## 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, 2021.

This MD&A should be read in conjunction with Essential's March 31, 2021 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2020 Financial Report for the year ended December 31, 2020. 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 4, 2021 and was approved and authorized for issuance by the Board of Directors of the Company on May 4, 2021.

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

### SELECTED INFORMATION

| (in thousands of dollars except per share and percentages) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Revenue | **$ 30,150** | $ 41,423 |
| Gross margin | **6,738** | 8,418 |
| Gross margin % | **22%** | 20% |
| EBITDAS [1] | **4,888** | 5,884 |
| EBITDAS % | **16%** | 14% |
| Net loss[(i)] | **$ (2,593)** | $ (5,025) |
| Per share - basic and diluted | **$ (0.02)** | $ (0.04) |
| Operating hours | | |
| Coil tubing rigs | **8,629** | 13,013 |
| Pumpers | **11,603** | 15,892 |
| | **As at March 31, 2021** | 2020 |
| Working capital [1] | **$ 47,638** | $ 53,514 |
| Cash | **6,251** | 959 |
| Long-term debt | **53** | 8,544 |

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

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

## INDUSTRY OVERVIEW

First quarter 2021 industry drilling and well completion activity was below the same prior year period, as the first quarter of 2020 was largely unaffected by the disruptive impact of the COVID-19 pandemic and the impact of lower oil prices on customer spending prevalent during most of 2020. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB"), declined 30%[a] in the quarter, compared to the first quarter of 2020.

Although industry activity in the first quarter remained below the same prior year period, commodity prices have improved. The price of West Texas Intermediate ("WTI") oil was US$59 per barrel at the end of the first quarter 2021, a US$11 per barrel increase from the end of the fourth quarter 2020. Canadian natural gas prices ("AECO") during the first quarter of 2021 averaged just under $3.00 per gigajoule, well above 2020 and 2019 prices.

## HIGHLIGHTS

Revenue for the three months ended March 31, 2021 was $30.2 million, a 27% decline from the first quarter of 2020 mainly due to lower activity and lower pricing. 2021 activity continued to be negatively impacted by COVID-19 and reduced customer spending, compared to the prior year, where the first quarter of 2020 was largely unaffected by the onset of COVID-19 and lower oil prices.

First quarter EBITDAS[1] was $4.9 million, a decline of 17%, compared to the comparative prior year period. Lower activity and lower pricing in the current period resulted in lower EBITDAS[1]. However, cost reductions implemented subsequent to the first quarter of 2020, combined with $1.6 million of benefits received under the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and the Employee Retention Tax Credit program in the U.S., (collectively, "Government Subsidy Programs"), helped to improve EBITDAS[1] as a percentage of revenue. For the first quarter of 2021, EBITDAS[1] percentage improved to 16% compared to 14% in the first quarter of 2020.

Cash and long-term debt

At March 31, 2021, Essential was in a strong financial position with cash, net of long-term debt, of $6.2 million and working capital[1] of $47.6 million. During the first quarter, Essential continued to manage to a net cash position through operational and financial discipline, including managing capital spending to within cash provided by operating activities. On May 4, 2021 Essential had $7.1 million of cash, net of long-term debt.

(a) Source: Daily Oil Bulletin on May 3, 2021.

**OVERVIEW OF ESSENTIAL**

Essential safely provides completion, production and wellsite restoration services to exploration and production ("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 typically equipped to work with coil tubing ranging from 2 ⅜ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity using 2 ⅜ inch coil of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by their capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.

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

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

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

Tryton

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

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

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

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

- Conventional Tools – Conventional downhole tools are used in completion, production, abandonment and wellsite restoration activities. Tryton offers a wide range of products, including downhole packers, tubing anchors, bridge plugs, cement retainers and related accessories. Since the federal site restoration programs were announced in May 2020, Tryton has seen an increase in abandonment and wellsite restoration activity.
- Rentals – Tryton Rentals offers a broad range of oilfield equipment, including specialty drill pipe and various other tools and handling equipment.

