning of period	**143**	1,042
Cash, end of period	**$ 46**	$ 143
Supplemental cash flow information		
Cash taxes received	**$ (8,006)**	$ (3,668)
Cash interest and standby fees paid	**$ 1,099**	$ 1,065

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, 2017 and 2016 were approved by the Board of Directors of Essential ("Board of Directors") on March 7, 2018.

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 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The Financial Statements for the year ended December 31, 2017, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of Presentation

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

c) Principles of Consolidation

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

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

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

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

d) Foreign Currency Translation

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

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

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

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

e) BUSINESS COMBINATIONS

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

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

f) DISCONTINUED OPERATIONS

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

g) REVENUE RECOGNITION

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

h) INCOME TAXES

Current income taxes

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

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

Deferred income taxes

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

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

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

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

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

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

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

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

i) SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan

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

Restricted Share Unit Plan

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

between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

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

j) FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

Financial assets

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

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

Financial assets at fair value through net loss

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

Loans and receivables

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

Financial liabilities

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

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

Financial liabilities at fair value through net loss

Financial liabilities recognized at fair value through net loss include those designated as held-for-trading and as fair value through net loss upon initial recognition. As at December 31, 2017, Essential had no held-for-trading financial liabilities.

Other financial liabilities

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

k) PROPERTY AND EQUIPMENT

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

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

Depreciation rates are as follows:

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

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use. 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.

l) LEASES

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

Finance leases

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

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

Operating leases

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

m) INTANGIBLE ASSETS

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

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

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

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

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

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

n) INVENTORIES

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

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

Tryton tools	weighted average cost basis
Coil tubing and supplies	specific cost basis

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

o) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. The provision for impairment of trade receivables involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

p) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

q) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of identifiable net asset acquired, less any accumulated impairment losses after initial recognition. Goodwill is reviewed for

impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any goodwill impairment will be recognized as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

r) PROVISIONS

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

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

3. CHANGES IN ACCOUNTING POLICIES

a) NEW ACCOUNTING STANDARDS

Disclosure Initiative

Effective January 1, 2017, Essential adopted the amendments to International Accounting Standards (“IAS”) 7, *Disclosure Initiative,* which requires disclosures that enable users of financial statements to evaluate the changes in liabilities arising from financing activities, which includes changes arising from cash flows and non-cash changes. Additional disclosures for changes in liabilities arising from financing activities have been included in financial statement note 14. As allowed by IAS 7, comparative information has not been presented. The adoption of this disclosure did not have a material impact.

b) ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Share-Based Payments

Amendments to IFRS 2 *Share-Based Payments* clarify how to classify and measure certain types of share-based compensation. The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. Essential will adopt the IFRS 2 amendments on January 1, 2018 and does not expect it to have a material impact.

Financial Instruments

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

Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") establishes a single revenue recognition and measurement framework to determine the timing and measurement of revenue from contracts with customers. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Essential is required to and will adopt IFRS 15 on January 1, 2018. The Company has reviewed its various revenue streams and completed a detailed analysis of each operating segment. It has determined that the application of IFRS 15 will not have a material impact.

Leases

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

4. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

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

5. DISCONTINUED OPERATIONS

On December 16, 2016 Essential sold its service rig business for total consideration of $28.2 million.

The results of the service rig business are as follows:

	For years ended December 31, 2017	2016
Revenue	**$ -**	$ 15,950
Expenses, impairment loss and loss on sale of discontinued operations	**451**	54,083
Loss before income tax	**(451)**	(38,133)
Income tax recovery	**(121)**	(10,126)
Net loss from discontinued operations, net of tax	**(330)**	(28,007)
Unrealized foreign exchange loss from discontinued operations	**-**	(39)
Comprehensive loss from discontinued operations	**$ (330)**	$ (28,046)
Net loss from discontinued operations per share, basic and diluted	**$ (0.00)**	$ (0.22)

	For years ended December 31, 2017	2016
Net cash flows used in discontinued operations:		
Net cash (used in) provided by operating activities	**$ (123)**	$ 1,775
Net cash provided by investing activities	**-**	11,953
Net cash flows (used in) provided by discontinued operations	**$ (123)**	$ 13,728

6. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31, 2017	2016
Trade receivables, net of provision	**$ 35,855**	$ 29,228
Other receivables	**64**	72
	$ 35,919	$ 29,300

