ESSENTIAL ENERGY SERVICES

Q1 Report ● Three Months Ended March 31, 2018

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 three months ended March 31, 2018.

This MD&A should be read in conjunction with Essential's March 31, 2018 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2017 Financial Report for the financial year ended December 31, 2017. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned annual MD&A. Readers should carefully read the sections 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 May 8, 2018 and was approved and authorized for issuance by the Board of Directors of the Company on May 8, 2018.

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares trade on the Toronto Stock Exchange ("TSX") under the symbol ESN. Additional information regarding Essential 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, percentages, hours and fleet data)	Three months ended March 31, 2018	2017
Revenue	**$ 60,134**	$ 56,250
Gross margin	**12,470**	14,394
Gross margin %	**21%**	26%
EBITDAS[1] from continuing operations	**9,145**	10,206
Net income from continuing operations	**5,053**	3,480
Per share – basic and diluted	**0.04**	0.02
Net income	**5,053**	3,150
Per share – basic and diluted	**0.04**	0.02
Operating hours		
Coil tubing rigs	**16,170**	16,420
Pumpers	**20,439**	18,653
	As at March 31, 2018	2017
Total assets	**$ 241,472**	$ 227,646
Long-term debt	**31,943**	18,169
Equipment fleet[(i)]		
Coil tubing rigs	**30**	31
Pumpers	**26**	32

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

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

HIGHLIGHTS

Management is pleased with first quarter 2018 revenue and EBITDAS[1]. Revenue was $60.1 million, a 7% increase compared to the first quarter 2017, with strong activity experienced by Essential Coil Well Service ("ECWS") and Tryton. EBITDAS[1] was $9.1 million, $1.1 million lower than the first quarter 2017 due primarily to margin compression in ECWS.

Key operating highlights include:

- ECWS revenue increased $3.9 million compared to the first quarter 2017. The revenue gains were offset by increased operating costs, specifically labour, fuel and repairs and maintenance costs, which could not be recovered through customer prices resulting in margin compression. Operating hours from the Generation III coil tubing rigs, quintuplex fluid pumpers and nitrogen pumpers increased compared to the first quarter 2017.
- ECWS gross margin as a percentage of revenue was 19%, a significant improvement compared to the sequential fourth quarter 2017.
- Tryton continued to experience strong demand for its conventional tools and Multi-Stage Fracturing System® ("MSFS®"). Conventional tools revenue for the three months ended March 31, 2018 exceeded the same prior year period due to maintenance work on existing producing wells and well abandonments as customers look for ways to reduce costs and improve cash flow.
- Tryton's Hybrid MSFS® was used to complete the deepest well drilled to-date in western Canada. The well, located in the Montney region of Alberta, had a measured depth of 7,848 metres including a 5,000 metre horizontal section.

At March 31, 2018, Essential's debt outstanding was $31.9 million and funded debt[1] to bank EBITDA[1] was 1.8x. Debt increased $14.0 million from December 31, 2017 to fund working capital[1], primarily an increase in accounts receivable due to higher first quarter activity. Debt is expected to decline through the second quarter as customers pay their accounts. Working capital[1] was $70.0 million on March 31, 2018, exceeding debt by $38.1 million. On May 8, 2018, there was $28.9 million of debt outstanding.

INDUSTRY OVERVIEW

First quarter 2018 activity in the Canadian oil and natural gas industry was similar to the first quarter 2017 even though the price of oil averaged approximately U.S. $63 per barrel (West Texas Intermediate ("WTI")) for the first quarter 2018, an increase from U.S. $52 per barrel WTI for the first quarter 2017. Many Canadian exploration and production ("E&P") companies did not fully realize this increase due to transportation constraints to move heavy oil to market. Canadian natural gas prices were also lower than the first quarter 2017 due to market access constraints. Well completions and wells drilled, key indicators of industry activity in the Western Canadian Sedimentary Basin ("WCSB") increased 9%[a] and declined 2%[a], respectively, compared to the first quarter 2017.

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

OVERVIEW OF ESSENTIAL

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

Essential Coil Well Service

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

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

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

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

Tryton

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

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

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously. 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.
  - V-Sleeve – The Tryton V-Sleeve is a cemented-in-liner system that involves cementing a tool string into the wellbore with sliding sleeves set at specified intervals and using a coil-actuated sleeve shifting tool

to sequentially open each sliding sleeve. The Tryton V-Sleeve system enables customers to fracture an unlimited number of stages in the horizontal leg.

- Composite Bridge Plug – Tryton's Composite Bridge Plug provides customers the ability to fracture an unlimited number of stages in the horizontal leg. These plugs are quicker 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 – Includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and abandonment operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers, specialty equipment for steam-assisted gravity drainage wells, and various other tools and handling equipment.

Patent Litigation

On October 23, 2013, Packers Plus Energy Services Inc. ("Packers Plus" or "Packers") filed a Statement of Claim in the Federal Court of Canada (the "Court") against Essential alleging that certain products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus.

