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, 2020.

This MD&A should be read in conjunction with Essential's March 31, 2020 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2019 Financial Report for the year ended December 31, 2019. 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 13, 2020 and was approved and authorized for issuance by the Board of Directors of the Company on May 13, 2020.

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 March 31, 2020	2019
Revenue	**$ 41,423**	$ 47,446
Gross margin	**8,418**	10,559
Gross margin %	**20%**	22%
EBITDAS[1]	**5,884**	7,544
Net income before impairment loss[1]	**3,744**	1,407
Per share – basic and diluted	**0.03**	0.01
Net (loss) income	**$ (5,025)**	$ 1,407
Per share – basic and diluted	**$ (0.04)**	$ 0.01
Operating hours		
Coil tubing rigs	**13,013**	13,418
Pumpers	**15,892**	16,082
	2020	As at March 31, 2019
Working capital	**$ 53,514**	$ 53,808
Total assets	**183,999**	207,704
Long-term debt	**$ 8,544**	$ 12,827

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

INDUSTRY OVERVIEW

First quarter 2020 industry drilling and well completion activity remained below 2019 levels in Western Canada. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB") declined 9%[a] compared to the first three months of 2019.

Near-term economic, political and social consequences of the COVID-19 pandemic and the extraordinary measures to contain its spread, started to evolve rapidly in March 2020. Demand destruction for oil intensified as the quarter progressed, as a result of the disruptive impact of the COVID-19 pandemic, concurrent with the effects of the price war between Russia and Saudi Arabia. West Texas Intermediate ("WTI") oil price dropped to U.S. $14 per barrel at the end of March, as excess oil in the market began raising fears about storage capacity limits being reached. The compounded effect created substantial uncertainty for North American exploration and production ("E&P") and oilfield service companies by the end of the first quarter 2020.

HIGHLIGHTS

Revenue for the three months ended March 31, 2020 was $41.4 million, a 13% decrease from the first quarter 2019. Both Essential Coil Well Service ("ECWS") and Tryton experienced a decrease in activity as customers opted to defer or reduce spending in response to worsening commodity prices and the onset of the COVID-19 pandemic. EBITDAS[1] was $5.9 million, $1.7 million lower compared to the same prior year period due primarily to lower revenue.

Key highlights included:

- ECWS revenue was $24.5 million, 6% lower than the first quarter 2019, in comparison to a 9%[a] decline in industry well completions. Management was pleased with gross margin of $5.8 million or 24%, consistent with the first quarter 2019, despite the decrease in revenue.
- Tryton revenue was $16.9 million, 21% lower compared to the first quarter 2019. Tryton Multi-Stage Fracturing System® ("MSFS®") sales experienced growth from both the third and fourth quarters 2019, as customers resumed spending on completion activities; however, activity remained below the first quarter 2019.
- In the face of the COVID-19 pandemic and the uncertainties surrounding it, Essential quickly adapted its operations and processes to remain focused on delivery of high-quality service to customers, in a safe work environment for employees. As the Company is deemed an essential service, staff continued to work while respecting the COVID-19 physical distancing parameters and Essential's occupational health and safety policies, as well as recommendations of health authorities and its customers.

Essential was in a strong financial position with long-term debt net of cash of $7.6 million and funded debt[1] to bank EBITDA[1] of 0.8x at March 31, 2020. Working capital[1] was $53.5 million on March 31, 2020, exceeding long-term debt by $45.0 million. On May 13, 2020 Essential had $1.0 million of long-term debt net of cash.

International Financial Reporting Standards ("IFRS") requires the Company to assess the carrying value of assets in cash generating units ("CGUs") when there are impairment indicators. At March 31, 2020, the industry outlook had deteriorated since December 31, 2019 with the compounded impact of worldwide events, including the onset 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 budgets, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair value of Essential's 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: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on Tryton goodwill.

(a) Source: Daily Oil Bulletin on May 11, 2020.

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

OVERVIEW OF ESSENTIAL

Essential safely provides completion, production and decommissioning 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 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 decommissioning 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 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 decommissioning operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers and various other tools and handling equipment.

Patent Cost Recovery

On December 19, 2019, the Supreme Court of Canada (the "Supreme Court") ruled that it would not grant leave to hear an appeal in the patent infringement litigation against Essential. There can be no appeal of the Supreme Court's ruling and, except for Essential collecting the cost recovery awards discussed below, this litigation is now complete.

Since October 2013, Essential incurred approximately $5 million in external legal fees and disbursements while defending the patent litigation. In calculating the cost awards, the courts separately consider costs incurred by Essential related to the following aspects of this litigation:

1. Trial Costs – Costs incurred between October 2013 and March 2017.
2. Post-Trial Costs – Costs incurred between the end of the trial in March 2017 up to December 2017.
3. Appeal Costs – Costs incurred between December 2017 and April 2019.
4. Supreme Court Costs – Costs incurred from June 2019 to December 2019.

Essential will only recover a portion of the actual legal fees and disbursements that it incurred rather than obtaining full cost recovery.

On January 17, 2020, the Federal Court of Canada awarded Essential $1.7 million in cost recovery related to Trial Costs, which is approximately 40% of the costs incurred for that portion of the litigation. This was received on March 2, 2020.