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

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

	As at December 31, **2017**	2016
Canadian dollar	**$ 34,373**	$ 28,619
U.S. dollar	**1,482**	609
	$ 35,855	$ 29,228

The aging analysis of trade receivables is as follows:

	As at December 31, **2017**	2016
< 31 days	**$ 13,468**	$ 13,866
31-60 days	**11,630**	10,289
61-90 days	**8,551**	3,888
>90 days	**2,206**	1,185
	$ 35,855	$ 29,228

Essential considers a trade 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 receivables 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 years ended December 31, **2017**	2016
Balance, beginning of period	**$ 532**	$ 925
Provision for receivables impairment	**450**	682
Receivables written off against the provision	**(311)**	(1,075)
Balance, end of period	**$ 671**	$ 532

7. INVENTORIES

	As at December 31, **2017**	2016
Tryton tools	**$ 24,192**	$ 18,028
Coil tubing and supplies	**11,491**	9,049
	$ 35,683	$ 27,077

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2017 was $49.8 million (2016 – $25.2 million).

8. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, 2017	2016
Coil rigs, pumpers and equipment	**$ 93,951**	$ 90,077
Other oilfield equipment	**28,951**	29,043
Vehicles	**15,742**	15,545
Office and computer equipment	**525**	739
Land	**-**	482
Other	**565**	1,153
	$ 139,734	$ 137,039

Cost As at December 31, 2017	**Balance, beginning of year**	**Additions**	**Transfer**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 151,414**	**$ 11,573**	**$ -**	**$ (2,038)**	**$ -**	**$ 160,949**
Other oilfield equipment	**53,685**	**5,031**	**-**	**(1,160)**	**(94)**	**57,462**
Vehicles	**29,196**	**3,380**	**-**	**(326)**	**(51)**	**32,199**
Office and computer equipment	**3,674**	**5**	**-**	**-**	**83**	**3,762**
Land	**482**	**-**	**-**	**(482)**	**-**	**-**
Other	**4,721**	**25**	**-**	**(932)**	**(3)**	**3,811**
	$ 243,172	**$ 20,014**	**$ -**	**$ (4,938)**	**$ (65)**	**$ 258,183**
Cost As at December 31, 2016						
Coil rigs, pumpers and equipment	$ 147,484	$ 15,776	$ -	$ (11,846)	$ -	$ 151,414
Service rigs and equipment	88,566	255	-	(88,831)	10	-
Other oilfield equipment	49,639	5,311	4,001	(5,245)	(21)	53,685
Vehicles	31,149	5,194	-	(7,004)	(143)	29,196
Office and computer equipment	4,426	47	-	(747)	(52)	3,674
Land	482	-	-	-	-	482
Other	4,787	-	-	(65)	(1)	4,721
	$ 326,533	$ 26,583	$ 4,001	$ (113,738)	$ (207)	$ 243,172

Accumulated Depreciation As at December 31, 2017	**Balance, beginning of year**	**Depreciation**	**Disposals & write-down of assets**	**Impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 61,337**	**$ 6,584**	**$ (923)**	**$ -**	**$ -**	**$ 66,998**
Other oilfield equipment	**24,642**	**4,266**	**(389)**	**-**	**(8)**	**28,511**
Vehicles	**13,651**	**3,321**	**(489)**	**-**	**(26)**	**16,457**
Office and computer equipment	**2,935**	**306**	**-**	**-**	**(4)**	**3,237**
Other	**3,568**	**398**	**(718)**	**-**	**(2)**	**3,246**
	$ 106,133	**$ 14,875**	**$ (2,519)**	**$ -**	**$ (40)**	**$ 118,449**
Accumulated Depreciation As at December 31, 2016						
Coil rigs, pumpers and equipment	$ 34,589	$ 6,968	$ (7,849)	$ 27,629	$ -	$ 61,337
Service rigs and equipment	29,635	2,401	(46,730)	14,707	(13)	-
Other oilfield equipment	20,845	4,276	(3,486)	2,852	155	24,642
Vehicles	9,989	3,630	(4,130)	4,362	(200)	13,651
Office and computer equipment	3,006	516	(587)	-	-	2,935
Other	2,990	502	(65)	143	(2)	3,568
	$ 101,054	$ 18,293	$ (62,847)	$ 49,693	$ (60)	$ 106,133

Included in coil rigs, pumpers and equipment, is $6.5 million (2016 – $0.7 million) of assets under construction which will not be depreciated until put into use.