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

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

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

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

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

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

Based on the findings made by the trial judge and the strength of the written judgment in support of the Decision, Essential believes the Appeal is without merit. Subject to timing set by the Court to hear the Appeal and the release of its decision, the Appeal process could take until mid to late 2019.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	Three months ended March 31, 2018	2017
Revenue	**$ 60,134**	$ 56,250
Operating expenses	**47,664**	41,856
Gross margin	**12,470**	14,394
General and administrative expenses	**3,325**	4,188
EBITDAS[(1)] from continuing operations	**9,145**	10,206
Depreciation and amortization	**3,852**	4,001
Share-based compensation (recovery) expense	**(848)**	1,544
Other income	**(938)**	(25)
Finance costs	**281**	347
Income before income tax from continuing operations	**6,798**	4,339
Current income tax expense	**8**	512
Deferred income tax expense	**1,737**	347
Income tax expense	**1,745**	859
Net income from continuing operations	**$ 5,053**	$ 3,480
Net loss from discontinued operations	**-**	(330)
Net income	**$ 5,053**	$ 3,150
Net income from continuing operations per share		
Basic and diluted	**$ 0.04**	$ 0.02
Net income per share		
Basic and diluted	**$ 0.04**	$ 0.02

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended March 31, 2018	2017
Revenue	**$ 32,574**	$ 28,719
Operating expenses	**26,351**	21,354
Gross margin	**$ 6,223**	$ 7,365
Gross margin %	**19%**	26%
Operating hours		
Coil tubing rigs	**16,170**	16,420
Pumpers	**20,439**	18,653
Equipment fleet [(i)]		
Coil tubing rigs	**30**	31
Fluid pumpers	**19**	21
Nitrogen pumpers	**7**	11

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

ECWS revenue was $32.6 million, a 13% increase compared to the three months ended March 31, 2017. Increased revenue was due to higher revenue per hour and increased fluid pumping and nitrogen activity. Revenue per hour varies from period to period based on the type of equipment used and work being performed. Pricing for coil tubing rigs and pumpers has remained stable following price increases implemented during the first quarter 2017.

Coil tubing rig operating hours were strong and consistent with the prior year period as Generation III coil tubing rigs continued to experience high demand, with activity weighted towards long-reach horizontal well completions in the Duvernay and Montney regions. Pumper activity increased due to demand for quintuplex fluid pumpers, which were often paired with the Generation III coil tubing rigs. Increased nitrogen pumper activity was due to supporting coil tubing rigs on customer completions where well conditions required more nitrogen to enhance well performance.

Gross margin was 19% for the first quarter 2018 compared to 26% for the first quarter 2017. Gross margin compression was due to the inability to increase customer pricing to offset higher labour, fuel and repairs and maintenance costs. Higher labour costs were due to wage increases implemented during 2017 to retain employees and an increase in the number of employees to meet customer demand. Increased fuel prices and consumption resulted in higher fuel costs. Prior year gross margin was higher due to lower operating costs at a time when industry activity began to improve from the lows reached in 2016.

First quarter 2018 gross margin showed significant improvement from the sequential fourth quarter 2017 as ECWS was well prepared for first quarter activity following the investment made during the fourth quarter 2017 to re-activate equipment and recruit and train a larger workforce.

SEGMENT RESULTS - *TRYTON*

(in thousands of dollars, except percentages)		Three months ended March 31, 2018		2017
Revenue	**$**	**27,560**	$	27,531
Operating expenses		**20,713**		20,055
Gross margin	**$**	**6,847**	$	7,476
Gross margin %		**25%**		27%
Tryton revenue – % of revenue				
Tryton MSFS®		**47%**		59%
Conventional Tools & Rentals		**53%**		41%

Tryton experienced strong demand in its Canadian and U.S. operations in the first quarter 2018. Revenue was $27.6 million, consistent with the same period in 2017. In Canada, conventional tools revenue increased compared to the first quarter 2017 as Tryton's customers increased spending on producing wells and well abandonment activities. MSFS® activity continued to be strong during the first quarter 2018; however, MSFS® revenue was lower compared to 2017 due to the nature of the MSFS® work completed during the quarter. During the first quarter 2018, Tryton successfully used its Hybrid MSFS® (Ball & Seat at the toe of the wellbore and composite bridge plugs closer to the heel of the horizontal well) to complete two 90-stage MSFS® jobs in the Montney region including completing the deepest well ever drilled in western Canada, with a measured depth of 7,848 metres and a 5,000 metre horizontal section. In addition, Tryton used its V-Sleeve system to complete a 53-stage job in a single tool run in the Cardium region. Tryton U.S. revenue doubled compared to the first quarter 2017 and continued to show higher quarter-over-quarter activity, particularly in Texas, with a broader customer base. Tryton Rentals revenue was lower than the first quarter 2017 primarily due to lower activity from a key customer.

Tryton continued to generate strong margins with gross margin of 25% for the three months ended March 31, 2018. The decline in gross margin percentage from the first quarter 2017 was due to lower activity for the higher margin rentals business in the first quarter 2018 compared to the same period in 2017.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)		Three months ended March 31, 2018		2017
General and administrative expenses	**$**	**3,325**	$	4,188

General and administrative expenses ("G&A") are comprised of wages, professional fees, office rent and other corporate and operational administrative costs. G&A for the first quarter 2018 decreased compared to the same period in 2017 due to significant legal fees incurred in the first quarter 2017 related to the Packers Plus trial.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)		Three months ended March 31, 2018		2017
Depreciation and amortization expense	**$**	**3,852**	$	4,001

Depreciation and amortization for the first quarter 2018 was consistent with the same period in 2017.

