ESSENTIAL
ENERGY SERVICES

FINANCIAL REPORT

For the year ended December 31, 2020

ESSENTIAL
ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the year ended December 31, 2020.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the year ended December 31, 2020 and 2019, the notes contained therein to which the readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 3, 2021 and was approved and authorized for issuance by the Board of Directors (the "Board") of the Company on March 3, 2021.

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

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended December 31,		For the years ended December 31,		
	2020	2019	**2020**	2019	2018
Revenue	**$ 24,554**	$ 27,323	**$ 96,173**	$ 141,133	$ 189,894
Gross margin[(i)]	**5,810**	3,016	**20,418**	26,055	32,681
Gross margin %	**24%**	11%	**21%**	18%	17%
EBITDAS[(1)(i)]	**4,105**	1,729	**13,530**	16,975	19,719
EBITDAS %	**17%**	6%	**14%**	12%	10%
Net loss[(i)(ii)]	**(4,226)**	(3,161)	**(16,810)**	(1,556)	(8,778)
Per share - basic and diluted	**$ (0.03)**	$ (0.02)	**$ (0.12)**	$ (0.01)	$ (0.06)
Operating hours					
Coil tubing rigs	**7,047**	7,110	**28,468**	38,752	46,979
Pumpers	**9,242**	9,894	**35,977**	48,773	63,058

	As at December 31,		
	2020	2019	2018
Working capital	**$ 47,502**	$ 47,151	$ 60,848
Cash	**6,082**	846	410
Long-term debt	**53**	6,563	21,388

(i) Effective January 1, 2019, Essential adopted the IFRS 16 – Leases standard ("IFRS 16"). December 31, 2018 comparative information has not been restated and therefore may not be comparable.

(ii) The year ended December 31, 2020 includes an impairment of $10.3 million recorded in the first quarter. The year ended December 31, 2018 includes an asset write-down of $17.9 million.

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

INDUSTRY OVERVIEW

Activity across the Canadian oilfield service sector in 2020 was significantly lower than 2019. The disruptive impact of the COVID-19 pandemic, low oil prices and drastic spending cuts by exploration and production ("E&P") companies resulted in significantly lower drilling and completion activity when compared to the prior year. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB"), declined 57%[(a)] in the quarter, compared to the fourth quarter of 2019, and declined 42%[(a)] on an annual basis in 2020, compared to 2019.

There was some recovery in the price of West Texas Intermediate ("WTI") oil starting in mid-November and through to the end of the year, ending 2020 at US$48 per barrel. This is a significant improvement from the negative price experienced in April 2020 and improvement from an average of US$41 per barrel in the third quarter. Towards the end of 2020, natural gas prices also improved, with Alberta Energy Company ("AECO") trading on average at $2.50 per gigajoule in November and December, compared to an annual average of $1.40 per gigajoule in 2019.

HIGHLIGHTS

Fourth quarter 2020

Revenue for the three months ended December 31, 2020 was $24.6 million, a 10% decline from the fourth quarter of 2019, as the impact of COVID-19 and lower average oil prices in 2020 resulted in reduced customer spending. On a sequential basis, activity in each of Essential Coil Well Service ("ECWS") and Tryton improved in the fourth quarter compared to the third quarter of 2020 which resulted in a 28% increase in revenue.

Fourth quarter EBITDAS[(1)] was $4.1 million and EBITDAS[(1)] as a percentage of revenue was 17%, compared to $1.7 million and 6% in the fourth quarter of 2019. EBITDAS[(1)] improved in the current year mainly due to cost cutting initiatives and $1.4 million of benefits received under the Canadian Emergency Wage Subsidy ("CEWS") program.

Year 2020

Revenue for the year ended December 31, 2020, was $96.2 million, 32% lower than the comparative prior year period as a result of the combined devastating effects of the COVID-19 pandemic and the oil price decrease. Following an unusually slow second quarter, activity improved sequentially over the remaining quarters of the year, although overall activity remained below 2019 levels.

EBITDAS[(1)] for the year ended December 31, 2020 was $13.5 million, a decrease of $3.4 million from 2019 mainly due to lower activity and severance costs in the year. Lower revenue was partially offset by cost reductions implemented early in the second quarter of 2020 and $6.4 million of benefits received under the CEWS program.

Cash and long-term debt

At December 31, 2020, Essential was in a strong financial position with cash, net of long-term debt, of $6.0 million and working capital[(1)] of $47.5 million. During this challenging year, Essential managed to a net cash position through operational and financial discipline, including significant compensation reductions, employee layoffs, cost efficiency and capital spending funded entirely with proceeds from asset sales. On March 3, 2021 Essential had $6.3 million of cash, net of long-term debt.

(a) Source: Daily Oil Bulletin on March 2, 2021.

OVERVIEW OF ESSENTIAL

Essential safely provides completion, production and wellsite restoration 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 one of the largest coil tubing fleets 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 using 2 ⅜ inch coil of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by their 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 a wide range of downhole tools and rental services across the WCSB and in the U.S. for completion, production and wellsite restoration of oil and natural gas wells, including:

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

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

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

- Conventional Tools – These include conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and wellsite restoration.
- Rentals – Tryton Rentals offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers and various other tools and handling equipment.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended December 31,		For the years ended December 31,	
	2020	2019	**2020**	2019
Revenue	**$ 24,554**	$ 27,323	**$ 96,173**	$ 141,133
Operating expenses	**18,744**	24,307	**75,755**	115,078
Gross margin	**5,810**	3,016	**20,418**	26,055
General and administrative expenses[(i)]	**1,705**	1,287	**6,888**	9,080
EBITDAS [(1)]	**4,105**	1,729	**13,530**	16,975
Depreciation and amortization	**4,729**	3,928	**19,141**	15,996
Share-based compensation expense	**2,536**	1,336	**2,107**	2,362
Other expense (income)	**593**	235	**(211)**	728
Finance costs	**446**	406	**1,604**	1,761
Impairment loss	**-**	-	**10,293**	-
Loss before income taxes	**(4,199)**	(4,176)	**(19,404)**	(3,872)
Current income tax expense (recovery)	**27**	(2)	**30**	65
Deferred income tax recovery	**-**	(1,013)	**(2,624)**	(2,381)
Income tax expense (recovery)	**27**	(1,015)	**(2,594)**	(2,316)
Net loss	**$ (4,226)**	$ (3,161)	**$ (16,810)**	$ (1,556)
Net loss per share				
Basic and diluted	**$ (0.03)**	$ (0.02)	**$ (0.12)**	$ (0.01)

(i) General and administrative expenses for the three and twelve months ended December 31, 2019 includes $1.6 million of legal cost recovery related to the Packers Plus Litigation (as defined herein).

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Revenue	**$ 13,059**	$ 14,278	**$ 53,623**	$ 78,962
Operating expenses	**9,447**	13,068	**39,296**	62,957
Gross margin	**$ 3,612**	$ 1,210	**$ 14,327**	$ 16,005
Gross margin %	**28%**	8%	**27%**	20%
Operating hours				
Coil tubing rigs	**7,047**	7,110	**28,468**	38,752
Pumpers	**9,242**	9,894	**35,977**	48,773
Active equipment fleet [(i)]				
Coil tubing rigs	**11**	16	**11**	16
Fluid pumpers	**9**	12	**9**	12
Nitrogen pumpers	**4**	6	**4**	6
Total equipment fleet [(i)]				
Coil tubing rigs	**29**	29	**29**	29
Fluid pumpers	**19**	19	**19**	19
Nitrogen pumpers	**8**	8	**8**	8

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.

ECWS revenue for the three months ended December 31, 2020 was $13.1 million, a 9% decrease compared to the same prior year period but significantly stronger than the 57%[(a)] decline in industry well completions. Revenue per operating hour was relatively consistent with the fourth quarter of 2019. Fourth quarter revenue improved sequentially compared to the third quarter by 32% as ECWS benefited from its strong customer base.

Consistent demand throughout the fourth quarter resulted in a 31% increase in operating hours over the third quarter 2020 and similar activity to the fourth quarter of 2019. Due to this increased demand, ECWS reactivated one additional coil tubing rig in the fourth quarter.