Cost recovery submissions related to the other three aspects of Essential's litigation costs are in progress. The timing of when the courts will release their decisions regarding the cost awards for the other three aspects of this litigation is unknown.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended March 31, 2020	2019
Revenue	**$ 41,423**	$ 47,446
Operating expenses	**33,005**	36,887
Gross margin	**8,418**	10,559
General and administrative expenses	**2,534**	3,015
EBITDAS[1]	**5,884**	7,544
Depreciation and amortization	**3,914**	4,302
Share-based compensation (recovery) expense	**(1,680)**	446
Other (income) expense	**(1,587)**	388
Finance costs	**394**	496
Impairment loss	**10,293**	-
(Loss) income before income tax	**(5,450)**	1,912
Current income tax expense	**1**	32
Deferred income tax (recovery) expense	**(426)**	473
Income tax (recovery) expense	**(425)**	505
Net (loss) income	**$ (5,025)**	$ 1,407
Net (loss) income per share		
Basic and diluted	**$ (0.04)**	$ 0.01

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended March 31, **2020**	2019
Revenue	**$ 24,539**	$ 26,069
Operating expenses	**18,726**	19,557
Gross margin	**$ 5,813**	$ 6,512
Gross margin %	**24%**	25%
Operating hours		
Coil tubing rigs	**13,013**	13,418
Pumpers	**15,892**	16,082
Active equipment fleet[(i)]		
Coil tubing rigs	**16**	16
Fluid pumpers	**12**	19
Nitrogen pumpers	**6**	8
Total equipment fleet[(i)]		
Coil tubing rigs	**29**	29
Fluid pumpers	**19**	19
Nitrogen pumpers	**8**	8

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

ECWS first quarter 2020 revenue was $24.5 million, a 6% decrease compared to the same prior year period, which was better than the 9%[(a)] decrease in industry well completions in the same period. Activity was steady during the first three months of 2020, despite being disrupted by a prolonged cold stretch in January. Operating hours decreased only 2%, with customer demand for Essential's deeper Generation III and IV coil tubing rigs and high rate fluid pumpers consistent with the first quarter 2019. Revenue per hour declined slightly, primarily due to the mix of work.

Management was pleased with the ECWS gross margin of $5.8 million, or 24%, for the first quarter 2020. Due to continued strong cost management practices, gross margin percentage remained consistent with the same prior year period, despite the decline in revenue.

(a) Source: Daily Oil Bulletin on May 11, 2020.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended March 31, 2020	2019
Revenue	**$ 16,884**	$ 21,377
Operating expenses	**13,974**	16,929
Gross margin	**$ 2,910**	$ 4,448
Gross margin %	**17%**	21%
Tryton revenue – % of revenue		
Tryton MSFS®	**35%**	40%
Conventional Tools & Rentals	**65%**	60%

Tryton first quarter 2020 revenue decreased 21% compared to the same quarter 2019. Tryton MSFS® sales experienced growth from both the third and fourth quarters 2019, as customers resumed spending on completion activities, however activity remained below the first quarter 2019. MSFS® revenue also decreased as customers opted to use lower-cost completion techniques, including Tryton's composite bridge plugs, that generate lower revenue per job compared to Tryton's ball & seat systems. Tryton U.S. revenue increased slightly compared to the same prior year period, as customers increased spending on well maintenance and decommissioning work, particularly in the Permian Basin.

Gross margin in the first quarter 2020 decreased to 17% of revenue compared to 21% in the same prior year period, as fixed costs represented a greater portion of revenue.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended March 31, 2020	2019
General and administrative expenses	**$ 2,534**	$ 3,015

General and administrative expenses ("G&A") are comprised of wages, professional fees and other administrative costs. G&A for the three months ended March 31, 2020 decreased compared to the same prior year period due to a reduction of employee incentive plans and lower legal fees.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended March 31, 2020	2019
Depreciation and amortization expense	**$ 3,914**	$ 4,302

Depreciation and amortization expense for the first quarter 2020 was lower than the same prior year period. Lower spending over the past few years resulted in lower depreciation expense for the first three months of 2020. Amortization expense also decreased from the first quarter 2019, due to certain intangible assets that are now fully amortized.

SHARE-BASED COMPENSATION

(in thousands of dollars)	For the three months ended March 31, 2020	2019
Share-based compensation (recovery) expense	**$ (1,680)**	$ 446

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.

During the three months ended March 31, 2020, Essential's share price decreased from $0.38 per share to $0.14 per share and resulted in a share-based compensation recovery. In comparison, during the first quarter 2019 Essential's share price did not change relative to December 31, 2018.

OTHER (INCOME) EXPENSE

(in thousands of dollars)	For the three months ended March 31, 2020	2019
Gain on disposal of assets	**$ (168)**	$ (145)
Foreign exchange (gain) loss	**(1,411)**	311
Other (income) expense	**(8)**	222
Other (income) expense	**$ (1,587)**	$ 388

Gain on disposal of assets during the first quarter 2020 related to assets that were sold as they were no longer used in operations. The weakening of the Canadian dollar in relation to the U.S. dollar during the three months ended March 31, 2020 resulted in an unrealized foreign exchange gain.