SHARE-BASED COMPENSATION

(in thousands of dollars)	Three months ended March 31, **2018**	2017
Share-based compensation (recovery) expense	**$ (848)**	$ 1,544

Essential's liability for long term share-based compensation granted to participants fluctuates based on Essential's share price. For the first quarter 2018, share-based compensation recovery is related to the decrease of Essential's share price during the quarter. As the share price decreased, the estimated amount of future payments to participants decreased and resulted in a share-based compensation recovery for Essential during the quarter.

OTHER INCOME

(in thousands of dollars)	Three months ended March 31, **2018**	2017
Gain on disposal of assets	**$ (565)**	$ (155)
Foreign exchange (gain) loss	**(345)**	122
Other (gain) loss	**(28)**	8
Other income	**$ (938)**	$ (25)

The gain on disposal of assets related primarily to the disposal of a nitrogen pumper during the first quarter 2018. The weakening of the Canadian dollar in relation to the U.S. dollar during the three months ended March 31, 2018 resulted in a foreign exchange gain.

FINANCE COSTS

(in thousands of dollars)	Three months ended March 31, **2018**	2017
Finance costs	**$ 281**	$ 347

For the three months ended March 31, 2018, finance costs were lower than the same period in 2017. The higher average long-term debt outstanding in the first quarter 2018 was offset by a lower interest rate on the Company's revolving credit facility (the "Credit Facility") compared to the same prior year period.

INCOME TAXES

(in thousands of dollars)	Three months ended March 31, **2018**	2017
Current income tax expense	**$ 8**	$ 512
Deferred income tax expense	**1,737**	347
Income tax expense	**$ 1,745**	$ 859

Essential's statutory income tax rate was 27% for the first quarter 2018, consistent with the first quarter 2017. For the three months ended March 31, 2018, the Company's effective income tax rate was 26% compared to 20% for the first quarter 2017 as income before income tax was higher in the first quarter 2018 and permanent differences had a less significant impact on the Company's effective income tax rate.

FINANCIAL RESOURCES AND LIQUIDITY

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

(in thousands of dollars, except per share amounts)	Three months ended March 31, **2018**	2017
Net cash used in operating activities	**$ (11,234)**	$ (2,235)
Less changes in non-cash working capital[1]	**(21,770)**	(10,521)
Operating cash flow before changes in non-cash operating working capital[1]	**$ 10,536**	$ 8,286
Per share – basic and diluted	**$ 0.07**	$ 0.06

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at March 31, 2018**	As at December 31, 2017
Current assets	**$ 97,430**	$ 74,883
Current liabilities	**(27,471)**	(24,712)
Working capital[1]	**$ 69,959**	$ 50,171
Working capital ratio	**3.5:1**	3.0:1

Working capital[1] is comprised primarily of accounts receivable and inventory. Working capital[1] typically grows through the first, third and fourth quarters of the year when industry activity is stronger. Essential uses its Credit Facility to meet the variable nature of its working capital[1] needs 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. In periods of higher activity, debt tends to increase and in periods of lower activity, debt tends to decline.

CREDIT FACILITY

Essential's Credit Facility is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent. The Credit Facility was renewed on June 15, 2016 and matures on May 31, 2019. It is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At March 31, 2018, the maximum of $40 million under the Credit Facility was available to Essential.

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

- financial covenants:

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

(i) Calculated on a trailing 12 month basis.

- an equity cure provision where proceeds from equity offerings may be applied to the calculation of Bank EBITDA[1] in the funded debt[1] to Bank EBITDA[1] covenant and the fixed charge coverage[1] covenant;

- a monthly borrowing base when funded debt[1] to Bank EBITDA[1] (excluding the equity cure) is greater than 2.00x; and
- restrictions on dividends and acquisitions when funded debt[1] to Bank EBITDA[1] (excluding the equity cure) is greater than 3.00x.

As at March 31, 2018 all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	**As at March 31, 2018**
Funded debt[1] to capitalization	≤ 50%	**16%**
Funded debt[1] to Bank EBITDA[1]	≤ 3.50x	**1.8x**
Fixed charge coverage ratio[1]	≥ 1.25x	**16.4x**

As at March 31, 2018, Essential had a consolidated funded debt[1] balance of $31.9 million, consisting of long-term debt plus deferred financing fees. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On May 8, 2018, Essential had $28.9 million of debt outstanding.

EQUIPMENT EXPENDITURES

(in thousands of dollars)	Three months ended March 31, **2018**	2017
Essential Coil Well Service	**$ 3,624**	$ 4,288
Tryton	**657**	1,514
Corporate	**181**	35
Total equipment expenditures	**4,462**	5,837
Less proceeds on disposal of property and equipment	**(1,816)**	(306)
Net equipment expenditures[1]	**$ 2,646**	$ 5,531

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

(in thousands of dollars)	Three months ended March 31, **2018**	2017
Growth capital[1]	**$ 1,929**	$ 3,854
Maintenance capital[1]	**2,533**	1,983
Total equipment expenditures	**$ 4,462**	$ 5,837

Essential's 2018 capital forecast is $15 million, comprised of $5 million of growth capital and $10 million of maintenance capital. Growth capital consists of costs to retrofit one Generation IV coil tubing rig, the addition of one nitrogen pumper, coil support equipment and costs to complete the two quintuplex fluid pumpers started in 2017.