ECWS generated gross margin of $3.6 million, significantly better than the $1.2 million gross margin generated in the fourth quarter of 2019. The year-over-year improvement in gross margin was due to cost reductions implemented earlier in 2020, including labour, logistics, repairs & maintenance costs and in addition, benefits received under the CEWS program. Gross margin as a percentage of revenue was 28% in the current quarter compared to 8% in the prior year.

For the year ended December 31, 2020, ECWS revenue was $53.6 million, 32% lower than the twelve months ended December 31, 2019, but better than the 42%[(a)] decline in industry well completions. After a steady first quarter, activity dropped significantly in the second quarter due to the combined effects of the COVID-19 pandemic and low oil prices, which significantly impacted customer spending. During the second half of 2020, activity improved but remained below prior year levels. ECWS realized gross margin of 27% for the year ended December 31, 2020, compared to 20% in the prior year as a result of cost reductions implemented early in the second quarter and CEWS program benefits received.

(a) Source: Daily Oil Bulletin on March 2, 2021.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Revenue	**$ 11,495**	$ 13,045	**$ 42,550**	$ 62,171
Operating expenses	**8,759**	10,967	**34,761**	50,689
Gross margin	**$ 2,736**	$ 2,078	**$ 7,789**	$ 11,482
Gross margin %	**24%**	16%	**18%**	18%
Tryton revenue - % of revenue				
Tryton MSFS®	**33%**	17%	**35%**	28%
Conventional Tools & Rentals	**67%**	83%	**65%**	72%

Tryton revenue for the fourth quarter of 2020 was $11.5 million, a decrease of 12% compared to the same quarter in 2019 but a 23% improvement over third quarter of 2020. Tryton's MSFS® revenue increased compared to the same prior year quarter and was consistent with the third quarter as key customers continued with completion activities. Conventional tools revenue was below the same prior year quarter, but improved sequentially from the third quarter as customers increased spending on production, maintenance and wellsite restoration activities. After a slow start in the second and third quarters of 2020, Tryton generated increased fourth quarter revenue from federally funded site rehabilitation programs.

Cost reduction measures implemented in the second quarter, along with benefits received under the CEWS program in Canada and the forgivable loan benefits under the U.S. Paycheck Protection Program ("PPP Loans"), resulted in improved gross margin in the current quarter. Gross margin for the three months ended December 31, 2020 was $2.7 million, compared to $2.1 million in the same prior year period. Tryton achieved gross margin as a percentage of revenue of 24% in the fourth quarter, compared to 16% in 2019.

For the year ended December 31, 2020, Tryton revenue was $42.6 million, a 32% decrease compared to the same prior year period. The year-over-year decline was mainly due to the combined effects of the COVID-19 pandemic and low oil prices, which significantly impacted customer spending in 2020. However, even with a reduction in revenue, Tryton achieved a gross margin percentage in line with the prior year mainly due to cost reductions implemented early in the second quarter and benefits received under various government programs.

General and Administrative

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
General and administrative expenses	**$ 1,705**	$ 2,887	**$ 6,888**	$ 10,680
Patent litigation - cost recovery	**-**	(1,600)	**-**	(1,600)
General and administrative expenses	**$ 1,705**	$ 1,287	**$ 6,888**	$ 9,080

General and administrative expenses ("G&A") primarily consist of wages, professional fees and other administrative costs. G&A for the three and twelve months ended December 31, 2020 decreased compared to the same prior year period due to employee wage reductions, changes to employee benefit plans, lower headcount and benefits received under the CEWS program**.**

In 2019, Essential recognized a $1.6 million legal cost recovery in connection with the Packers Plus Energy Services Inc. patent litigation (the "Packers Plus Litigation"). A full summary of the Packers Plus Litigation can be found in Essential's Annual Information Form ("AIF") for the year ended December 31, 2020 filed on SEDAR.

Depreciation and Amortization

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Depreciation and amortization expense	**$ 4,729**	$ 3,928	**$ 19,141**	$ 15,996

Depreciation expense for the three and twelve months ended December 31, 2020 was higher than the same prior periods due to the change in useful life estimates of certain capital assets effective April 1, 2020.

Share-based Compensation

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Share-based compensation expense	**$ 2,536**	$ 1,336	**$ 2,107**	$ 2,362

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

For the three months ended December 31, 2020, share-based compensation expense increased primarily due to an increase in the number of units outstanding during the period.

During the twelve months ended December 31, 2020, share-based compensation expense decreased due to a decline in share price compared to December 31, 2019, offset by units granted in the year. In comparison, during the twelve months ended December 31, 2019, the share price increased.

OTHER EXPENSE (INCOME)

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Gain on disposal of assets	**$ (82)**	$ (70)	**$ (399)**	$ (135)
Realized foreign exchange (gain) loss	**(2)**	-	**17**	15
Unrealized foreign exchange loss	**688**	305	**212**	745
Other (income) expense	**(11)**	-	**(41)**	103
Other expense (income)	**$ 593**	$ 235	**$ (211)**	$ 728

Gain on disposal of assets for the three and twelve months ended December 31, 2020 related to surplus assets sold that were no longer used in operations.

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

IMPAIRMENT LOSS

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Impairment loss	**$ -**	$ -	**$ 10,293**	$ -

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

FINANCE COSTS

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Finance costs	**$ 446**	$ 406	**$ 1,604**	$ 1,761

Finance costs primarily consist of interest expense related to lease liabilities, interest on long-term debt and amortization of deferred financing costs incurred to amend or issue new credit facilities. For the three months ended December 31, 2020, finance costs increased compared to the same prior year period as deferred financing costs related to the amended credit facility were fully expensed in the quarter.

For the twelve months ended December 31, 2020, lower average long-term debt outstanding and lower lease liabilities resulted in lower interest expense, offset by fully expensing the deferred financing costs in the year.

INCOME TAXES

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Current income tax expense (recovery)	**$ 27**	$ (2)	**$ 30**	$ 65
Deferred income tax recovery	**-**	(1,013)	**(2,624)**	(2,381)
Income tax expense (recovery)	**$ 27**	$ (1,015)	**$ (2,594)**	$ (2,316)

For the three months ended December 31, 2020, Essential did not recognize any amounts related to deferred income tax expense or recovery.

As at December 31, 2020, Essential was in a deferred income tax asset position. An assessment was performed, which determined that Essential did not meet the criteria to recognize a deferred tax asset. For the three months ended December 31, 2019, Essential recognized a deferred income tax recovery due to the loss generated in the prior year period.

For the twelve months ended December 31, 2020, the deferred income tax recovery is mainly due to the tax effect of the impairment loss recorded in the first quarter of 2020. For the 12 months ended December 31, 2019, the recovery was reduced by the revaluation of the deferred tax liability due to a reduction in the Alberta corporate income tax rate from 12% to 8% by 2022.

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW

(in thousands of dollars, except per share amounts)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Net cash provided by operating activities	**$ 919**	$ 8,316	**$ 16,822**	$ 27,702
Decreases (increases) in non-cash working capital [1]	**353**	(8,150)	**(4,495)**	(13,509)
Funds flow [1]	**$ 1,272**	$ 166	**$ 12,327**	$ 14,193
Per share - basic and diluted	**$ 0.01**	$ 0.00	**$ 0.09**	$ 0.10

For the three months ended December 31, 2020, funds flow improved when compared to the same prior year period primarily due to higher EBITDAS[1] in the current quarter as a result of cost reductions implemented earlier in the year and CEWS funds received in 2020. For the twelve months ended December 31, 2020, funds flow declined mainly due to lower activity when compared to 2019.

WORKING CAPITAL

(in thousands of dollars, except ratios)	As at December 31, 2020	As at December 31, 2019
Current assets	**$ 61,890**	$ 63,794
Current liabilities	**(14,388)**	(16,643)
Working capital [1]	**$ 47,502**	$ 47,151
Working capital ratio	**4.3:1**	3.8:1

Working capital[1] is comprised primarily of cash, accounts receivable and inventory, net of accounts payable and current portion of lease liability. Working capital[1] typically grows through the first and third quarters of the year when industry activity is stronger. Essential uses its Credit Facility (as described below) to meet the variable nature of its working capital[1] requirements for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees.