In 2016, an impairment loss of $51.2 million was recorded, of which $33.9 related to coil rigs, pumpers and equipment and $17.3 million related to intangible assets in the Essential Coil Well Service (“ECWS”) CGU.

9. INTANGIBLE ASSETS

Carrying Amount	As at December 31, **2017**	2016
Customer relationships	**$ 420**	$ 851
Computer software	**856**	1,074
Non-compete agreement	**111**	207
	$ 1,387	$ 2,132

In 2016, an impairment loss of $51.2 million was recorded, of which $17.3 million related to intangible assets and $33.9 million related to coil rigs, pumpers and equipment.

Cost **As at December 31, 2017**	**Balance, beginning of year**	**Additions**	**De-recognition**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 38,564**	**$ -**	**$ (36,152)**	**$ (106)**	**$ 2,306**
Computer software	**5,527**	**205**	**-**	**-**	**5,732**
Non-compete agreement	**443**	**-**	**-**	**(29)**	**$ 414**
	$ 44,534	**$ 205**	**$ (36,152)**	**$ (135)**	**$ 8,452**
Cost As at December 31, 2016					
Customer relationships	$ 38,612	$ -	$ -	$ (48)	$ 38,564
Computer software	5,465	62	-	-	5,527
Non-compete agreement	458	-	-	(15)	$ 443
	$ 44,535	$ 62	$ -	$ (63)	$ 44,534

Accumulated Amortization **As at December 31, 2017**	**Balance, beginning of year**	**Amortization**	**De-recognition & impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 37,713**	**$ 392**	**$ (36,152)**	**$ (67)**	**$ 1,886**
Computer software	**4,453**	**423**	**-**	**-**	**4,876**
Non-compete agreement	**236**	**84**	**-**	**(17)**	**303**
	$ 42,402	**$ 899**	**$ (36,152)**	**$ (84)**	**$ 7,065**
Accumulated Amortization As at December 31, 2016					
Customer relationships	$ 19,084	$ 1,280	$ 17,362	$ (13)	$ 37,713
Computer software	3,952	501	-	-	4,453
Non-compete agreement	152	87	-	(3)	236
	$ 23,188	$ 1,868	$ 17,362	$ (16)	$ 42,402

10. GOODWILL

	For the years ended December 31,	
	2017	2016
Beginning of the year	**$ 3,686**	$ 3,799
Effect of movement in exchange rates	**(242)**	(113)
End of the year	**$ 3,444**	$ 3,686

Goodwill is allocated to the Company's Tryton tools CGU.

In assessing whether goodwill has been impaired, the carrying amount, including goodwill, of each CGU containing goodwill is compared to its recoverable amount. The recoverable amounts of Essential's Tryton tools CGU was based on value in use, determined using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.5% per annum (2016 – 2.5%) and discounted at a rate of 15.2% (2016 – 15.4%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends.

For the year ended December 31, 2017, the carrying amount of the Tryton tools CGU was determined to be lower than its recoverable amount of $74.5 million and no impairment loss was recognized. Management has identified

that an 18.5 percentage point increase in the discount rate would result in an impairment loss to be recognized in the Tryton tools CGU.

11. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31, **2017**	2016
Trade accounts payable	**$ 11,608**	$ 9,139
Accrued payables	**4,795**	4,632
Accrued payroll	**5,170**	3,983
Other	**931**	1,558
	$ 22,504	$ 19,312

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

	As at December 31, **2017**	2016
Canadian dollar	**$ 10,481**	$ 8,728
U.S. dollar	**1,127**	411
	$ 11,608	$ 9,139

12. DIVIDENDS PAYABLE

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

Record date	**Payment date**	**Total dividend**	**Amount per share**
2016			
March 31, 2016	April 15, 2016	$ 378	$ 0.003

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

13. ONEROUS LEASE CONTRACT

	As at December 31, **2017**	2016
Beginning of the year	**$ 4,754**	$ -
Liability recognized during the period	**-**	4,754
Liability released in the period	**(621)**	-
Accretion expense	**9**	-
End of period	**$ 4,142**	$ 4,754
Current portion of onerous lease contract liability	**710**	612
Long-term portion of onerous lease liability	**$ 3,432**	$ 4,142

In 2016, Essential recognized an onerous lease contract liability related to its Calgary office space that was no longer used following staff reductions and the sale of the service rig business. The lease will expire in 2023. The Company recognized the present value of the minimum future contractual payments as an onerous lease contract.