SHARE CAPITAL

As at May 8, 2018, there were 141,856,813 common shares and 6,021,249 share options outstanding. Of the 6,021,249 share options, 3,766,799 were exercisable of which 1,458,469 were "in-the-money".

COMMITMENTS

Operating leases

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

(in thousands of dollars)		Amount
2018 (for the nine months ending December 31)	$	4,470
2019		5,968
2020		5,362
2021		4,530
2020		4,439
Thereafter		3,177
As at March 31, 2018	$	27,946

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, 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.

Essential reported on disclosure controls and procedures as part of its 2017 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2017, which is available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to the Company's disclosure controls and procedures in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Essential reported on ICFR as part of its 2017 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2017, which is available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to ICFR in the current period that have materially affected, or are reasonably likely to affect, the Company's ICFR.

OUTLOOK

The price of oil continued to improve averaging approximately U.S. $63 per barrel (WTI) for the first quarter and has remained above this level to date in the second quarter 2018. Activity in the second half of 2018 will depend on E&P spending and activity is generally expected to be similar to 2017. Above average moisture in the WCSB during the winter may extend spring breakup conditions.

The Canadian oil and natural gas industry is challenged by political and regulatory uncertainty. The inability to build pipelines and liquefied natural gas facilities to access markets is impacting industry cash flow and investor confidence. As a result, heavy oil and natural gas prices are heavily discounted compared to U.S. prices, limiting improvement in E&P cash flows and increased oilfield service activity.

ECWS expects activity to remain strong in the second half of 2018 for its Generation III coil tubing rigs and quintuplex fluid pumpers used for long-reach horizontal well completions in the Montney and Duvernay regions. Limited improvement in industry activity and excess equipment is expected to continue to restrict the ability to increase prices and cover higher operating costs.

Tryton activity is also expected to be strong for the second half of 2018 as customer spending on well completion, maintenance and abandonment work is expected to continue. Through its expanded MSFS® service offering, Tryton remains well positioned to meet customer demand for cost effective solutions for increased stage counts when completing longer reach horizontal wells.

Essential's 2018 capital forecast is $15 million, comprised of $5 million of growth capital and $10 million of maintenance capital. One quintuplex fluid pumper was delivered in the first quarter, and a second quintuplex fluid pumper and the retrofitted Generation IV coil tubing rig will be delivered in the second and third quarters 2018, respectively.

With long-term debt at May 8, 2018 of $28.9 million, Essential believes it is financially well-positioned to meet its working capital[(1)] and capital spending requirements. Essential expects its debt to decline through to the end of the second quarter 2018 as customer payments are received for work completed in the first quarter.

SUMMARY OF QUARTERLY DATA

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

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

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Mar 31, 2018**	Dec 31, 2017	Sept 30, 2017	June 30, 2017	**Mar 31, 2017**	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016
Essential Coil Well Service	**32,574**	22,002	28,606	14,569	**28,719**	17,564	13,896	6,422
Tryton	**27,560**	21,260	20,145	13,076	**27,531**	15,655	12,256	5,583
Inter-segment eliminations	**-**	-	-	-	**-**	(176)	(139)	(90)
Total revenue	**60,134**	43,262	48,751	27,645	**56,250**	33,043	26,013	11,915
Gross margin	**12,470**	4,522	11,524	1,484	**14,394**	4,148	3,899	(1,578)
Gross margin %	**21%**	10%	24%	5%	**26%**	13%	15%	(13)%
EBITDAS[(1)] from continuing operations	**9,145**	1,153	8,541	(1,291)	**10,206**	(4,161)	1,418	(4,224)
Bank EBITDA[(1)]	**9,150**	1,220	8,624	(1,272)	**10,224**	11,541	1,418	(4,208)
Continuing operations								
Net income (loss)	**5,053**	(3,843)	2,344	(5,005)	**3,480**	(9,832)	(3,253)	(7,159)
Per share – basic and diluted	**0.04**	(0.03)	0.02	(0.04)	**0.02**	(0.07)	(0.03)	(0.06)
Net income (loss)	**5,053**	(3,843)	2,344	(5,005)	**3,150**	(25,411)	(3,814)	(7,486)
Per share – basic and diluted	**0.04**	(0.03)	0.02	(0.04)	**0.02**	(0.18)	(0.03)	(0.06)
Total assets	**241,472**	219,448	223,695	208,337	**227,646**	209,270	242,781	238,450
Long-term debt	**31,943**	17,975	20,606	13,337	**18,169**	11,250	31,781	26,894
Operating hours								
Coil tubing rigs	**16,170**	11,215	13,751	7,039	**16,420**	11,119	7,662	3,848
Pumpers	**20,439**	14,581	18,094	9,529	**18,653**	12,341	10,127	4,336
Total equipment fleet[(i)]								
Coil tubing rigs	**30**	30	31	31	**31**	31	26	26
Fluid pumpers	**19**	18	18	20	**21**	21	18	18
Nitrogen pumpers[(ii)]	**7**	8	11	11	**11**	11	10	12
Tryton - % of revenue								
Tryton MSFS®	**47%**	44%	48%	42%	**59%**	53%	45%	15%
Conventional Tools & Rentals	**53%**	56%	52%	58%	**41%**	47%	55%	85%

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

(ii) During the first quarter 2018, one quintuplex fluid pumper was added to Essential's fleet and one nitrogen pumper was removed.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "projects", "forecasts", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the grounds upon which Packers Plus could have a successful claim for damages or other relief against Essential, Essential's belief that the Appeal is without merit and the timing of the Appeal process; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities and financial condition; the Company's ability to generate cash from operations; Essential's capital forecast and in-service timing for equipment; oil and natural gas industry activity; political and regulatory uncertainty; Essential's activity levels; pricing of oilfield services and Essential's services; Essential's competitive position and outlook and the demand for Essential's services; the amount expected to be paid for Essential's "other commitments"; Essential's financial position and ability to meet its working capital and capital spending requirements; and the expectation that debt will decline through to the end of the second quarter 2018.