CREDIT FACILITY

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility matures on June 30, 2022, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date.

The commitment is the lesser of: i) $25.0 million, ii) the Borrowing Base (as defined in the Credit Facility, if applicable), and iii) $15.0 million during the Covenant Relief Period (as described below).

The covenant relief period is available until December 31, 2021 (the "Covenant Relief Period") and provides for the following:

- the amount that can be drawn under the Credit Facility during the Covenant Relief Period is the lesser of $15.0 million and a Borrowing Base calculation;
- the funded debt[1] to capitalization[1] ratio cannot exceed 20%;
- the funded debt[1] to bank EBITDA[1] ratio and the fixed charge coverage ratio covenants will not be tested; and
- the addition of a minimum trailing 12 month bank EBITDA[1] covenant of not lower than negative $10.0 million.

The financial covenants after the Covenant Relief Period include the following:

- the funded debt[1] to capitalization[1] ratio cannot exceed 50%;
- the funded debt[1] to bank EBITDA[1] ratio cannot exceed 3.5x; and
- the fixed charge coverage ratio must not be less than 1.25x.

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. In addition, Essential cannot distribute cash in the form of dividends or implement a normal course issuer bid.

As at December 31, 2020 there were no amounts outstanding under the Credit Facility and $15.0 million was available. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities.

Financial Covenants

As at December 31, 2020, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

(in millions of dollars, except percentages)	Covenant Threshold	As at December 31, 2020
Funded debt [1] to capitalization [1]	≤ 20%	**N/A**
Minimum trailing 12 month bank EBITDA [1]	≥ $(10.0)	$ **10.2**

EQUIPMENT EXPENDITURES

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
ECWS	**$ 124**	$ 1,818	**$ 1,125**	$ 4,587
Tryton	**165**	591	**770**	3,160
Corporate	**-**	14	**49**	152
Total equipment expenditures	**289**	2,423	**1,944**	7,899
Less proceeds on disposal of equipment	**$ (246)**	$ (307)	**$ (2,280)**	$ (2,710)
Net equipment expenditures (proceeds) [1]	**$ 43**	$ 2,116	**$ (336)**	$ 5,189

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

(in thousands of dollars)	For the three months ended December 31, 2020	2019	For the years ended December 31, 2020	2019
Growth capital [1]	**$ -**	$ 99	**$ -**	$ 897
Maintenance capital [1]	**289**	2,324	**1,944**	7,002
Total equipment expenditures	**$ 289**	$ 2,423	**$ 1,944**	$ 7,899

Essential's 2020 equipment expenditures were focused only on critical maintenance activities required to maintain the active fleet. Capital spending in 2020 was entirely funded through proceeds on the sale of surplus assets.

2021 CAPITAL BUDGET

Essential's 2021 capital budget was set at $5.4 million, which includes spending on critical maintenance activities and funds available for growth capital. With this budget, Essential will maintain the active fleet and opportunistically reactivate and purchase incremental equipment to the extent there is an expectation of increased demand. The 2021 capital budget is expected to be funded with cash, operational cashflow and, if needed, the Credit Facility.

SHARE CAPITAL

As at March 3, 2021, there were 141,856,813 common shares and 2,218,583 share options ("Share Options") outstanding. Of the 2,218,583 Share Options, 2,068,915 were exercisable of which nil were "in-the-money".

COMMITMENTS

Leases

Essential has entered into leases for office and shop premises that provide for contractual undiscounted lease payments as follows:

(in thousands of dollars)		**As at December 31, 2020**		As at December 31, 2019
Less than one year	**$**	**4,678**	$	4,754
One to five years		**8,305**		11,475
More than five years		**-**		2,409
	$	**12,983**	$	18,638

RELATED PARTY TRANSACTIONS

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

For the year ended December 31, 2020, Essential incurred lease and leasehold improvement payments related to these shop premises of $0.8 million (2019 - $1.5 million). Future annual lease payments related to these shop premises are as follows:

		Amount
2021	$	808
2022		850
2023		327
2024		160
2025		160
Thereafter		53
As at December 31, 2020	$	2,358

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, interim or other reports are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2020, 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, 2020.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

During the year, the Company's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("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 are accurate and complete.

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

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2020 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

NEW ACCOUNTING POLICY

During the year ended December 31, 2020, Essential adopted the following accounting policy as a result of qualifying for the CEWS and PPP Loans implemented by the governments of Canada and the United States, respectively, in response to the COVID-19 pandemic.

GOVERNMENT GRANTS

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

Government grants of $1.5 million and $6.4 million related to the CEWS program were included in the consolidated statements of net loss and comprehensive loss for the three and twelve months ended December 31, 2020, respectively. For the three and twelve months ended December 31, 2020, $1.3 million and $5.3 million, respectively, have been recorded as a reduction of operating expenses and $0.2 million and $1.1 million, respectively, have been recorded as a reduction of general and administrative expenses.

For the year ended December 31, 2020, Essential received $0.7 million of PPP Loans. The PPP Loans were used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they were incurred. Interest on the PPP Loans accrued at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. $0.6 million in forgivable amounts was recorded as a reduction of operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2020.

CHANGE IN ESTIMATE

PROPERTY AND EQUIPMENT

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

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

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

Critical Accounting Estimates

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

Provision for Impairment of Trade Receivables

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

Net Realizable Value of Inventory

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

Depreciation and Amortization

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

Impairment of Long-Lived Assets

At each reporting date, Essential assesses whether there is an indication that a long-lived asset or group of assets, including goodwill and intangible assets, may be impaired based on internal and external factors, including EBITDAS[(1)] expectations, expected industry activity levels, commodity price development and market capitalization. Long-lived assets include property and equipment, intangible assets and right-of use assets. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, forecasts and industry considerations affecting the Company and the CGU.

Leases

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

Share-based Compensation

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

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

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

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

Provisions

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

Deferred Income Tax Liabilities and Assets

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

RISKS AND UNCERTAINTIES

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 AIF for the year ended December 31, 2020, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

OUTLOOK

WCSB commodity prices, which are a strong general predictive metric for oilfield services activity, have improved in the last three months. The price of WTI has been steadily increasing since mid-November 2020, to over U.S. $60 per barrel at the end of February 2021. Natural gas prices continue to trend stronger in Canada as storage levels have been declining, and currently sit at the five-year average. The price of AECO was trading near $3 per gigajoule at the end of February 2021, boding well for improved natural gas activity.

Even prior to the most recent commodity price increases, industry analysts and associations had generally expected a modest increase in Canadian E&P spending in 2021, compared to 2020. The E&P companies are the immediate beneficiaries of commodity price increases. To date, this has not translated into oilfield service price increases, and that is not anticipated in the near term. After years of industry downturn and low commodity prices, E&P cash flow increases are generally expected to be applied to strengthen balance sheets, return cash to shareholders and drive mergers and acquisitions. However, given the duration and magnitude of recent commodity price increases, many industry experts expect a portion of excess cash flow may result in additional capital spending in 2021. This would benefit oilfield services activity, including for Essential.

For Essential, activity for the first two months of 2021 has been steady, but as expected, below the first two months of 2020. Activity in the first quarter of 2020 was largely unaffected by the onset of COVID-19 and the oil price war, and last year saw activity continue through the full month of March. To date in 2021, activity and costs were adversely impacted by a prolonged cold stretch in February which disrupted scheduled work and increased costs for down-time inefficiencies and repairs. Activity for the month of March 2021 is expected to continue at the same pace as the quarter-to-date but will largely be predicated on the commencement of spring breakup.

With anticipated improving industry conditions, Essential has been using its strong financial position to prepare for expected activity growth in the second half 2021 and into 2022. In response to competitive compensation pressures and increasing activity, partial restoration of compensation has been initiated in the first quarter of 2021, which will increase Essential's costs. Given Essential's reduced and lean workforce, it is critical to fairly compensate and retain

experienced personnel. ECWS also reactivated one more coil tubing rig in the quarter to meet customer demand. The active fleet now includes 12 coil tubing rigs and nine fluid pumpers. This ensures suitable equipment will be available for differing customer and regional needs. Crew recruiting continued through the first quarter 2021 to ensure ECWS can meet short notice demands of key customers, while also accommodating the unique risks and logistics of operating in a COVID-19 world. There are currently fewer crewed packages than active. Crewing levels are adjusted to anticipated customer demand.