IMPAIRMENT LOSS

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

IFRS requires the Company to assess the carrying value of assets in the CGUs when there are impairment indicators. At March 31, 2020, the industry outlook had deteriorated since December 31, 2019 with the compounded impact of worldwide events, including the onset 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 budgets, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair value of Essential's 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: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on goodwill (2019 – nil).

FINANCE COSTS

(in thousands of dollars)	For the three months ended March 31, 2020	2019
Finance costs	**$ 394**	$ 496

Finance costs for the three months ended March 31, 2020 decreased compared to the same prior year period due to lower interest paid on the Company's revolving credit facility (the "Credit Facility") as a result of lower average long-term debt outstanding in 2020.

INCOME TAXES

(in thousands of dollars)	For the three months ended March 31, 2020	2019
Current income tax expense	**$ 1**	$ 32
Deferred income tax (recovery) expense	**(426)**	473
Income tax (recovery) expense	**$ (425)**	$ 505

For the three months ended March 31, 2020, the income tax recovery is due to the tax effect of the impairment loss.

FINANCIAL RESOURCES AND LIQUIDITY

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

(in thousands of dollars, except per share amounts)	For the three months ended March 31, 2020	2019
Net cash provided by operating activities	**$ 469**	$ 12,839
(Increases) decreases in non-cash working capital(1)	**(8,669)**	6,200
Operating cash flow before changes in non-cash operating working capital(1)	**$ 9,138**	$ 6,639
Per share – basic and diluted	**$ 0.06**	$ 0.05

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at March 31, 2020**	As at December 31, 2019
Current assets	**$ 69,252**	$ 63,794
Current liabilities	**(15,738)**	(16,643)
Working capital(1)	**$ 53,514**	$ 47,151
Working capital ratio	**4.4:1**	3.8:1

Working capital(1) is comprised primarily of accounts receivable and inventory, net of accounts payable. Working capital(1) typically grows through the first and third quarters of the year when industry activity is stronger. Essential uses its Credit Facility to meet the variable nature of its working capital(1) requirements for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. 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 $50 million revolving secured term loan facility with a $20 million accordion feature available at the lender's consent. The Credit Facility matures on June 30, 2021, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets, among other requirements and restrictions. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date.

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

- certain financial covenants, with the covenant thresholds detailed in the table below; and
- an equity cure provision whereby the proceeds from an equity offering 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 ratio(1) covenant. An equity cure cannot be used more than two times over the term of the Credit Facility and cannot be used in consecutive quarters.

As at March 31, 2020, Essential had consolidated funded debt(1) of $7.7 million, consisting of long-term debt plus deferred financing fees, net of cash. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On May 13, 2020, Essential had $1.0 million of long-term debt, net of cash.

Financial Covenants

As at March 31, 2020, the maximum of $50 million under the Credit Facility was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	**As at March 31, 2020**
Funded debt(1) to capitalization(1)	≤ 50%	**5%**
Funded debt(1) to bank EBITDA(1)	≤ 3.50x	**0.8x**
Fixed charge coverage ratio(1)	≥ 1.25x	**15.7x**
Distributions(i) cannot exceed distributable cash flow(1)		**N/A**

(i) Distributions include dividends and share buybacks.

EQUIPMENT EXPENDITURES

(in thousands of dollars)	For the three months ended March 31, **2020**	2019
ECWS	**$ 739**	$ 314
Tryton	**566**	1,267
Corporate	**-**	84
Total equipment expenditures	**1,305**	1,665
Less proceeds on disposal of equipment	**(478)**	(957)
Net equipment expenditures(1)	**$ 827**	$ 708

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

(in thousands of dollars)	For the three months ended March 31, **2020**	2019
Growth capital[1]	**$ -**	$ 630
Maintenance capital[1]	**1,305**	1,035
Total equipment expenditures	**$ 1,305**	$ 1,665

Essential reduced its 2020 capital budget from $5 million to $2 million, in response to the combined effects of the reduction in demand for oil, the COVID-19 global health pandemic and the increase in global oil supply that resulted in a sharp decline in the price of oil. Essential's capital spending will focus on critical maintenance activities and is expected to be funded with cash from operations and the Credit Facility.

SHARE CAPITAL

As at May 13, 2020, there were 141,856,813 common shares and 4,183,583 share options ("Share Options") outstanding. Of the 4,183,583 Share Options, 3,884,247 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)	Amount
Less than one year	$ 4,634
One to five years	11,114
More than five years	1,684
As at March 31, 2020	$ 17,432

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.

Essential reported on disclosure controls and procedures as part of its 2019 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2019, 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 2019 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2019, 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.

RISKS AND UNCERTAINTIES

The pandemic resulting from the novel strain of coronavirus, specifically identified as "COVID-19", 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 economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, 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 recent COVID-19 global health 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 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. Additionally, 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 an 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.

A significant oversupply of oil globally, resulting from the combined effects of the reduction in worldwide demand for oil as a result of COVID-19 and the end to oil production curtailment policies adopted by OPEC and Russia, resulted in a sharp decline in the price of oil in March 2020. While a production cut by OPEC+ members was announced in April 2020, for May and June, the reduction was not sufficient to offset the reduced demand and incremental oil supply. The decrease in the price of oil is negatively affecting current and forecasted drilling and production levels in Canada and the United States and is decreasing the demand for oilfield services by E&P companies. In addition, the ability for Essential's customers to pay for work completed, in its entirety, or on a timely basis, could be hindered. These developments could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows. The duration and extent of business disruption and the financial impact cannot be reasonably estimated.