**RESULTS OF OPERATIONS**

| (in thousands of dollars, except per share amounts) | For the three months ended March 31, **2021** | 2020 |
|---|---|---|
| Revenue | **$ 30,150** | $ 41,423 |
| Operating expenses | **23,412** | 33,005 |
| Gross margin | **6,738** | 8,418 |
| General and administrative expenses | **1,850** | 2,534 |
| EBITDAS [1] | **4,888** | 5,884 |
| Depreciation and amortization | **4,813** | 3,914 |
| Share-based compensation expense (recovery) | **2,309** | (1,680) |
| Other expense (income) | **127** | (1,587) |
| Finance costs | **231** | 394 |
| Impairment loss | **-** | 10,293 |
| Loss before income taxes | **(2,592)** | (5,450) |
| Current income tax expense | **1** | 1 |
| Deferred income tax recovery | **-** | (426) |
| Income tax expense (recovery) | **1** | (425) |
| Net loss | **$ (2,593)** | $ (5,025) |
| Net loss per share | | |
| Basic and diluted | **$ (0.02)** | $ (0.04) |

## <u>SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*</u>

| (in thousands of dollars, except percentages, hours and fleet data) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Revenue | **$ 15,856** | $ 24,539 |
| Operating expenses | **12,147** | 18,726 |
| Gross margin | **$ 3,709** | $ 5,813 |
| Gross margin % | **23%** | 24% |
| Operating hours | | |
| Coil tubing rigs | **8,629** | 13,013 |
| Pumpers | **11,603** | 15,892 |
| Active equipment fleet (i) | | |
| Coil tubing rigs | **12** | 16 |
| Fluid pumpers | **9** | 12 |
| Nitrogen pumpers | **4** | 6 |
| 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. Crewed equipment is less than active equipment.

Essential Coil Well Service ("ECWS") revenue for the first quarter of 2021 was $15.9 million, a 35% decrease compared to the same prior year period due to lower activity and lower revenue per operating hour. Operating hours declined 30%, compared to the first quarter of 2020, in line with the industry well completions decline of 30%[a]. Revenue per operating hour declined by 8%, compared to the first quarter of 2020, due to a combination of mix of work and competitive pricing pressure. Although activity in the first quarter of 2021 was steady and continued through to the end of March, the first quarter of 2020 was largely unaffected by the onset of COVID-19 and the impact of lower oil prices on customers' capital spending, prevalent during most of 2020. First quarter 2021 activity was also negatively impacted by the prolonged cold experienced in February, which disrupted work.

Gross margin for the first quarter of 2021 was $3.7 million, lower than the same prior year period due to the decline in revenue and higher operating expenses. The prolonged cold stretch in February increased costs for down time and repairs. Cost reductions implemented subsequent to the first quarter of 2020 and benefits received under Government Subsidy Programs allowed ECWS to preserve gross margin. ECWS gross margin percentage for the first quarter of 2021 was 23%, consistent with 24% in the first quarter of 2020.

(a) Source: Daily Oil Bulletin on May 3, 2021.

## SEGMENT RESULTS – *TRYTON*

| (in thousands of dollars, except percentages) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Revenue | **$ 14,294** | $ 16,884 |
| Operating expenses | **11,106** | 13,974 |
| Gross margin | **$ 3,188** | $ 2,910 |
| Gross margin % | **22%** | 17% |
| Tryton revenue - % of revenue | | |
| Tryton MSFS® | **34%** | 35% |
| Conventional Tools & Rentals | **66%** | 65% |

First quarter 2021 Tryton revenue was $14.3 million, a decrease of 15% compared to the same prior year period due to lower activity and competitive pricing pressure, as first quarter 2020 was largely unaffected by the onset of COVID-19 and the impact of lower oil prices on customers' capital spending. MSFS® activity declined in the current quarter, compared to the same prior year quarter, due to reduced customer spending. Canadian conventional tools revenue was consistent with the same prior year quarter due to increased activity under the federally funded site rehabilitation programs. U.S. conventional tools revenue declined in the current quarter, compared to the same prior year period, mainly due to the unusually cold weather experienced in the southern states in February 2021.

First quarter 2021 gross margin was $3.2 million, an increase of $0.3 million when compared to 2020. Cost reductions implemented subsequent to the first quarter of 2020 and benefits received under Government Subsidy Programs resulted in an improved gross margin percentage of 22% in the current period, compared to 17% in the same prior year period.

## GENERAL AND ADMINISTRATIVE

| (in thousands of dollars) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| General and administrative expenses | **$ 1,850** | $ 2,534 |

General and administrative expenses ("G&A") primarily consist of wages, professional fees and other administrative costs. G&A for the three months ended March 31, 2021 decreased compared to the same prior year period mainly due to lower employee compensation, lower headcount and benefits received under Government Subsidy Programs as these programs did not exist in the first quarter 2020.