The Alberta, Saskatchewan and British Columbia federally funded site rehabilitation programs are expected to provide meaningful activity for Tryton in 2021. Combined with E&P company funded work and programs for the Alberta and Saskatchewan orphan well associations, Tryton expects to see growth in restoration services revenue in 2021 and 2022. From an ESG perspective, Essential is pleased to be providing tools and downhole service expertise to the ongoing clean-up of the industry's legacy environmental footprint.

Essential remains financially strong. To date in 2021, Essential has been in a net cash position, with cash exceeding long-term debt by $6.3 million on March 3, 2021. The value and importance of Essential's low/zero debt strategy over the past few years has never been more apparent than it is now as the industry transitions into a period of expected growth. Essential's net cash position and its Credit Facility are expected to provide sufficient liquidity and financial flexibility to meet financial needs through to the end of 2021.

SUMMARY OF QUARTERLY DATA

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

The unprecedented economic and industry downturn has disrupted typical historic oilfield services seasonal and quarterly patterns in western Canada as E&P companies' spending decisions are 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:

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Dec 31, 2020**	Sept 30, 2020	June 30, 2020	Mar 31, 2020	**Dec 31, 2019**	Sept 30, 2019	June 30, 2019	Mar 31, 2019
Essential Coil Well Service	**13,059**	9,909	6,116	24,539	**14,278**	22,609	16,006	26,069
Tryton	**11,495**	9,332	4,839	16,884	**13,045**	16,669	11,080	21,377
Total revenue	**24,554**	19,241	10,955	41,423	**27,323**	39,278	27,086	47,446
Gross margin	**5,810**	5,314	876	8,418	**3,016**	8,873	3,607	10,559
Gross margin %	**24%**	28%	8%	20%	**11%**	23%	13%	22%
EBITDAS [(1)(i)]	**4,105**	4,033	(492)	5,884	**1,729**	6,294	1,408	7,544
Bank EBITDA [(1)]	**3,038**	3,193	(691)	4,687	**498**	4,943	135	6,378
Net (loss) income [(i)]	**(4,226)**	(1,529)	(6,030)	(5,025)	**(3,161)**	1,555	(1,357)	1,407
Per share - basic and diluted	**(0.03)**	(0.01)	(0.04)	(0.04)	**(0.02)**	0.01	(0.01)	0.01
Total assets	**159,863**	163,188	161,531	183,999	**191,395**	202,503	195,532	207,704
Cash	**6,082**	6,625	5,664	959	**846**	1,020	899	988
Long-term debt	**53**	145	665	8,544	**6,563**	10,782	7,451	12,827
Operating hours								
Coil tubing rigs	**7,047**	5,348	3,060	13,013	**7,110**	11,098	7,126	13,418
Pumpers	**9,242**	7,131	3,712	15,892	**9,894**	13,449	9,348	16,082
Tryton - % of revenue								
Tryton MSFS®	**33%**	40%	34%	35%	**17%**	29%	14%	40%
Conventional Tools & Rentals	**67%**	60%	66%	65%	**83%**	71%	86%	60%

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

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "future", "forecasts", "potential", "outlook" and similar expressions, or are events or conditions that "will", "would", "may", "likely", "could", "should", "can", "typically", "traditionally" or "tends to" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the carrying values of Essential's assets and liabilities; Essential's capital spending budget and expectations of how it will be funded; impacts of the COVID-19 pandemic; oil and natural gas industry and oilfield services sector activity and the outlook including the impact of E&P cashflow increases and the benefits to Essential; oilfield service pricing; the Company's capital management strategy and financial position; the impact of governmental and Company measures implemented in response to the COVID-19 pandemic; Essential's outlook, activity levels, cost structure, active and inactive equipment, crew counts, cost cutting measures and their implications; benefits under the federally funded site rehabilitation programs, including the anticipated work for Essential and Tryton arising from the programs and the timing of the same; benefits to Essential under the PPP Loans; and Essential's credit capacity, liquidity and ability to meet its financial needs through to the end of 2021.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Essential including, without limitation: the COVID-19 pandemic, unprecedented economic slow down and low oil prices, and the duration and impact thereof; that Essential will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Essential's capital and operating requirements as needed; and certain cost assumptions.

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

Actual performance and results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: known and unknown risks, including those set forth in the Company's AIF (a copy of which can be found under Essential's profile on SEDAR at www.sedar.com); a significant expansion of COVID-19 pandemic and the impacts thereof; the risks associated with the oilfield services sector, including demand, pricing and terms for oilfield services; current and expected oil and natural gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety, market and environmental risks; integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation including, but not limited to, tax laws, royalties, incentive programs and environmental regulations; stock market volatility and the inability to access sufficient capital from external and internal sources; the ability of the Company's subsidiaries to enforce legal rights in foreign jurisdictions; general economic, market or business conditions including those in the event of an epidemic, natural disaster or other event; global economic events; changes to Essential's financial position and cash flow, and the higher degree of uncertainty related to the estimates and judgements made in the preparation of financial statements; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; potential industry developments; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive and should refer to "Risk Factors" set out in the AIF.

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

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

[1]Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined under IFRS are used to analyze Essential's operations. In addition to the primary measures of net loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net loss and net loss per share as calculated in accordance with IFRS.

Funds Flow – Funds flow is generally defined as net cash provided by operating activities before changes in non-cash operating working capital. Funds flow is presented on the Consolidated Statements of Cash Flows.

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. It does not include the lease liability.

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

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, excluding severance costs ("Permitted Adjustments") and excluding the impact of IFRS 16.

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

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

	For the three months ended December 31,		For the years ended December 31,	
(in thousands of dollars)	**2020**	2019	**2020**	2019
Bank EBITDA	**$ 3,038**	$ 498	**$ 10,227**	$ 11,954
Impact of lease accounting under IFRS	**(1,086)**	(1,231)	**(4,422)**	(5,110)
Permitted adjustments	**19**	-	**1,119**	89
EBITDAS	**$ 4,105**	$ 1,729	**$ 13,530**	$ 16,975
Share-based compensation expense	**2,536**	1,336	**2,107**	2,362
Other expense (income)	**593**	235	**(211)**	728
EBITDA	**$ 976**	$ 158	**$ 11,634**	$ 13,885
Impairment loss	**-**	-	**10,293**	-
Depreciation and amortization	**4,729**	3,928	**19,141**	15,996
Finance costs	**446**	406	**1,604**	1,761
Loss before income tax	**$ (4,199)**	$ (4,176)	**$ (19,404)**	$ (3,872)
Income tax expense (recovery)	**27**	(1,015)	**(2,594)**	(2,316)
Net loss	**$ (4,226)**	$ (3,161)	**$ (16,810)**	$ (1,556)

Growth capital – Growth capital is capital spending which is intended to result in incremental revenue.

Maintenance capital – Maintenance capital is capital spending that is incurred in order to refurbish, replace or extend the life of existing equipment.

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 managing Essential's property and equipment.

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".

Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2020

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Jeff B. Newman"

JEFF B. NEWMAN
Chief Financial Officer

March 3, 2021

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of indicators of impairment of the Company's cash generating units ("CGUs")

Description of the matter

We draw attention to Note 2 and Note 4 to the financial statements. The Company assesses at each reporting date whether there is an indication that a long-lived asset or group of assets, identified as a CGU, may be impaired. The assessment of the existence of impairment indicators is based on internal and external factors, including revenue and earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, foreign exchange gains or losses and share based compensation expense

("EBITDAS") expectations, expected industry activity levels, commodity price development and market capitalization, and requires management to apply significant judgment. Long-lived assets within the Company's CGUs include property and equipment of $89.3 million, intangible assets of $0.2 million and right-of-use assets of $8.5 million.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

We compared the Company's 2020 actual revenues and EBITDAS for the CGUs to the 2020 forecasted revenues and EBITDAS as of March 31, 2020 to assess the Company's ability to accurately forecast.