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

For a complete discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form ("AIF") for the year ended December 31, 2019, 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.

OUTLOOK

By now, the economic destruction, globally and locally, from the COVID-19 global health pandemic is well known. From an oil perspective, the combined effects of the reduction in the demand for oil due to COVID-19 and the increase in oil supply has resulted in a sharp price decline, to the point of negative WTI prices on some days in April 2020. Western Canadian Select fared even worse, trading below U.S. $10.00 per barrel and into negative territory in mid-April. This is having a negative effect on current and forecasted drilling and completion activity in Canada and the United States and has decreased the demand for oilfield services by E&P companies.

At Essential, activity in April softened but results have come in reasonably close to management's expectations. While it is typically a slow month due to spring breakup, the macroeconomic issues have slowed activity even further. For the remainder of the year, Essential is anticipating demand for its services will decrease relative to 2019. The extent of the decrease, however, is difficult to predict.

It became apparent in mid-March that significant cost cutting initiatives would be required to preserve positive operational cash flow generation in 2020. Despite Essential's exceptionally low debt and financial position, early and significant cost reductions were necessary to preserve these advantages. During April and May, the following initiatives were implemented:

- A 50% reduction in Board of Director compensation;
- A 50% reduction in the salary of the President and Chief Executive Officer;
- Salary and wage reductions through most levels of the organization, with senior level staff taking more significant reductions than junior roles;
- Bonus programs and most incentive and activity-based compensation programs were suspended;
- Reduction of certain employee benefit plans;
- Staff headcount reductions including permanent and temporary layoffs; and
- Other cost saving initiatives throughout the organization, including inventory reduction initiatives.

In addition to the significant cost reductions implemented, Essential's headcount has been reduced from 380 employees at January 1, 2020 to 245 employees at May 13, 2020.

In mid-April, ECWS announced its intention to reduce its active fleet from 16 coil tubing and pumping packages to 8 packages. The inactive equipment will be parked but can be available to re-enter service as market demand dictates. The smaller active fleet allows ECWS to maintain a smaller group of assets and, as a result, the Company's 2020 capital spending forecast is only $2 million. One bright spot for ECWS occurred during April, as a depth record was set by it for coil tubing in the WCSB. Rig 2050, a Generation IV retrofit rig, reached 7,760 meters on a horizontal well completion while conducting mill-out work.

In anticipation of similar activity reductions in Tryton, wage reductions and part-time work arrangements were implemented to reduce costs and preserve the employee base. On April 17, 2020, the federal government announced $1.7 billion of funding for orphan and inactive wells. On May 1, 2020, the Alberta government provided a framework for its $1 billion allotment of those funds with the Alberta Site Rehabilitation Plan. With Tryton being a primarily Alberta-based supplier of downhole tools and abandonment expertise, it is actively pursuing these opportunities and hopes to be successful with a number of projects.

Essential expects to benefit from the Canada Emergency Wage Subsidy program. Funds are expected to be available to the Company in the second and third quarter of 2020.

While the price of oil and oil-related activity has been especially hard hit, there may be a reason for optimism with natural gas-related work. The price of AECO has been trading higher, and with less volatility to-date in 2020, compared to most of 2019. As Essential's services are suitable for oil and natural gas-related work, an improvement in natural gas activity would be a welcome change, albeit, gas-related activity has had a small role in the WCSB in recent years.

The value and importance of Essential's low-debt strategy over the past few years has never been more apparent than it is now. At the end of March, Essential's funded debt to bank EBITDA covenant was only 0.8x. Essential anticipates being covenant compliant through the remainder of 2020. This is an enviable position at this point in the cycle. On May 13, 2020, long-term debt, net of cash, was $1.0 million.

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 Canada are typically only accessible during the winter months.

The 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)	**Mar 31, 2020**	Dec 31, 2019	Sept 30, 2019	June 30, 2019	**Mar 31, 2019**	Dec 31, 2018	Sept 30, 2018	June 30, 2018
Essential Coil Well Service	**24,539**	14,278	22,609	16,006	**26,069**	18,334	27,831	20,774
Tryton	**16,884**	13,045	16,669	11,080	**21,377**	22,852	22,805	17,164
Total revenue	**41,423**	27,323	39,278	27,086	**47,446**	41,186	50,636	37,938
Gross margin	**8,418**	3,016	8,873	3,607	**10,559**	5,261	10,112	4,838
Gross margin %	**20%**	11%	23%	13%	**22%**	13%	20%	13%
EBITDAS(1)(ii)	**5,884**	1,729	6,294	1,408	**7,544**	1,690	7,047	1,837
Bank EBITDA(1)	**4,687**	498	4,943	135	**6,378**	2,170	7,264	1,871
Net (loss) income(i)(ii)(iii)	**(5,025)**	(3,161)	1,555	(1,357)	**1,407**	(13,654)	2,228	(2,405)
Per share – basic and diluted	**(0.04)**	(0.02)	0.01	(0.01)	**0.01**	(0.10)	0.02	(0.02)
Total assets	**183,999**	191,395	202,503	195,532	**207,704**	201,270	229,358	221,935
Long-term debt	**8,544**	6,563	10,782	7,451	**12,827**	21,388	23,667	19,087
Operating hours								
Coil tubing rigs	**13,013**	7,110	11,098	7,126	**13,418**	8,262	13,236	9,311
Pumpers	**15,892**	9,894	13,449	9,348	**16,082**	12,146	17,237	13,236
Tryton - % of revenue								
Tryton MSFS®	**35%**	17%	29%	14%	**40%**	43%	41%	47%
Conventional Tools & Rentals	**65%**	83%	71%	86%	**60%**	57%	59%	53%