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

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

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

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

[1]Non-IFRS Measures

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

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

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

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

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

	Three months ended March 31,	
(in thousands of dollars)	**2018**	2017
Bank EBITDA	**$ 9,150**	$ 10,224
Permitted Adjustments	**5**	18
EBITDAS from continuing operations	**$ 9,145**	$ 10,206
Share-based compensation	**(848)**	1,544
Other income	**(938)**	(25)
EBITDA from continuing operations	**$ 10,931**	$ 8,687
Depreciation and amortization	**3,852**	4,001
Finance costs	**281**	347
Income before income tax from continuing operations	**$ 6,798**	$ 4,339
Total income tax expense	**1,745**	859
Net income from continuing operations	**$ 5,053**	$ 3,480

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

(in thousands of dollars, except ratios)	Trailing 12 months ended March 31, 2018
Bank EBITDA	**$ 17,722**
Less current income tax recovery	**(1,464)**
	$ 19,186
Finance costs	**$ 1,167**
Fixed charge coverage ratio	**16.4x**

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

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

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

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

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

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

Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

March 31, 2018

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(in thousands of dollars)		**As at March 31, 2018**		As at December 31, 2017
Assets				
Current				
Cash	**$**	**-**	$	46
Trade and other accounts receivable *(note 5)*		**54,923**		35,919
Inventories *(note 6)*		**39,561**		35,683
Income taxes receivable		**1,119**		1,129
Prepayments and deposits		**1,827**		2,106
		97,430		74,883
Non-current				
Property and equipment *(note 7)*		**139,322**		139,734
Intangible assets *(note 8)*		**1,181**		1,387
Goodwill		**3,539**		3,444
		144,042		144,565
Total assets	**$**	**241,472**	$	219,448
Liabilities				
Current				
Trade and other accounts payable *(note 9)*	**$**	**25,737**	$	22,504
Share-based compensation *(note 14)*		**1,046**		1,498
Current portion of onerous lease contract *(note 10)*		**688**		710
		27,471		24,712
Non-current				
Long-term onerous lease contract *(note 10)*		**3,203**		3,432
Share-based compensation *(note 14)*		**3,095**		4,397
Long-term debt *(note 11)*		**31,943**		17,975
Deferred tax liabilities		**9,867**		8,129
		48,108		33,933
Total liabilities		**75,579**		58,645
Commitments and contingencies *(note 16)*				
Equity				
Share capital *(note 12)*		**272,732**		272,732
Deficit		**(112,903)**		(117,956)
Other reserves *(note 13)*		**6,064**		6,027
Total equity		**165,893**		160,803
Total liabilities and equity	**$**	**241,472**	$	219,448

See accompanying notes to the unaudited condensed consolidated interim financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	For the three months ended March 31,	
(in thousands of dollars, except per share amounts)	**2018**	2017
Revenue	**$ 60,134**	$ 56,250
Operating expenses	**47,664**	41,856
Gross margin	**12,470**	14,394
General and administrative expenses	**3,325**	4,188
Depreciation and amortization *(notes 7 and 8)*	**3,852**	4,001
Share-based compensation (recovery) expense *(note 14)*	**(848)**	1,544
Other income	**(938)**	(25)
Operating income from continuing operations	**7,079**	4,686
Finance costs	**281**	347
Income before income taxes from continuing operations	**6,798**	4,339
Current income tax expense	**8**	512
Deferred income tax expense	**1,737**	347
Income tax expense	**1,745**	859
Net income from continuing operations	**5,053**	3,480
Loss from discontinued operations, net of tax	**-**	(330)
Net income	**5,053**	3,150
Unrealized foreign exchange (loss) gain from continuing operations *(note 13)*	**(41)**	10
Other comprehensive (loss) gain	**(41)**	10
Comprehensive income	**$ 5,012**	$ 3,160
Net income per share from continuing operations *(note 15)*		
Basic and diluted	**$ 0.04**	$ 0.02
Net income per share *(note 15)*		
Basic and diluted	**$ 0.04**	$ 0.02
Comprehensive income per share *(note 15)*		
Basic and diluted	**$ 0.04**	$ 0.02

See accompanying notes to the unaudited condensed consolidated interim financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

(in thousands of dollars)	For the three months ended March 31, **2018**	2017
Equity:		
Share capital		
Balance, January 1 and March 31 *(note 12)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (117,956)**	$ (114,602)
Net income	**5,053**	3,150
Balance, March 31	**$ (112,903)**	$ (111,452)
Other reserves		
Balance, January 1	**$ 6,027**	$ 5,437
Other comprehensive (loss) income *(note 13)*	**(41)**	10
Equity-settled share-based compensation *(note 14)*	**78**	116
Balance, March 31	**$ 6,064**	$ 5,563
Total equity	**$ 165,893**	$ 166,843