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

- comparing internal and external factors analyzed by the Company to relevant external market data or internal source documents
- comparing growth assumptions in the Company's budgeted 2021 and forecasted 2022 and 2023 revenues and EBITDAS for the CGUs to those forecasted as at March 31, 2020 and considering the impact of actions implemented by management and changes in conditions and events affecting the CGUs
- evaluating the changes in market capitalization over the year and its impact on the Company's impairment indicator analysis.

Evaluation of the recoverable amount of CGUs

Description of the matter

We draw attention to Note 2 and Note 7 to the financial statements. The Company identified an indicator of impairment and performed an impairment test at March 31, 2020 for each of its cash generating units ("CGUs") which determined that the recoverable amounts of the CGUs were less than their carrying values. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The Company has recorded impairment charges of $5.2 million on the Essential Coil Well Service ("ECWS") CGU, $3.7 million on the Tryton Tools CGU and $1.4 million on the Rentals CGU.

The estimated recoverable amount of each CGU involves significant estimates and assumptions, including:

- Forecasted revenue and EBITDAS
- Discount rates
- Fair values of assets
- Costs of disposal of the assets.

Why the matter is a key audit matter

We identified the evaluation of the recoverable amount of CGUs as a key audit matter. Significant auditor judgment and involvement of professionals with specialized skills and knowledge were required to evaluate

the results of our audit procedures regarding the significant estimates and assumptions, that are noted above, that the Company used to determine the recoverable amount of the CGUs.

How the matter was addressed in the audit

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

For all CGUs we compared the first quarter 2020 EBITDAS to the amount budgeted for the first quarter of 2020 and the 2019 actual EBITDAS to the amount budgeted for 2019 for the CGUs to assess the Company's ability to accurately forecast.

We evaluated the forecasted revenues and EBITDAS used in the estimate of the recoverable amount for the Tryton Tools and the Rentals CGUs by:

- Comparing the forecasted 2020 revenues and EBITDAS to the 2020 forecast to assess consistency with other significant assumptions used by the Company in other estimates in the financial statements.
- Comparing the forecasted revenues and EBITDAS to historical results. We took into account changes in conditions and events affecting the CGUs to assess the adjustments or lack of adjustments made by the Company in arriving at forecasted EBITDAS.
- Comparing the rates of increase or decrease in forecasted revenues and EBITDAS to corresponding increases or decreases in commodity price forecasts published by independent third-party reserve evaluators.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the discount rate used to estimate the recoverable amount of the Tryton Tools and Rentals CGUs by comparing the discount rate to market and other external data
- Assessing the reasonableness of the Company's estimate of the recoverable amount of the Tryton Tools and the Rentals CGUs by comparing the Company's estimate to market metrics and other external data.
- Evaluating the reasonableness of the fair values as at March 31, 2020 estimated by the Company's external expert for a selection of assets in the ECWS CGU by examining the information used by the Company's external expert and comparing to market and other external data.
- Assessing the estimated costs to sell the ECWS CGU as at March 31, 2020 determined by the Company's external expert by comparing the estimated costs to sell to market and other external data.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Financial Report for the year ended December 31, 2020".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Financial Report for the year ended December 31, 2020" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Signed "KPMG LLP"

Chartered Professional Accountants

Calgary, Canada
March 3, 2021

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)		**As at December 31, 2020**		As at December 31, 2019
Assets				
Current				
Cash	**$**	**6,082**	$	846
Trade and other accounts receivable *(note 5)*		**22,026**		24,543
Inventory *(note 6)*		**32,157**		36,616
Prepayments and deposits		**1,625**		1,789
		61,890		63,794
Non-current				
Property and equipment *(note 7)*		**89,273**		111,141
Right-of-use lease asset *(note 12)*		**8,513**		12,600
Intangible assets		**187**		295
Goodwill *(note 8)*		**-**		3,565
		97,973		127,601
Total assets	**$**	**159,863**	$	191,395
Liabilities				
Current				
Trade and other accounts payable *(note 9)*	**$**	**8,905**	$	11,513
Share-based compensation *(note 19)*		**1,369**		1,189
Income taxes payable *(note 11)*		**25**		32
Current portion of lease liability *(note 12)*		**4,089**		3,909
		14,388		16,643
Non-current				
Share-based compensation *(note 19)*		**3,443**		2,740
Long-term debt *(note 10)*		**53**		6,563
Deferred tax liability *(note 11)*		**-**		2,624
Long-term lease liability *(note 12)*		**7,801**		12,154
		11,297		24,081
Total liabilities		**25,685**		40,724
Equity				
Share capital *(note 13)*		**272,732**		272,732
Deficit		**(145,210)**		(128,400)
Other reserves *(note 14)*		**6,656**		6,339
Total equity		**134,178**		150,671
Total liabilities and equity	**$**	**159,863**	$	191,395

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, **2020**	2019
Revenue *(note 25)*	**$ 96,173**	$ 141,133
Operating expenses *(notes 15 and 17)*	**75,755**	115,078
Gross margin	**20,418**	26,055
General and administrative expenses *(notes 16 and 17)*	**6,888**	9,080
Depreciation and amortization *(notes 7 and 12)*	**19,141**	15,996
Share-based compensation expense *(note 19)*	**2,107**	2,362
Impairment loss *(notes 7 and 8)*	**10,293**	-
Other (income) expense *(note 18)*	**(211)**	728
Operating loss	**(17,800)**	(2,111)
Finance costs	**1,604**	1,761
Loss before taxes	**(19,404)**	(3,872)
Current income tax expense	**30**	65
Deferred income tax recovery	**(2,624)**	(2,381)
Income tax recovery *(note 11)*	**(2,594)**	(2,316)
Net loss	**(16,810)**	(1,556)
Unrealized foreign exchange gain *(note 14)*	**295**	72
Comprehensive loss	**$ (16,515)**	$ (1,484)
Net loss per share *(note 20)*		
Basic and diluted	**$ (0.12)**	$ (0.01)
Comprehensive loss per share *(note 20)*		
Basic and diluted	**$ (0.12)**	$ (0.01)

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, **2020**	2019
Equity:		
Share Capital		
Balance, January 1 and December 31 *(note 13)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (128,400)**	$ (126,734)
Adjustment on adoption of IFRS 16 *(net of tax)*	**-**	(110)
Net loss	**(16,810)**	(1,556)
Balance, December 31	**$ (145,210)**	$ (128,400)
Other reserves		
Balance, January 1	**$ 6,339**	$ 6,184
Other comprehensive income	**295**	72
Share-based compensation *(note 19)*	**22**	83
Balance, December 31	**$ 6,656**	$ 6,339
Total equity	**$ 134,178**	$ 150,671

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, **2020**	2019
Operating Activities:		
Net loss	**$ (16,810)**	$ (1,556)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization *(notes 7 and 12)*	**19,141**	15,996
Deferred income tax recovery	**(2,624)**	(2,381)
Share-based compensation *(note 19)*	**22**	83
Provision for impairment of trade receivable *(note 5)*	**1,100**	500
Finance costs	**1,604**	1,761
Impairment loss *(notes 7 and 8)*	**10,293**	-
Gain on disposal of assets *(note 18)*	**(399)**	(210)
Funds flow	**12,327**	14,193
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**1,571**	11,025
Inventory	**4,236**	3,853
Income taxes	**(7)**	32
Prepayments and deposits	**164**	385
Trade and other accounts payable	**(2,353)**	(2,965)
Share-based compensation	**884**	1,179
Net cash provided by operating activities	**16,822**	27,702
Investing Activities:		
Purchase of property, equipment and intangible assets *(note 7)*	**(1,944)**	(7,899)
Non-cash investing working capital in trade and other accounts payable	**(257)**	(1,428)
Proceeds on disposal of equipment	**2,280**	2,710
Net cash provided by (used in) investing activities	**79**	(6,617)
Financing Activities:		
Repayment of long-term debt *(note 10)*	**(6,697)**	(14,950)
Finance costs paid	**(543)**	(595)
Payments of lease liability *(note 12)*	**(4,422)**	(5,110)
Net cash used in financing activities	**(11,662)**	(20,655)
Foreign exchange (loss) gain on cash held in a foreign currency	**(3)**	6
Net increase in cash	**5,236**	436
Cash, beginning of year	**846**	410
Cash, end of year	**$ 6,082**	$ 846

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, 2020 and 2019 were approved by the Board of Directors of Essential ("Board of Directors") on March 3, 2021.