(i) The quarter ended March 31, 2020 includes an impairment loss of $10.3 million.
(ii) The quarter ended December 31, 2018 includes an onerous lease contract expense of $0.5 million.
(iii) The quarter ended December 31, 2018 includes an asset write-down of $17.9 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”, “budget”, “hope”, “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: Essential’s cost recovery in connection with the patent infringement litigation; the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities; Essential’s capital spending forecast and expectations of how it will be funded; oil and natural gas industry and oilfield services sector activity and outlook; the Company’s capital management strategy and financial position; Essential’s outlook, activity levels, active and inactive equipment, cost cutting and its implications and outcomes and expectations for covenant compliance; the Alberta Site Rehabilitation Plan and the Canada Emergency Wage Subsidy Program.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Essential including, without limitation: 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 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; 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 in 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.

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, including the equity cure, excluding severance costs ("Permitted Adjustments") and excluding the impact of IFRS 16, for the most recent trailing twelve months.

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

Distributable cash flow – This measure is generally defined in Essential's Credit Facility as net loss excluding share-based compensation expense, depreciation and amortization, deferred income tax expense, provision for accounts receivable impairment, gains/losses on disposal, write-down of assets, impairment loss and severance costs, less required principal repayments, for the most recent trailing twelve months. The impact of lease accounting under IFRS is excluded from the calculation.

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 March 31,	
(in thousands of dollars)	**2020**	2019
Bank EBITDA	**$ 4,687**	$ 6,378
Impact of lease accounting under IFRS	**(1,225)**	(1,246)
Permitted adjustments	**28**	80
EBITDAS	**$ 5,884**	$ 7,544
Share-based compensation (recovery) expense	**(1,680)**	446
Other (income) expense	**(1,587)**	388
EBITDA	**$ 9,151**	$ 6,710
Impairment loss	**10,293**	-
Depreciation and amortization	**3,914**	4,302
Finance costs	**394**	496
(Loss) income before income tax	**$ (5,450)**	$ 1,912
Total income tax (recovery) expense	**(425)**	505
Net (loss) income	**$ (5,025)**	$ 1,407

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, 2020
Bank EBITDA	**$ 10,263**
Less current income tax expense	**34**
	$ 10,229
Finance costs[i]	**$ 651**
Fixed charge coverage ratio	**15.7x**

(i) Finance costs in the Credit Facility exclude finance costs related to lease accounting under IFRS.

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.

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 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.

Net income before impairment loss – This measure is net (loss) income before impairment loss, net of taxes. Management believes it is a relevant measure as it provides an indication of Essential's results from its principal business activities.

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".

Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

March 31, 2020

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

(in thousands of dollars)		**As at March 31, 2020**		As at December 31, 2019
Assets				
Current				
Cash	**$**	**959**	$	846
Trade and other accounts receivable *(note 4)*		**30,689**		24,543
Inventory *(note 5)*		**36,225**		36,616
Prepayments and deposits		**1,379**		1,789
		69,252		63,794
Non-current				
Property and equipment *(note 6)*		**102,768**		111,141
Right-of-use lease asset *(note 9)*		**11,754**		12,600
Intangible assets		**225**		295
Goodwill *(note 6)*		**-**		3,565
		114,747		127,601
Total assets	**$**	**183,999**	$	191,395
Liabilities				
Current				
Trade and other accounts payable *(note 7)*	**$**	**11,581**	$	11,513
Share-based compensation *(note 12)*		**273**		1,189
Income taxes payable		**39**		32
Current portion of lease liability *(note 9)*		**3,845**		3,909
		15,738		16,643
Non-current				
Share-based compensation *(note 12)*		**891**		2,740
Long-term debt *(note 8)*		**8,544**		6,563
Deferred tax liability		**2,197**		2,624
Long-term lease liability *(note 9)*		**11,246**		12,154
		22,878		24,081
Total liabilities		**38,616**		40,724
Equity				
Share capital *(note 10)*		**272,732**		272,732
Deficit		**(133,425)**		(128,400)
Other reserves *(note 11)*		**6,076**		6,339
Total equity		**145,383**		150,671
Total liabilities and equity	**$**	**183,999**	$	191,395