See accompanying notes to the unaudited condensed consolidated interim financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	For the three months ended March 31,	
(in thousands of dollars)	**2018**	2017
Operating activities:		
Net income from continuing operations	**$ 5,053**	$ 3,480
Non-cash adjustments to reconcile net income for the period to operating cash flow:		
Depreciation and amortization	**3,852**	4,001
Deferred income tax expense	**1,737**	347
Share-based compensation *(note 14)*	**78**	116
Provision for impairment of trade accounts receivable *(note 5)*	**100**	150
Finance costs	**281**	347
Gain on disposal of assets	**(565)**	(155)
Operating cash flow before changes in non-cash operating working capital	**10,536**	8,286
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(19,279)**	(18,552)
Inventories	**(3,878)**	(1,376)
Income taxes receivable	**9**	502
Prepayments and deposits	**280**	66
Trade and other accounts payable	**3,117**	7,988
Onerous lease contract	**(264)**	(125)
Share-based compensation	**(1,755)**	976
Net cash used in operating activities from continuing operations	**(11,234)**	(2,235)
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 7 and 8)*	**(4,462)**	(5,837)
Non-cash investing working capital in trade and other accounts payable	**120**	623
Proceeds on disposal of equipment	**1,816**	306
Net cash used in investing activities from continuing operations	**(2,526)**	(4,908)
Financing activities:		
Increase in long-term debt *(note 11)*	**13,950**	6,919
Net finance costs paid	**(249)**	(347)
Net cash provided by financing activities from continuing operations	**13,701**	6,572
Foreign exchange gain on cash held in a foreign currency	**13**	10
Net decrease in cash	**(46)**	(561)
Net increase in cash, discontinued operations	**-**	643
Cash, beginning of period	**46**	143
Cash, end of period	**$ -**	$ 225
Supplemental cash flow information		
Cash taxes received	**$ -**	$ 10
Cash interest and standby fees paid	**$ 240**	$ 345

See accompanying notes to the unaudited condensed consolidated interim financial statements.

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the three months ended March 31, 2018 and 2017 were approved by the Board of Directors of Essential ("Board of Directors") on May 8, 2018.

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

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements as at and for the three months ended March 31, 2018 were prepared in accordance with IAS 34 *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Financial Statements as were followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017. This is the first set of the Company's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in note 3.

3. CHANGES IN ACCOUNTING POLICY

NEW ACCOUNTING STANDARDS

Essential adopted the following new accounting standards on January 1, 2018.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

The standard establishes a single revenue recognition and measurement framework to determine the timing and measurement of revenue from contracts with customers. Essential applied IFRS 15 prospectively with no quantitative impact or significant changes, given the typical length and terms of Essential's contracts with customers. Transfer of control over a product or service to a customer corresponds with the period the service is rendered or the period when title of a product passes to the customer and the customer assumes risks and rewards of ownership.

New disclosure requirements of IFRS 15 are included in notes 4 and 5. There was no impact on the Company's basic or diluted earnings per share for the year ended December 31, 2017.

IFRS 9 Financial Instruments

The standard sets out requirements for recognizing and measuring financial assets, financial liabilities and contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.* Essential has elected to measure loss allowances at an amount equal to lifetime expected credit loss. The adoption of this standard did not have a material impact on the financial statements.

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

4. SUMMARY OF CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

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 and 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 stand-alone 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. Customers are invoiced upon completion of a contract.

5. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at March 31, 2018	As at December 31, 2017
Trade receivables, net of provision	**$ 53,956**	$ 35,855
Other receivables	**967**	64
	$ 54,923	$ 35,919

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

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

Receivables included in trade receivables are amounts from contracts with customers where Essential has unconditional rights to consideration.

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

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

	As at March 31, 2018	As at December 31, 2017
Canadian dollar	**$ 51,444**	$ 34,373
U.S. dollar	**2,512**	1,482
	$ 53,956	$ 35,855

The aging analysis of trade receivables is as follows:

	As at March 31, 2018	As at December 31, 2017
< 31 days	**$ 23,413**	$ 13,468
31-60 days	**21,298**	11,630
61-90 days	**7,971**	8,551
>90 days	**1,274**	2,206
	$ 53,956	$ 35,855

Essential considers a trade receivable balance past due when it exceeds normal customer payment terms, which can range from 30 days to greater than 90 days. The provision for impairment of receivables is included in the amounts over 90 days and has been included in operating expenses in the consolidated interim statements of net income and comprehensive income. 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:

	As at March 31, 2018	As at December 31, 2017
Balance, beginning of period	**$ 671**	$ 532
Provision for receivables impairment	**100**	450
Receivables recovered (written off) against the provision	**7**	(311)
Balance, end of period	**$ 778**	$ 671

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

6. INVENTORIES

	As at March 31, 2018	As at December 31, 2017
Tryton tools	**$ 28,156**	$ 24,192
Coil tubing and supplies	**11,405**	11,491
	$ 39,561	$ 35,683

Inventory charged through operating expenses in the condensed consolidated interim statements of net income and comprehensive income for the three months ended March 31, 2018 was $15.8 million (2017 – $15.5 million).