14. LONG-TERM DEBT

	As at December 31,	
	2017	2016
Term loan	**$ 18,100**	$ 11,450
Deferred financing costs	**(125)**	(200)
Non-current portion of long-term debt	**$ 17,975**	$ 11,250

Essential's credit facility with its banking syndicate was renewed on June 15, 2016 and is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2019, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date. At December 31, 2017, the maximum of $40 million under the Credit Facility was available to Essential.

As at December 31, 2017, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

The following table reconciles long-term debt to cash flows arising from financing activities:

	Long term debt
Balance as at December 31, 2016	$ 11,250
Cash changes:	
Increase in long-term debt	**6,650**
Non cash changes:	
Amortization of deferred financing costs	**75**
Balance as at December 31, 2017	**$ 17,975**

15. INCOME TAXES

	For the years ended December 31,	
	2017	2016
Current income tax recovery	**$ (960)**	$ (6,780)
Deferred income tax (recovery) expense	**677**	(14,649)
Total income tax recovery	**$ (283)**	$ (21,429)

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, **2017**	2016
Loss before income taxes	**$ (3,307)**	$ (84,051)
Statutory tax rate	**27.0%**	26.9%
Expected income tax recovery	**(893)**	(22,610)
Increase (decrease) resulting from:		
Unrecognized deferred tax assets	**151**	693
Changes in tax rates	**71**	407
Items not deductible for tax	**173**	154
Share-based compensation	**123**	92
Impact of foreign tax rates	**(41)**	(175)
Impact of U.S. federal tax rate reduction	**1,763**	-
Valuation for tax assets not recognized in previous years	**(1,763)**	-
Other	**133**	10
Total income tax recovery	**$ (283)**	$ (21,429)

On December 22, 2017, United States tax reform was enacted into law. The most significant impact to the Company is the reduction in U.S. corporate tax rates from 35% to 21% effective January 1, 2018. The rate decrease will result in reducing unrecognized tax assets by $1.8 million.

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

	As at December 31, **2017**	2016
Property and equipment	**$ (14,480)**	$ (12,097)
Intangible assets	**2,483**	2,601
Onerous lease contract expense	**1,118**	1,273
Net operating losses (income)	**1,871**	657
Share issuance costs	**136**	180
Other	**743**	(133)
Deferred tax liabilities	**$ (8,129)**	$ (7,519)

Not included in deferred tax assets at December 31, 2017 are $8.4 million (2016 - $8.3 million) of gross non-capital losses in the United States, which will expire in 2033 to 2037.

16. SHARE CAPITAL

Authorized

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

	Number of Common Shares (000's)	Amount
As at January 1, 2016	125,837	$ 262,977
Shares issued on equity raise, net of tax	16,020	9,755
As at December 31, 2016 and 2017	**141,857**	**$ 272,732**

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

17. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2016	$ 4,751	$ 425	$ 5,176
Share-based compensation	340	-	340
Unrealized foreign exchange loss from continuing operations	-	(40)	(40)
Unrealized foreign exchange loss from discontinued operations *(note 5)*	-	(39)	(39)
As at December 31, 2016	$ 5,091	$ 346	$ 5,437
Share-based compensation	**457**	**-**	**457**
Unrealized foreign exchange gain from continuing operations	**-**	**133**	**133**
As at December 31, 2017	**$ 5,548**	**$ 479**	**$ 6,027**

18. OPERATING EXPENSES

	For the years ended December 31, **2017**	2016
Materials and related costs	**$ 55,828**	$ 31,231
Employee costs *(note 20)*	**50,808**	31,890
Repairs and maintenance	**9,005**	5,663
Fuel	**7,472**	4,244
Travel	**7,209**	4,445
Occupancy costs	**5,359**	5,086
Subcontracting	**5,266**	4,615
Other	**3,037**	2,566
	$ 143,984	$ 89,740

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31,	
	2017	2016
Employee costs *(note 20)*	**$ 7,049**	$ 6,156
Professional fees	**2,836**	2,114
Occupancy costs	**1,055**	1,708
Other	**2,375**	2,224
	$ 13,315	$ 12,202

20. EMPLOYEE COSTS

	For the years ended December 31,	
	2017	2016
Wages and salaries	**$ 54,603**	$ 35,356
Share-based compensation *(note 22)*	**4,038**	2,114
Other benefits	**3,254**	2,690
	$ 61,895	$ 40,160
Employee costs are included in:		
Operating expenses *(note 18)*	**$ 50,808**	$ 31,890
General and administrative expenses *(note 19)*	**7,049**	6,156
Share-based compensation *(note 22)*	**4,038**	2,114
	$ 61,895	$ 40,160