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

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

	For the three months ended March 31,	
(in thousands of dollars, except per share amounts)	**2020**	2019
Revenue	**$ 41,423**	$ 47,446
Operating expenses	**33,005**	36,887
Gross margin	**8,418**	10,559
General and administrative expenses	**2,534**	3,015
Depreciation and amortization *(notes 6 and 9)*	**3,914**	4,302
Share-based compensation (recovery) expense *(note 12)*	**(1,680)**	446
Impairment loss *(note 6)*	**10,293**	-
Other (income) expense	**(1,587)**	388
Operating (loss) income	**(5,056)**	2,408
Finance costs	**394**	496
(Loss) income before taxes	**(5,450)**	1,912
Current income tax expense	**1**	32
Deferred income tax (recovery) expense	**(426)**	473
Income tax (recovery) expense	**(425)**	505
Net (loss) income	**(5,025)**	1,407
Unrealized foreign exchange (loss) gain	**(269)**	33
Comprehensive (loss) income	**$ (5,294)**	$ 1,440
Net (loss) income per share *(note 13)*		
Basic and diluted	**$ (0.04)**	$ 0.01
Comprehensive (loss) income per share *(note 13)*		
Basic and diluted	**$ (0.04)**	$ 0.01

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, **2020**		2019	
Equity:				
Share capital				
Balance, January 1 and March 31 *(note 10)*	**$**	**272,732**	$	272,732
Deficit				
Balance, January 1	**$**	**(128,400)**	$	(126,734)
Adjustment on adoption of IFRS 16 (net of tax)		-		(110)
Net (loss) income		**(5,025)**		1,407
Balance, March 31	**$**	**(133,425)**	$	(125,437)
Other reserves				
Balance, January 1	**$**	**6,339**	$	6,184
Other comprehensive (loss) gain		**(269)**		33
Share-based compensation *(note 12)*		**6**		6
Balance, March 31	**$**	**6,076**	$	6,223
Total equity	**$**	**145,383**	$	153,518

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

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

(in thousands of dollars)	For the three months ended March 31, **2020**	2019
Operating activities:		
Net (loss) income	**$ (5,025)**	$ 1,407
Non-cash adjustments to reconcile net (loss) income to operating cash flow:		
Depreciation and amortization *(notes 6 and 9)*	**3,914**	4,302
Deferred income tax (recovery) expense	**(426)**	473
Share-based compensation *(note 12)*	**6**	6
Provision for impairment of trade accounts receivable *(note 4)*	**150**	100
Finance costs	**394**	496
Impairment loss *(note 6)*	**10,293**	-
Gain on disposal of assets	**(168)**	(145)
Operating cash flow before changes in non-cash operating working capital	**9,138**	6,639
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(6,817)**	1,044
Inventory	**274**	3,085
Income taxes payable	**7**	36
Prepayments and deposits	**410**	578
Trade and other accounts payable	**222**	1,844
Share-based compensation	**(2,765)**	(387)
Net cash provided by operating activities	**469**	12,839
Investing activities:		
Purchase of property, equipment and intangible assets *(note 6)*	**(1,305)**	(1,665)
Non-cash investing working capital in trade and other accounts payable	**(154)**	(1,523)
Proceeds on disposal of equipment	**478**	957
Net cash used in investing activities	**(981)**	(2,231)
Financing activities:		
Increase (decrease) in long-term debt *(note 8)*	**1,950**	(8,593)
Net finance costs paid	**(130)**	(199)
Payments of lease liability *(note 9)*	**(1,225)**	(1,246)
Net cash provided by (used in) financing activities	**595**	(10,038)
Foreign exchange gain on cash held in a foreign currency	**30**	8
Net increase in cash	**113**	578
Cash, beginning of period	**846**	410
Cash, end of period	**$ 959**	$ 988
Supplemental cash flow information		
Cash taxes (received) paid	**$ (3)**	$ 6
Cash interest and standby fees paid	**$ 142**	$ 195

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, 2020 and 2019 were approved by the Board of Directors of Essential ("Board of Directors") on May 13, 2020.

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, 2020 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, 2019. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019.

3. RISKS AND UNCERTAINTIES

The pandemic resulting from the novel strain of coronavirus, specifically identified as "COVID-19", 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 economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, 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 recent COVID-19 global health 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 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. Additionally, 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 an 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.

A significant oversupply of oil globally, resulting from the combined effects of the reduction in worldwide demand for oil as a result of COVID-19 and the end to oil production curtailment policies adopted by OPEC and Russia, resulted in a sharp decline in the price of oil in March 2020. While a production cut by OPEC+ members was announced in April 2020, for May and June, the reduction was not sufficient to offset the reduced demand and incremental oil supply. The decrease in the price of oil is negatively affecting current and forecasted drilling and production levels in Canada and the United States and is decreasing the demand for oilfield services by exploration and production ("E&P") companies. In addition, the ability for Essential's customers to pay for work completed, in its entirety, or on a timely basis, could be hindered. These developments could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows. The duration and extent of business disruption and the financial impact cannot be reasonably estimated.