7. PROPERTY AND EQUIPMENT

As at March 31, 2018	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Coil rigs, pumpers and equipment	**$ 162,236**	**$ 67,359**	**$ 94,877**
Other oilfield equipment	**57,686**	**29,532**	**28,154**
Vehicles	**32,410**	**17,248**	**15,162**
Office and computer equipment	**3,898**	**3,274**	**624**
Other	**3,814**	**3,309**	**505**
	$ 260,044	**$ 120,722**	**$ 139,322**

As at December 31, 2017	Cost	Accumulated Depreciation	Net Book Value
Coil rigs, pumpers and equipment	$ 160,949	$ 66,998	$ 93,951
Other oilfield equipment	57,462	28,511	28,951
Vehicles	32,199	16,457	15,742
Office and computer equipment	3,762	3,237	525
Other	3,811	3,246	565
	$ 258,183	$ 118,449	$ 139,734

Included in coil rigs, pumpers and equipment is $8.8 million (December 31, 2017 – $6.5 million) of assets under construction which will not be depreciated until put into use.

	For the three months ended March 31,	
	2018	2017
Net book value, beginning of period	**$ 139,734**	$ 137,039
Additions	**4,452**	5,802
Disposals	**(1,251)**	(151)
Depreciation	**(3,623)**	(3,759)
Currency translation adjustment	**10**	(3)
Net book value, end of period	**$ 139,322**	$ 138,928

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

8. INTANGIBLE ASSETS

As at March 31, 2018	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 1,547**	**$ 1,212**	**$ 335**
Computer software	**5,278**	**4,525**	**753**
Non-compete agreement	**426**	**333**	**93**
	$ 7,251	**$ 6,070**	**$ 1,181**

As at December 31, 2017	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 2,306	$ 1,886	$ 420
Computer software	5,732	4,876	856
Non-compete agreement	414	303	111
	$ 8,452	$ 7,065	$ 1,387

	For the three months ended March 31,	
	2018	2017
Net book value, beginning of period	**$ 1,387**	$ 2,132
Additions	**10**	35
Amortization	**(229)**	(242)
Currency translation adjustment	**13**	(9)
Net book value, end of period	**$ 1,181**	$ 1,916

9. TRADE AND OTHER ACCOUNTS PAYABLE

	As at March 31, 2018	As at December 31, 2017
Trade accounts payable	**$ 15,811**	$ 11,608
Accrued payables	**4,705**	4,795
Accrued payroll	**3,722**	5,170
Other	**1,499**	931
	$ 25,737	$ 22,504

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

	As at March 31, 2018	As at December 31, 2017
Canadian dollar	**$ 13,108**	$ 10,481
U.S. dollar	**2,703**	1,127
	$ 15,811	$ 11,608

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

10. ONEROUS LEASE CONTRACT

	As at March 31, 2018	As at December 31, 2017
Beginning of the year	**$ 4,142**	$ 4,754
Liability released in the period	**(189)**	(621)
Change in estimate	**(75)**	-
Accretion expense	**13**	9
End of period	**$ 3,891**	$ 4,142
Current portion of onerous lease contract liability	**688**	710
Long-term portion of onerous lease liability	**$ 3,203**	$ 3,432

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

11. LONG-TERM DEBT

	As at March 31, 2018	As at December 31, 2017
Term loan	**$ 32,050**	$ 18,100
Deferred financing costs	**(107)**	(125)
Non-current portion of long-term debt	**$ 31,943**	$ 17,975

Essential's credit facility with its banking syndicate was renewed on June 15, 2016 and is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2019, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date. At March 31, 2018, the maximum of $40 million under the Credit Facility was available to Essential.

As at March 31, 2018, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

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

	For the three months ended March 31,	
	2018	2017
Balance, December 31	**$ 17,975**	11,250
Cash changes:		
Increase in long-term debt	**13,950**	6,900
Non cash changes:		
Amortization of deferred financing costs	**18**	19
Balance, March 31	**$ 31,943**	18,169

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

12. 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 share. Preferred shares may be issued in one or more series, and the rights, privileges, restrictions and conditions of each series will be determined prior to issuance.

	Number of Common Shares (000's)	Amount
As at March 31, 2018 and December 31, 2017	**141,857**	**$ 272,732**

13. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2017	$ 5,091	$ 346	$ 5,437
Share-based compensation	457	-	457
Unrealized foreign exchange gain from continuing operations	-	133	133
As at December 31, 2017	$ 5,548	$ 479	$ 6,027
Share-based compensation	**78**	**-**	**78**
Unrealized foreign exchange loss from continuing operations	**-**	**(41)**	**(41)**
As at March 31, 2018	**$ 5,626**	**$ 438**	**$ 6,064**

14. SHARE-BASED COMPENSATION

The Company offers the following share-based compensation plans: Share Option Plan, Restricted Share Unit ("RSU") Plan and Deferred Share Unit ("DSU") Plan.

The maximum number of share options issuable under the Share Option Plan and RSUs issued prior to December 9, 2015 under the RSU Plan, together may not exceed 9% of the Company's outstanding Common Shares. RSUs granted after December 9, 2015 represent the right to receive a cash payment only, at the time of vesting, and as such, are not included in the maximum number of share options or RSUs allowed for issuance. As at March 31, 2018, the maximum number of share options and RSUs allowed for issuance was 12,767,114 (2017 – 12,767,114).