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

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

The Financial Statements for the year ended December 31, 2020, including comparative information, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

B) BASIS OF PRESENTATION

The Financial Statements have been prepared on a historical cost basis, except as detailed in the Company's accounting policies in Note 2 and Note 3. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000's), except when otherwise indicated.

C) PRINCIPLES OF CONSOLIDATION

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

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

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

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

D) FOREIGN CURRENCY TRANSLATION

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

i. assets and liabilities are translated at the closing rate at the date of the consolidated statements of financial position;
ii. income and expenses for the consolidated statements of net loss and comprehensive loss are translated using the exchange rates on the date of transactions; and
iii. any resulting exchange differences are recognized in other comprehensive income.

E) BUSINESS COMBINATIONS

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

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

F) REVENUE RECOGNITION

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

Nature of products and services

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

i) Essential Coil Well Service ("ECWS")

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

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

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

ii) Tryton

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

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

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

G) INCOME TAXES

Current income taxes

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

Deferred income taxes

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

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

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

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

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

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

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

H) SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan

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

Restricted Share Unit Plan

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

Deferred Share Unit Plan

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

I) FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. 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:

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

Financial assets at fair value through net loss

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

Amortized cost

Trade and other accounts receivable are measured at amortized cost using the effective interest rate method.

Financial liabilities

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

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

Amortized cost

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

J) PROPERTY AND EQUIPMENT

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

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

Depreciation rates are as follows:

Category	Period	Method
Coil rigs – certifications	24,000 hours	Hours of service
Coil tubing rigs, pumpers and equipment	Up to 10 years	Straight-line
Other oilfield equipment	Up to 10 years	Straight-line
Vehicles	Up to 8 years	Straight-line
Office and computer equipment	Up to 10 years	Straight-line
Other	Up to 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.

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

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

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

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

K) LEASES

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

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

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

L) INTANGIBLE ASSETS

Intangible assets are comprised of the values attributable to 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.

Intangible assets 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 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:

Computer software	5 years

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

M) 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	specific cost basis
Supplies	first-in, first-out cost basis

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

N) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

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

O) IMPAIRMENT OF LONG-LIVED ASSETS

At each reporting date, the Company assesses whether there is an indication that a long-lived asset or group of assets may be impaired based on internal and external factors, including revenue and earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, foreign exchange gains or losses and share based compensation expense ("EBITDAS") expectations, expected industry activity levels, commodity price development and market capitalization. Long-lived assets include property and equipment, intangible assets and right-of use assets. If any such indication exists, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Essential's three CGU's are ECWS, Tryton Tools and Rentals. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, budgets and industry considerations affecting the Company and the CGU. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased based on internal and external factors, including revenue and EBITDAS expectations, expected industry activity levels, commodity price development and market capitalization. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the 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.

P) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of the 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.

Q) PROVISIONS

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

3. CHANGE IN ACCOUNTING POLICIES

NEW ACCOUNTING POLICY

For the year ended December 31, 2020, Essential adopted the following accounting policy as a result of qualifying for the Canadian Emergency Wage Subsidy ("CEWS") program, Canadian Emergency Rent Subsidy ("CERS") program, and the U.S. Paycheck Protection Program ("PPP Loans") implemented by the governments of Canada and the United States, respectively, in response to the COVID-19 pandemic.

GOVERNMENT GRANTS

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

Government grants of $6.4 million related to the CEWS programs were included in the consolidated statements of net loss and comprehensive loss for year ended December 31, 2020. For the year ended December 31, 2020, $5.3 million has been recorded as a reduction of operating expenses and $1.1 million has been recorded as a reduction of general and administrative expenses.

Government grants of $0.3 million related to the CERS program were included in the consolidated statements of net loss and comprehensive loss for year ended December 31, 2020. For the year ended December 31, 2020, $0.2 million has been recorded as a reduction of operating expenses and $0.1 million has been recorded as a reduction of general and administrative expenses.

For the year ended December 31, 2020, Essential received $0.7 million of PPP Loans. The PPP Loans were used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they were incurred. Interest on the PPP Loans accrued at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. For the year ended December 31, 2020, $0.6 million in forgivable amounts was recorded as a reduction of operating expenses in the consolidated statements of net loss and comprehensive loss.

4. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an unprecedented economic slowdown. Global equity markets have experienced significant volatility. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and total extent of the COVID-19 pandemic continues to be unknown, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company.

The COVID-19 pandemic has resulted in reduced demand for oil, disruptions to global supply chains and volatile financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which has affected commodity prices, borrowing rates and credit risk. This is having negative implications to the North American oil

industry. The duration and total extent of demand destruction from COVID-19 is unknown and, in addition to impacting the oil industry, could also have negative implications to the North American natural gas industry.

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

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

The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements involves the use of estimates and approximations based on information available as at the date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the estimates used for the impairment provisions for trade receivables, net realizable value of inventory, depreciation and amortization, impairment of long-lived assets and goodwill, share-based compensation, provisions, lease liabilities and deferred income tax assets and liabilities. The identification of indications of impairment or reversal of previously recognized impairment losses requires management to apply significant judgement. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates 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. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31,	
	2020	2019
Trade accounts receivable, net of provision	**$ 21,616**	$ 22,849
Other receivables	**410**	1,694
	$ 22,026	$ 24,543

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

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

The aging analysis of trade accounts receivable is as follows:

	As at December 31,	
	2020	2019
0-30 days	**$ 7,635**	$ 8,698
31-60 days	**7,907**	7,036
61-90 days	**4,568**	5,929
> 90 days	**1,506**	1,186
	$ 21,616	$ 22,849

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

	For the years ended December 31,	
	2020	2019
Balance, beginning of year	**$ 1,068**	$ 715
Provision for receivables impairment	**1,100**	500
Receivables written off against the provision	**(462)**	(147)
Balance, end of year	**$ 1,706**	$ 1,068

6. INVENTORY

	As at December 31,	
	2020	2019
Tryton tools	**$ 20,807**	$ 24,610
Coil tubing and supplies	**11,350**	12,006
	$ 32,157	$ 36,616

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2020 was $27.5 million (2019 – $38.0 million).

7. PROPERTY AND EQUIPMENT

	As at December 31,	
Carrying Amount	**2020**	2019
Coil tubing rigs, pumpers and equipment	**$ 57,836**	$ 68,956
Other oilfield equipment	**19,141**	25,513
Vehicles	**11,062**	15,108
Office and computer equipment	**332**	443
Other	**902**	1,121
	$ 89,273	$ 111,141

Cost 2020	**Balance, beginning of year**	**Additions**	**Transfers**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil tubing rigs, pumpers and equipment	**$ 146,665**	**$ 538**	**$ -**	**$ -**	**$ -**	**$ 147,203**
Other oilfield equipment	**59,535**	**749**	**226**	**(2,742)**	**(7)**	**57,761**
Vehicles	**34,022**	**582**	**-**	**(4,915)**	**(21)**	**29,668**
Office and computer equipment	**4,056**	**8**	**-**	**(539)**	**-**	**3,525**
Other	**4,693**	**18**	**-**	**-**	**(3)**	**4,708**
	$ 248,971	**$ 1,895**	**$ 226**	**$ (8,196)**	**$ (31)**	**$ 242,865**

Cost 2019	Balance, beginning of year	Additions	Transfers	Disposals	Effects of movements in exchange rates	Balance, end of year
Coil tubing rigs, pumpers and equipment	$ 159,462	$ 1,882	$ -	$ (14,679)	$ -	$ 146,665
Other oilfield equipment	60,033	3,201	386	(4,020)	(65)	59,535
Vehicles	34,259	2,389	-	(2,596)	(30)	34,022
Office and computer equipment	4,044	12	-	-	-	4,056
Other	4,467	338	-	(110)	(2)	4,693
	$ 262,265	$ 7,822	$ 386	$ (21,405)	$ (97)	$ 248,971