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

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

4. TRADE AND OTHER ACCOUNTS RECEIVABLE

		As at March 31, 2020		As at December 31, 2019
Trade accounts receivable, net of provision	**$**	**30,637**	$	22,849
Other receivables		**52**		1,694
	$	**30,689**	$	24,543

Trade and other 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 March 31, 2020		As at December 31, 2019
< 31 days	**$**	**13,725**	$	8,698
31-60 days		**12,025**		7,036
61-90 days		**4,479**		5,929
> 90 days		**408**		1,186
	$	**30,637**	$	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 interim statements of net (loss) income and comprehensive (loss) 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:

		For the three months ended March 31, 2020		For the twelve months ended December 31, 2019
Balance, beginning of period	**$**	**1,068**	$	715
Provision for receivables impairment		**150**		500
Receivables written off against the provision		**-**		(147)
Balance, end of period	**$**	**1,218**	$	1,068

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

5. INVENTORY

		As at March 31, 2020		As at December 31, 2019
Tryton tools	**$**	**23,950**	$	24,610
Coil tubing and supplies		**12,275**		12,006
	$	**36,225**	$	36,616

Inventory charged through operating expenses in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three months ended March 31, 2020 was $10.1 million (2019 – $12.4 million).

6. PROPERTY AND EQUIPMENT

As at March 31, 2020		**Cost**		**Accumulated Depreciation**		**Net Book Value**
Coil rigs, pumpers and equipment	**$**	**147,142**	**$**	**83,907**	**$**	**63,235**
Other oilfield equipment		**59,772**		**36,465**		**23,307**
Vehicles		**34,263**		**19,506**		**14,757**
Office and computer equipment		**3,517**		**3,106**		**411**
Other		**4,695**		**3,637**		**1,058**
	$	**249,389**	**$**	**146,621**	**$**	**102,768**

As at December 31, 2019		Cost		Accumulated Depreciation		Net Book Value
Coil rigs, pumpers and equipment	$	146,665	$	77,709	$	68,956
Other oilfield equipment		59,535		34,022		25,513
Vehicles		34,022		18,914		15,108
Office and computer equipment		4,056		3,613		443
Other		4,693		3,572		1,121
	$	248,971	$	137,830	$	111,141

Included in property and equipment is $0.4 million (December 31, 2019 – nil) of assets under construction which will not be depreciated until put into use.

	For the three months ended March 31,			
		2020		2019
Net book value, beginning of period	**$**	**111,141**	$	118,249
Additions		**1,305**		1,654
Transfers		**117**		-
Disposals		**(308)**		(812)
Depreciation		**(2,982)**		(3,289)
Impairment loss		**(6,559)**		-
Currency translation adjustment		**54**		(7)
Net book value, end of period	**$**	**102,768**	$	115,795

For the three months ended March 31, 2020, an impairment loss of $10.3 million was recorded, of which $5.2 million related to Essential Coil Well Service (“ECWS”) equipment, $1.4 million related to Tryton rental assets and $3.7 million related to goodwill (2019 – nil). Each reporting period, Essential assesses the carrying value of assets when there are impairment indicators. At March 31, 2020, the industry outlook had deteriorated since December 31, 2019 with the compounded impact of worldwide events, including the onset 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 budgets, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair values of Essential's ECWS and Tryton segments were less than their carrying values. The recoverable amount of the ECWS cash generating unit ("CGU") was determined based on fair value less cost to sell. The recoverable amounts of Essential's Tryton Tools and Rentals CGUs were based on a value in use calculation, determined using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.2% per annum and discounted at a rate of 14.75%. Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends. Management identified that a 1.19 and 0.92 percentage point decrease in the discount rate would have supported a conclusion of no impairment loss to be recognized for the Tryton Tools and Rentals CGUs, respectively. Following the impairment loss recognized in each CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

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

7. TRADE AND OTHER ACCOUNTS PAYABLE

		As at March 31, 2020		As at December 31, 2019
Trade accounts payable	**$**	**7,203**	$	5,739
Accrued payroll		**2,182**		3,360
Accrued payables		**1,497**		2,284
Other		**699**		130
	$	**11,581**	$	11,513

8. LONG-TERM DEBT

		As at March 31, 2020		As at December 31, 2019
Term loan	**$**	**8,700**	$	6,750
Deferred financing costs		**(156)**		(187)
Non-current portion of long-term debt	**$**	**8,544**	$	6,563

Essential's credit facility is comprised of a $50 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 June 30, 2021, 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.

As at March 31, 2020, the maximum of $50 million was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

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

	For the three months ended March 31, 2020	2019
Balance, beginning of period	**$ 6,563**	$ 21,388
Cash changes:		
Increase (decrease) in long-term debt	**1,950**	(8,593)
Non cash changes:		
Amortization of deferred financing costs	**31**	32
Balance, end of period	**$ 8,544**	$ 12,827

9. LEASES

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

Right-of-use lease asset

(in thousands of dollars)	**For the three months ended March 31, 2020**	For the twelve months ended December 31, 2019
Beginning of period	**$ 12,600**	$ 14,102
Leases added in period	**-**	1,451
Lease modification	**(4)**	449
Depreciation	**(862)**	(3,381)
Foreign exchange gain (loss)	**20**	(21)
End of period	**$ 11,754**	$ 12,600

Lease Liability

(in thousands of dollars)	**As at March 31, 2020**	As at December 31, 2019
Maturity analysis – contractual undiscounted cash flow		
Less than one year	**$ 4,634**	**$** 4,754
One to five years	**11,114**	11,475
More than five years	**1,684**	2,409
Total undiscounted lease liability, end of period	**$ 17,432**	**$** 18,638
Discounted value of future lease payments		
Current portion of lease liability	**$ 3,845**	**$** 3,909
Long-term portion of lease liability	**11,246**	12,154
Lease liability included in the statement of financial position	**$ 15,091**	**$** 16,063

For the three months ended March 31, 2020, Essential recognized $0.2 million (2019 - $0.3 million) of finance costs related to the lease liability in its consolidated interim statements of net (loss) income and comprehensive (loss) income and $1.2 million (2019 - $1.2 million) of total cash outflow for leases in the consolidated interim statement of cash flows.