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

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

	For the three months ended March 31, **2018**	2017
Equity-settled share options	**$ 78**	$ 116
Equity-settled or cash-settled restricted share units	**(88)**	52
Cash-settled restricted share units	**125**	13
Deferred share units	**(963)**	1,363
Share-based compensation (recovery) expense	**$ (848)**	$ 1,544

a) Share Option Plan

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

	For the three months ended March 31, 2018		For the three months ended March 31, 2017	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**6,398**	**$ 1.11**	6,950	$ 1.42
Issued	**-**	**-**	1,315	0.83
Expired	**(377)**	**2.10**	(1,292)	2.07
Forfeited	**-**	**-**	(290)	1.96
Outstanding, end of period	**6,021**	**$ 1.04**	6,683	$ 1.16
Exercisable, end of period	**3,767**	**$ 1.19**	2,482	$ 1.77

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

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 March 31, 2018				
\$0.55 – \$1.00	**3,726**	**3.25**	**\$ 0.66**	**1,897**
\$1.01 – \$2.00	**1,630**	**2.11**	**\$ 1.19**	**1,205**
\$2.01 – \$2.90	**665**	**0.62**	**\$ 2.77**	**665**
	6,021	**2.65**	**\$ 1.04**	**3,767**
As at March 31, 2017				
\$0.55 – \$1.00	3,726	4.25	\$ 0.66	493
\$1.01 – \$2.00	1,650	3.08	\$ 1.20	682
\$2.01 – \$2.90	1,307	1.11	\$ 2.50	1,307
	6,683	3.35	\$ 1.16	2,482

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. RSUs granted to a participant prior to December 9, 2015 represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. RSUs granted to participants after December 9, 2015 represent the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments; contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, when dividends are paid, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at March 31, 2018 was \$1.3 million (December 31, 2017 – \$2.1 million) of which \$1.0 million is due within one year (December 31, 2017 – \$1.5 million).

The following table summarizes information with respect to RSUs outstanding:

Number of RSUs (000's)	For the three months ended March 31, **2018**	2017
Outstanding, beginning of period	**4,833**	3,826
Issued	**2,814**	1,848
Vested	**(1,134)**	(544)
Forfeited	**(69)**	(533)
Outstanding, end of period	**6,444**	4,597

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Under the terms of the plan, when dividends are paid, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at March 31, 2018 was $2.8 million (December 31, 2017 – $3.8 million) of which nil is due within one year (December 31, 2017 – nil).

The following table summarizes information with respect to DSUs outstanding:

	For the three months ended March 31,	
Number of DSUs (000's)	**2018**	2017
Outstanding, beginning of period	**5,509**	3,270
Issued	**320**	1,855
Outstanding, end of period	**5,829**	5,125

15. EARNINGS PER SHARE

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

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

	For the three months ended March 31,	
(000's)	**2018**	2017
Basic	**141,857**	141,857
Dilutive Common Share from share options and RSUs	**1,169**	1,157
Total diluted	**143,026**	143,014

16. COMMITMENTS AND CONTINGENCIES

Operating leases

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

	Amount
2018 (for the nine months ending December 31)	$ 4,470
2019	5,968
2020	5,362
2021	4,530
2022	4,439
Thereafter	3,177
	$ 27,946

Contingencies

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

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

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

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

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

17. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

18. SEASONALITY OF OPERATIONS

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

(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

19. SEGMENTED INFORMATION

Essential has two operating segments, ECWS and Tryton, and a non-operating segment, 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) Essential Coil Well Service

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

b) Tryton

The Tryton segment provides downhole tools and rental services in Canada and the 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. Income (loss) before income taxes for the three months ended March 31, 2018 for the Corporate segment substantially represents corporate office and certain operational costs of $3.7 million (2017 - $4.3 million), and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

As at and for the three months ended March 31, 2018		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	**$**	**32,574**	**$**	**27,560**	**$**	**-**	**$**	**60,134**
Income (loss) before income taxes from continuing operations	**$**	**3,839**	**$**	**5,603**	**$**	**(2,644)**	**$**	**6,798**
Depreciation and amortization	**$**	**2,578**	**$**	**1,060**	**$**	**214**	**$**	**3,852**
Total assets	**$**	**159,730**	**$**	**80,393**	**$**	**1,349**	**$**	**241,472**
Total liabilities	**$**	**24,710**	**$**	**12,867**	**$**	**38,002**	**$**	**75,579**
Property, equipment and intangible asset expenditures	**$**	**3,624**	**$**	**657**	**$**	**181**	**$**	**4,462**

As at and for the three months ended March 31, 2017		ECWS		Tryton		Corporate		Consolidated
Revenue	$	28,719	$	27,531	$	-	$	56,250
Income (loss) before income taxes from continuing operations	$	4,460	$	6,148	$	(6,269)	$	4,339
Depreciation and amortization	$	2,680	$	1,074	$	247	$	4,001
Total assets	$	151,728	$	73,804	$	2,114	$	227,646
Total liabilities	$	19,237	$	13,571	$	27,995	$	60,803
Property, equipment and intangible asset expenditures	$	4,288	$	1,514	$	35	$	5,837

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

The Toronto-Dominion Bank

HSBC Bank Canada

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

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