Accumulated Depreciation 2020	**Balance, beginning of year**	**Depreciation**	**Disposals**	**Impairment**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil tubing rigs, pumpers and equipment	**$ 77,709**	**$ 7,766**	**$ 33**	**$ 3,859**	**$ -**	**$ 89,367**
Other oilfield equipment	**34,022**	**4,550**	**(1,977)**	**2,030**	**(5)**	**38,620**
Vehicles	**18,914**	**2,844**	**(3,812)**	**671**	**(11)**	**18,606**
Office and computer equipment	**3,613**	**119**	**(539)**	**-**	**-**	**3,193**
Other	**3,572**	**234**	**-**	**-**	**-**	**3,806**
	$ 137,830	**$ 15,513**	**$ (6,295)**	**$ 6,560**	**$ (16)**	**$ 153,592**

Accumulated Depreciation 2019	Balance, beginning of year	Depreciation	Disposals	Effects of movements in exchange rates	Balance, end of year
Coil tubing rigs, pumpers and equipment	$ 86,839	$ 4,298	$ (13,428)	$ -	$ 77,709
Other oilfield equipment	32,267	4,498	(2,683)	(60)	34,022
Vehicles	18,031	2,956	(2,059)	(14)	18,914
Office and computer equipment	3,439	174	-	-	3,613
Other	3,440	247	(113)	(2)	3,572
	$ 144,016	$ 12,173	$ (18,283)	$ (76)	$ 137,830

During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the

COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American E&P companies' 2020 drilling and completion programs. As a result, Essential completed an impairment assessment at March 31, 2020 which determined that the recoverable amounts of the ECWS, Tryton Tools and Rentals CGU's were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on Tryton goodwill (2019 – $nil).

The recoverable amount of the ECWS cash generating unit was determined based on fair value less costs of disposal, estimated using market and cost approaches. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation techniques used by the external expert engaged by management. Key assumptions included the fair values of equipment at March 31, 2020 and cost of disposal of 10% of the fair value of the assets.

The recoverable amounts of Essential's Tryton Tools and Rentals CGU's were based on value in use, estimated by discounting the future cash flows to be generated from the continuing use of the CGU using a post-tax discount rate of 14.75% for both CGU's. Other key assumptions used in the estimation of the Tryton Tools and Rental CGU's recoverable amounts were revenues and EBITDAS, the amounts of which generally change with independent third-party commodity price forecasts, and the calculation of the terminal value after the initial 5 year forecast period using a growth rate of 2.2% per annum. The EBITDAS assumptions were based on management's updated budget for 2020, and long-term forecasts for 2021 and 2022, updated for changes in expectations after December 2019. EBITDAS assumptions for 2023, 2024 and the terminal value were based on the updated long-term forecasts. A negative change to any of these assumptions would result in further impairment of the Tryton Tools and Rentals CGU's.

8. GOODWILL

	For the years ended December 31,	
	2020	2019
Beginning of the year	**$ 3,565**	$ 3,745
Impairment *(note 7)*	**(3,733)**	-
Effect of movement in exchange rates	**168**	(180)
End of the year	**$ -**	$ 3,565

9. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31,	
	2020	2019
Trade accounts payable	**$ 5,093**	$ 5,739
Accrued payroll	**1,342**	3,360
Accrued payables	**2,341**	2,284
Other	**129**	130
	$ 8,905	$ 11,513

10. LONG-TERM DEBT

	As at December 31,	
	2020	2019
Paycheck Protection Program Loans ("PPP Loans")	**$ 53**	$ -
Term loan	**-**	6,750
Deferred financing costs	**-**	(187)
	$ 53	$ 6,563

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility is available up to the lesser of: i) $25.0 million, ii) the borrowing base (if applicable), and iii) $15.0 million during the covenant relief period ("Covenant Relief Period"). The Covenant Relief Period is available until December 31, 2021. During the Covenant Relief Period, the funded debt to capitalization ratio cannot exceed 20% and the trailing 12 month bank EBITDA cannot be lower than negative $10.0 million. The Credit Facility matures on June 30, 2022, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date.

As at December 31, 2020, $15.0 million under the Credit Facility was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

For the year ended December 31, 2020, Essential received $0.7 million under the PPP Loans. The PPP Loans were used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they were incurred. Interest on the PPP Loans accrued at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. For the year ended December 31, 2020, $0.6 million in forgivable amounts were recorded as a reduction of operating expenses in the consolidated statements of net loss and comprehensive loss, refer to note 3. The remaining balance included as at December 31, 2020 for the PPP Loans relates to the unforgiveable portion.

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

	For the years ended December 31,	
	2020	2019
Balance, beginning of year	**$ 6,563**	$ 21,388
Cash changes:		
Repayment of long-term debt	**(6,697)**	(14,950)
Non-cash changes:		
Deferred financing costs for Credit Facility renewal	**(207)**	-
Amortization of deferred financing fees	**394**	125
Balance, end of year	**$ 53**	$ 6,563

11. INCOME TAXES

	For the years ended December 31,	
	2020	2019
Current income tax expense	**$ 30**	$ 65
Deferred income tax recovery	**(2,624)**	(2,381)
Total income tax recovery	**$ (2,594)**	$ (2,316)

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

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

	For the years ended December 31,	
	2020	2019
Loss before income taxes	**$ (19,404)**	$ (3,872)
Statutory tax rate	**24.8%**	26.6%
Expected income tax recovery	**(4,812)**	(1,030)
Increase (decrease) resulting from:		
Recovery related to prior years	**-**	(770)
Changes in tax rates	**277**	(673)
Items not deductible for tax	**67**	182
Share-based compensation	**5**	22
Non-deductible goodwill impairment	**940**	-
Change in assets not recognized	**1,043**	-
Other	**(114)**	(47)
Total income tax recovery	**$ (2,594)**	$ (2,316)

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

	As at December 31,	
	2020	2019
Property and equipment	**$ (8,746)**	$ (10,267)
Net operating losses	**6,667**	5,977
Right-of-use lease asset and liability	**802**	826
Share issuance costs	**-**	42
Other	**1,277**	798
Deferred tax liabilities	**$ -**	$ (2,624)

The Company has non-capital loss carryforwards in Canada of $32.1 million (2019 - $25.0 million) which expire between 2036 and 2040 and non-capital loss carryforwards in the United States of $9.2 million (2019 - $8.7 million), which will expire between 2033 and 2040. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered. As at December 31, 2020, there were deductible temporary differences of $17.8 million (2019 - $9.7 million) that were not recognized.

12. LEASES

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

Right-of-use lease asset

(in thousands of dollars)	For the years ended December 31, **2020**	2019
Beginning of year	**$ 12,600**	$ 14,102
Leases added in year	**1,252**	1,451
Lease modification	**(1,836)**	449
Depreciation	**(3,472)**	(3,381)
Foreign exchange loss	**(31)**	(21)
End of year	**$ 8,513**	$ 12,600

Lease liability

	As at December 31, 2020	As at December 31, 2019
Maturity analysis - contractual undiscounted cash flow		
Less than one year	**$ 4,678**	$ 4,754
One to five years	**8,305**	11,475
More than five years	**-**	2,409
Total undiscounted lease liability, end of year	**$ 12,983**	$ 18,638
Discounted value of future lease payments		
Current portion of lease liability	**$ 4,089**	$ 3,909
Long-term portion of lease liability	**7,801**	12,154
Lease liability included in the statements of financial position	**$ 11,890**	$ 16,063

For the year ended December 31, 2020, Essential recognized $0.9 million (2019 - $1.0 million) of finance costs related to the lease liabilities in its consolidated statements of net loss and comprehensive loss. For the year ended December 31, 2020, Essential recognized $4.4 million (2019 - $5.1 million) of total cash outflow for leases in the consolidated statement of cash flows.