21. OTHER EXPENSES

	For the years ended December 31,	
	2017	2016
(Gain) loss on disposal and write-down of assets	**$ (176)**	$ 2,151
Realized foreign exchange loss (gain)	**68**	(4)
Unrealized foreign exchange loss	**834**	346
Other (income) loss	**(18)**	17
	$ 708	$ 2,510

22. SHARE-BASED COMPENSATION

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

The maximum number of share options issuable under the Share Option Plan and RSUs issued prior to December 9, 2015 under the RSU Plan, together may not exceed 9% of the Company's outstanding Common Shares. RSUs granted after December 9, 2015 represent the right to receive a cash payment only, at the time of vesting, and as such, are not included in the maximum number of share options or RSUs allowed for issuance. As at December 31, 2017, the maximum number of share options and RSUs allowed for issuance was 12,767,114 (2016 – 12,767,114).

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

	For the years ended December 31, 2017	2016
Equity-settled share options	**$ 457**	$ 340
Equity-settled restricted share units	**310**	220
Cash-settled restricted share units	**1,122**	882
Deferred share units	**2,312**	1,316
Total share-based compensation expense	**$ 4,201**	$ 2,758

a) Share Option Plan

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

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**6,950**	**$ 1.42**	6,393	$ 1.91
Issued	**1,315**	**0.83**	2,841	0.57
Expired	**(1,577)**	**2.10**	(1,294)	2.12
Forfeited	**(290)**	**1.96**	(990)	1.24
Outstanding, end of period	**6,398**	**$ 1.11**	6,950	$ 1.42
Exercisable, end of period	**2,932**	**$ 1.95**	3,297	$ 2.05

The fair value of the share options issued during the period was between $0.32 – $0.35 per option (2016 – $0.15 – $0.24), estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2017	2016
Risk-free interest rate	**0.9 - 1.0%**	0.5 – 0.6%
Expected volatility	**48.8 – 50.1%**	43.9 – 48.9%
Expected term	**3.9 – 4.7 years**	3.6 – 4.5 years
Expected forfeiture rate	**8.2 - 16.1%**	6.6 – 15.8%
Dividend yield	**nil**	nil – 2.3%

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

The following table summarizes information with respect to the share options outstanding as at December 31, 2017 and 2016:

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, 2017				
\$0.55 – \$1.00	**3,726**	**3.49**	**\$ 0.66**	**804**
\$1.01 – \$2.00	**1,630**	**2.35**	**\$ 1.19**	**1,086**
\$2.01 – \$2.90	**1,042**	**0.56**	**\$ 2.56**	**1,042**
	6,398	**2.73**	**\$ 1.11**	**2,932**
As at December 31, 2016				
\$0.55 – \$1.00	2,411	4.20	\$ 0.57	-
\$1.01 – \$2.00	1,762	3.33	\$ 1.20	675
\$2.01 – \$2.90	2,777	0.74	\$ 2.30	2,622
	6,950	2.60	\$ 1.42	3,297

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. RSUs granted to a participant prior to December 9, 2015 represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. RSUs granted to participants after December 9, 2015 represent the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments; contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, when dividends are paid, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at December 31, 2017 is \$2.1 million (December 31, 2016 – \$1.4 million) of which \$1.5 million is due within one year (December 31, 2016 – \$0.7 million).

The following table summarizes information with respect to RSUs outstanding for the years ended December 31, 2017 and 2016:

Number of RSUs (000's)	For years ended December 31, **2017**	2016
Outstanding, beginning of period	**3,826**	2,875
Issued (including dividend equivalents)	**2,700**	2,771
Vested	**(937)**	(835)
Forfeited	**(756)**	(985)
Outstanding, end of period	**4,833**	3,826

On January 10, 2018, Essential issued 2,404,000 RSUs.

c) Deferred Share Units

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

employee of the Company. Under the terms of the plan, when dividends are paid, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at December 31, 2017 is $3.8 million (December 31, 2016 – $1.5 million) of which nil is due within one year (December 31, 2016 – nil).