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

10. 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 March 31, 2020, December 31, 2019 and January 1, 2019	**141,857**	**$**	**272,732**

11. 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		**6**		**-**		**6**
Unrealized foreign exchange loss		**-**		**(269)**		**(269)**
As at March 31, 2020	**$**	**5,876**	**$**	**200**	**$**	**6,076**

12. 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.

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

	For the three months ended March 31,			
		2020		2019
Share options	**$**	**6**	$	6
Restricted share units		**(358)**		373
Deferred share units		**(1,328)**		67
Share-based compensation (recovery) expense	**$**	**(1,680)**	$	446

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.

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

At March 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 March 31, 2020, the maximum number of share options allowed for issuance was 8,511,409 (2019 – 8,511,409).

	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Number of Options (000's)		**Weighted Average Exercise Price**	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of period	**4,428**	**$**	**0.77**	5,821	$	0.99
Issued	**-**		**-**	532		0.32
Expired	**(245)**		**1.46**	(465)		2.90
Forfeited	**-**		**-**	(828)		0.77
Outstanding, end of period	**4,183**	**$**	**0.73**	5,060	$	0.78
Exercisable, end of period	**3,884**	**$**	**0.76**	4,021	$	0.84

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, 2020					
$0.32 – $1.00	**3,263**	**1.61**	**$**	**0.62**	**2,964**
$1.01 – $1.12	**920**	**0.20**	**$**	**1.12**	**920**
	4,183	**1.30**		**0.73**	**3,884**
As at March 31, 2019					
$0.32 – $1.00	3,685	2.56	$	0.63	2,646
$1.01 – $1.46	1,375	1.11	$	1.19	1,375
	5,060	2.18	$	0.78	4,021

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. The grants vest in three equal instalments and may contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Essential's liability as at March 31, 2020 was $0.4 million (December 31, 2019 – $1.8 million) of which $0.3 million is due within one year (December 31, 2019 – $1.2 million).

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

The following table summarizes information with respect to RSUs outstanding:

	For the three months ended March 31,	
Number of RSUs (000's)	**2020**	2019
Outstanding, beginning of period	**8,077**	4,930
Issued	**7,506**	5,976
Vested	**(2,965)**	(1,961)
Forfeited	-	(430)
Outstanding, end of period	**12,618**	8,515

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 March 31, 2020 was $0.8 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 three months ended March 31,	
Number of DSUs (000's)	**2020**	2019
Outstanding, beginning of period	**5,551**	6,231
Issued	-	601
Redeemed	-	(646)
Forfeited	-	(94)
Outstanding, end of period	**5,551**	6,092

13. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net (loss) income 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 three months ended March 31,	
(000's)	**2020**	2019
Basic and diluted	**141,857**	141,857

14. 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.

15. 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.

16. 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) Essential Coil Well Service

The ECWS segment provides well completion and production services throughout the Western Canadian Sedimentary Basin. 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) income before income taxes for the three months ended March 31, 2020 for the Corporate segment includes corporate office and certain operational costs of $2.6 million (March 31, 2019 - $3.1 million), and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

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

As at and for the three months ended March 31, 2020		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	**$**	**24,539**	**$**	**16,884**	**$**	**-**	**$**	**41,423**
(Loss) income before income taxes	**$**	**(2,055)**	**$**	**(4,121)**	**$**	**726**	**$**	**(5,450)**
Depreciation and amortization	**$**	**2,393**	**$**	**1,229**	**$**	**292**	**$**	**3,914**
Impairment loss	**$**	**5,159**	**$**	**5,134**	**$**	**-**	**$**	**10,293**
Total assets	**$**	**117,415**	**$**	**63,982**	**$**	**2,602**	**$**	**183,999**
Total liabilities	**$**	**19,005**	**$**	**11,987**	**$**	**7,624**	**$**	**38,616**
Property, equipment and intangible asset expenditures	**$**	**739**	**$**	**566**	**$**	**-**	**$**	**1,305**

As at and for the three months ended March 31, 2019		ECWS		Tryton		Corporate		Consolidated
Revenue	$	26,069	$	21,377	$	-	$	47,446
Income (loss) before income taxes	$	3,592	$	2,906	$	(4,586)	$	1,912
Depreciation and amortization	$	2,666	$	1,299	$	337	$	4,302
Total assets	$	129,620	$	73,712	$	4,372	$	207,704
Total liabilities	$	22,023	$	13,761	$	18,402	$	54,186
Property, equipment and intangible asset expenditures	$	314	$	1,267	$	84	$	1,665

CORPORATE INFORMATION

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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

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
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