13. SHARE CAPITAL

Authorized

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

	Number of Common shares (000's)	Amount
As at December 31, 2020, December 31, 2019 and January 1, 2019	**141,857**	$ **272,732**

14. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income	Total
As at January 1, 2019	$ 5,787	$ 397	$ 6,184
Share-based compensation	83	-	83
Unrealized foreign exchange gain	-	72	72
As at December 31, 2019	$ 5,870	$ 469	$ 6,339
Share-based compensation	**22**	**-**	**22**
Unrealized foreign exchange gain	**-**	**295**	**295**
As at December 31, 2020	**$ 5,892**	**$ 764**	**$ 6,656**

15. OPERATING EXPENSES

	For the years ended December 31, **2020**	2019
Materials and related costs	**$ 30,507**	$ 41,823
Employee costs *(notes 3 and 17)*	**25,280**	43,393
Repairs and maintenance	**6,166**	8,407
Fuel	**3,480**	6,243
Subcontracting	**3,099**	4,716
Travel	**2,985**	5,234
Occupancy costs *(note 3)*	**1,533**	2,035
Other	**2,705**	3,227
Operating expenses	**$ 75,755**	$ 115,078

16. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31,	
	2020	2019
Employee costs *(notes 3 and 17)*	**$ 3,499**	$ 6,312
Professional fees	**1,384**	1,610
Patent litigation - cost recovery	**-**	(1,600)
Occupancy costs *(note 3)*	**119**	468
Other	**1,886**	2,290
General and administrative expenses	**$ 6,888**	$ 9,080

17. EMPLOYEE COSTS

	For the years ended December 31,	
	2020	2019
Wages and salaries *(note 3)*	**$ 26,477**	$ 45,827
Share-based compensation *(note 19)*	**2,107**	2,362
Other benefits	**2,302**	3,878
	$ 30,886	$ 52,067
Employee costs are included in:		
Operating expenses *(note 15)*	**$ 25,280**	$ 43,393
General and administrative expenses *(note 16)*	**3,499**	6,312
Share-based compensation *(note 19)*	**2,107**	2,362
	$ 30,886	$ 52,067

18. OTHER (INCOME) EXPENSE

	For the years ended December 31,	
	2020	2019
Gain on disposal of assets	**$ (399)**	$ (135)
Realized foreign exchange loss	**17**	15
Unrealized foreign exchange loss	**212**	745
Other (gain) loss	**(41)**	103
Other (income) expense	**$ (211)**	$ 728

19. SHARE-BASED COMPENSATION

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

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

	For the years ended December 31,	
	2020	2019
Share options	**$ 22**	$ 83
Restricted share units	**1,210**	1,615
Deferred share units	**875**	664
Share-based compensation expense	**$ 2,107**	$ 2,362

a) Share Option Plan

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

At December 31, 2020, the maximum number of share options issuable under the Share Option Plan may not exceed 6% (2019 – 6%) of the Company's outstanding Common Shares. As at December 31, 2020, the maximum number of share options allowed for issuance was 8,511,409 (2019 – 8,511,409).

	For the year ended December 31, 2020		For the year ended December 31, 2019	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of year	**4,428**	**$ 0.77**	5,821	$ 0.99
Issued	**-**	**-**	532	0.32
Expired	**(1,165)**	**1.19**	(465)	2.90
Forfeited	**-**	**-**	(1,460)	0.81
Outstanding, end of year	**3,263**	**$ 0.62**	4,428	$ 0.77
Exercisable, end of year	**2,965**	**$ 0.65**	3,636	$ 0.82

The fair value of the share options issued during the year was $nil as no options were issued in 2020 (2019 – $0.15).

The following table summarizes information with respect to the share options outstanding:

Exercise Prices	Options Outstanding (000's)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (per option)	Number of Options Exercisable (000's)
As at December 31, 2020				
$0.32 - $0.50	**448**	**3.02**	**$ 0.32**	**150**
$0.51 - $0.83	**2,815**	**0.51**	**$ 0.67**	**2,815**
	3,263	**0.86**	**$ 0.62**	**2,965**
As at December 31, 2019				
$0.32 - $1.00	3,263	1.86	$ 0.62	2,471
$1.01 - $1.46	1,165	0.36	$ 1.19	1,165
	4,428	1.47	$ 0.77	3,636

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. Grants generally vest in three equal instalments, but can be issued with time vesting and/or performance vesting feature(s). The performance-based units vest when certain conditions are met. Essential's liability as at December 31, 2020 was $1.9 million (December 31, 2019 – $1.8 million) of which $1.4 million is due within one year (December 31, 2019 – $1.2 million).

The following table summarizes information with respect to RSUs outstanding:

	For the years ended December 31,	
Number of RSUs (000's)	**2020**	2019
Outstanding, beginning of year	**8,077**	4,930
Issued	**10,720**	6,827
Vested	**(3,372)**	(2,342)
Forfeited	**(942)**	(1,338)
Outstanding, end of year	**14,483**	8,077

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Essential's liability at December 31, 2020 was $2.9 million (December 31, 2019 – $2.1 million) of which $nil is due within one year (December 31, 2019 – $nil).

The following table summarizes information with respect to DSUs outstanding:

	For the years ended December 31,	
Number of DSUs (000's)	**2020**	2019
Outstanding, beginning of year	**5,551**	6,231
Issued	**6,241**	601
Redeemed	**(328)**	(1,187)
Forfeited	**-**	(94)
Outstanding, end of year	**11,464**	5,551

20. EARNINGS PER SHARE

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

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

	For the years ended December 31,	
(000'S)	**2020**	2019
Basic and diluted	**141,857**	141,857

21. 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.

22. RELATED PARTY TRANSACTIONS

a) Transactions with key management personnel

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

Key management personnel compensation is comprised of the following:

	For the years ended December 31,	
	2020	2019
Salaries and other benefits	**$ 1,630**	$ 2,915
Share-based compensation (equity and cash settled)	**1,961**	960
	$ 3,591	$ 3,875

b) Related party transactions

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

For the year ended December 31, 2020, Essential incurred lease and leasehold improvement payments related to these shop premises of $0.8 million (2019 - $1.5 million). Future annual lease payments related to these shop premises are as follows:

		Amount
2021	$	808
2022		850
2023		327
2024		160
2025		160
Thereafter		53
As at December 31, 2020	$	2,358

23. CAPITAL DISCLOSURE

		As at December 31,		
		2020		2019
Long-term debt	**$**	**53**	$	6,563
Equity		**134,178**		150,671
Total capitalization	**$**	**134,231**	$	157,234

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

24. FINANCIAL INSTRUMENTS

Designation and valuation of financial instruments

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

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

Cash	Fair value through net loss
Trade and other accounts receivable	Amortized cost
Trade and other accounts payable	Amortized cost
Long-term debt	Amortized cost

Fair values

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

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, 2020, the Company earned revenue from 409 customers (2019 – 483 customers) with five of these customers representing 41% of revenue (2019 – 35% of revenue), with one customer representing more than 20% of revenue (2019 – nil). As at December 31, 2020, approximately 53% of the trade accounts receivable balance was due from five companies (2019 – 30%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in less than a $0.1 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2019 – $0.1 million).

Liquidity risk

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

25. SEGMENTED INFORMATION

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

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

a) ECWS

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

b) Tryton

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

c) Corporate

The Corporate segment is comprised of corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. Loss before income taxes for the year ended December 31, 2020 for the Corporate segment includes corporate office and certain operational costs of $7.7 million (2019 - $9.4 million),

and $4.3 million related to share-based compensation expense, depreciation and amortization, finance costs and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar (2019 - $5.5 million).

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

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

As at and for the year ended December 31, 2019	ECWS	Tryton	Corporate	Consolidated
Revenue	$ 78,962	$ 62,171	$ -	$ 141,133
(Loss) income before taxes	$ 5,674	$ 5,331	$ (14,877)	$ (3,872)
Depreciation and amortization	$ 9,674	$ 5,079	$ 1,243	$ 15,996
Total assets	$ 118,261	$ 68,642	$ 4,492	$ 191,395
Total liabilities	$ 17,948	$ 11,980	$ 10,796	$ 40,724
Property, equipment and intangible asset expenditures	$ 4,587	$ 3,160	$ 152	$ 7,899

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Robert T. German[1, 3]

Nicholas G. Kirton[1, 2]

Robert B. Michaleski[1, 2, 3]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

ATB Financial

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Jeff B. Newman
Chief Financial Officer

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Finance and Corporate Secretary

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