The following table summarizes information with respect to DSUs outstanding:

Number of DSUs (000's)	For the years ended December 31, **2017**	2016
Outstanding, beginning of period	**3,270**	398
Issued (including dividend equivalent)	**2,239**	3,287
Forfeited	**-**	(415)
Outstanding, end of period	**5,509**	3,270

On January 10, 2018, Essential issued 320,000 DSUs.

23. EARNINGS PER SHARE

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

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

(000's)	For the years ended December 31, **2017**	2016
Basic and diluted	**141,857**	129,382

24. COMMITMENTS AND CONTINGENCIES

Operating leases

Essential has entered into operating leases for office and shop premises with future annual lease payments, as follows:

	Amount
2018	$ 5,823
2019	5,788
2020	5,184
2021	4,356
2022	4,265
Thereafter	3,119
	$ 28,535

Contingencies

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

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

Since filing its Statement of Defence and Counterclaim on November 22, 2013, Essential maintained that it did not infringe the patent and the Counterclaim pleaded further that the asserted patent claims were invalid because the methodology and equipment claimed in the patent were in use in the oil and natural gas industry prior to the patent's effective filing date of November 19, 2001 or represented nothing more than obvious variations over what was already known in the industry at the time. This position was supported by the existence of similar products, articles and other patents prior to the effective filing date of the patent.

On November 3, 2017, The Court rendered a decision in Essential's favour, ruling that the asserted patent was not valid and that Essential did not infringe the patent (the "Decision").

On January 5, 2018, Packers Plus filed an appeal of the trial judge's rulings on validity and infringement (the "Appeal"). To have any claim of damages against Essential, Packers Plus must successfully overturn all of the following elements of the Decision:

1. The asserted patent is invalid due to prior disclosure; and
2. The asserted patent is invalid due to prior art/obviousness; and
3. Essential did not infringe the patent.

25. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

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

Key management personnel compensation is comprised of the following:

	For the years ended December 31,	
	2017	2016
Salaries and other benefits	**$ 3,323**	$ 2,497
Share-based compensation (equity and cash settled)	**2,786**	2,848
	$ 6,109	$ 5,345

26. CAPITAL DISCLOSURE

The Company's capital structure consists of the following:

	As at December 31, 2017	As at December 31, 2016
Long-term debt	**$ 17,975**	$ 11,250
Equity	**160,803**	163,567
Total capitalization	**$ 178,778**	$ 174,817

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

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Designation and valuation of financial instruments

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

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

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

Fair values

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

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

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and 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, 2017, the Company earned revenues from more than 480 customers (2016 – more than 445 customers) with five of these customers representing 45% of revenue (2016 – 46% of revenue). As at December 31, 2017, approximately 40% of the trade accounts receivable balance was due from five companies (2016 – 41%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.2 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2016 – $0.2 million).

Liquidity risk

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

28. SEASONALITY OF OPERATIONS

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

29. SEGMENTED INFORMATION

Essential has two operating segments, ECWS and Tryton, and a non-operating segment, Corporate and Eliminations.

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

a) Essential Coil Well Service

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

b) Tryton

The Tryton segment provides downhole tools and rental services in Canada and the United States.

c) Corporate and Eliminations

The Corporate and Eliminations segment is comprised of: i) corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments; and ii) eliminations, which includes transactions between segments which are eliminated upon consolidation. Income (loss) before income taxes for the year ended December 31, 2017 for the Corporate and Eliminations segment substantially represents corporate

office and certain operational costs of $14.3 million (2016 - $12.5 million), and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

As at and for the year ended December 31, 2017	**ECWS**	**Tryton**	**Corporate & Eliminations**	**Consolidated**
Revenue	**$ 93,896**	**$ 82,012**	**$ -**	**$ 175,908**
(Loss) income before income taxes from continuing operations	**$ 2,749**	**$ 14,699**	**$ (20,755)**	**$ (3,307)**
Depreciation and amortization	**$ 10,660**	**$ 4,239**	**$ 875**	**$ 15,774**
Total assets	**$ 146,282**	**$ 71,844**	**$ 1,322**	**$ 219,448**
Total liabilities	**$ 20,163**	**$ 10,577**	**$ 27,905**	**$ 58,645**
Property, equipment and intangible asset expenditures	**$ 15,880**	**$ 3,991**	**$ 348**	**$ 20,219**

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

30. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Management

Garnet K. Amundson
President and Chief Executive Officer

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

Auditors

Ernst & Young LLP

Stock Exchange Listing

TSX: ESN

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The Toronto-Dominion Bank

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