### DEPRECIATION AND AMORTIZATION

| (in thousands of dollars) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Depreciation and amortization expense | **$ 4,813** | $ 3,914 |

Depreciation expense for the three months ended March 31, 2021 was higher than the same prior year period due to the change in useful life estimates of certain capital assets effective April 1, 2020.

### SHARE-BASED COMPENSATION

| (in thousands of dollars) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Share-based compensation expense (recovery) | **$ 2,309** | $ (1,680) |

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

For the three months ended March 31, 2021, share-based compensation expense increased, compared to a recovery in the same prior year period, due to the fluctuation in share price during the respective periods. For the first quarter of 2021, Essential's share price increased from $0.22 per share at December 31, 2020, to $0.29 per share at March 31, 2021, which resulted in a share-based compensation expense of $2.3 million. For the first quarter of 2020, Essential's share price decreased from $0.38 per share at December 31, 2019, to $0.14 per share at March 31, 2020, which resulted in a share-based compensation recovery of $1.7 million.

### OTHER EXPENSE (INCOME)

| (in thousands of dollars) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Gain on disposal of assets | **$ (29)** | $ (168) |
| Realized foreign exchange (gain) loss | **(6)** | 30 |
| Unrealized foreign exchange loss (gain) | **175** | (1,441) |
| Other income | **(13)** | (8) |
| Other expense (income) | **$ 127** | $ (1,587) |

Gain on disposal of assets for the three months ended March 31, 2021 and 2020 related to the sale of surplus assets no longer used in operations.

The strengthening of the Canadian dollar in relation to the U.S. dollar during the three months ended March 31, 2021 resulted in an unrealized foreign exchange loss. In comparison to the same prior year period, the weakening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange gain.

## IMPAIRMENT LOSS

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

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

## FINANCE COSTS

| (in thousands of dollars) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Finance costs | **$ 231** | $ 394 |

Finance costs primarily consist of interest expense related to lease liabilities, interest on long-term debt and amortization of deferred financing costs incurred to amend or issue new credit facilities. For the three months ended March 31, 2021, lower lease liabilities outstanding and no amounts drawn on Essential's credit facility during the quarter, resulted in lower interest expense in the current quarter, compared to the prior year period.

## INCOME TAXES

| (in thousands of dollars) | For the three months ended March 31, 2021 | 2020 |
|---|---|---|
| Current income tax expense | **$ 1** | $ 1 |
| Deferred income tax recovery | **-** | (426) |
| Income tax expense (recovery) | **$ 1** | $ (425) |

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

As at March 31, 2021, Essential was in an unrecognized deferred income tax asset position. An assessment was performed, which determined that Essential did not meet the criteria to recognize a deferred tax asset. For the three months ended March 31, 2020, the income tax recovery is due to the tax effect of the impairment loss.

## FINANCIAL RESOURCES AND LIQUIDITY

### FUNDS FLOW

| (in thousands of dollars, except per share amounts) | For the three months ended March 31, 2021 | | 2020 |
|---|---|---|---|
| Funds flow [1] | **$** | **2,374** | $ 9,138 |
| Per share - basic and diluted | **$** | **0.02** | $ 0.06 |

For the three months ended March 31, 2021, funds flow declined when compared to the same prior year period mainly due to lower activity when compared to the first quarter of 2020.

### WORKING CAPITAL

| (in thousands of dollars, except ratios) | | **As at March 31, 2021** | As at December 31, 2020 |
|---|---|---|---|
| Current assets | **$** | **66,093** | $ 61,890 |
| Current liabilities | | **(18,455)** | (14,388) |
| Working capital [1] | **$** | **47,638** | $ 47,502 |
| Working capital ratio | | **3.6:1** | 4.3:1 |

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

### CREDIT FACILITY

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

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

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

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

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

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

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. In addition, Essential cannot distribute cash in the form of dividends or implement a normal course issuer bid.

As at March 31, 2021 there were no amounts outstanding under the Credit Facility and $15.0 million was available. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities.

Financial Covenants

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

| (in millions of dollars, except percentages) | Covenant Threshold | | **As at March 31, 2021** |
|---|---|---|---|
| Funded debt [1] to capitalization [1] | ≤ 20% | | **N/A** |
| Trailing 12 month bank EBITDA [1] | ≥ $(10.0) | $ | **9.4** |

## **EQUIPMENT EXPENDITURES**

| (in thousands of dollars) | | For the three months ended March 31, **2021** | | 2020 |
|---|---|---|---|---|
| ECWS | **$** | **2,180** | $ | 739 |
| Tryton | | **64** | | 566 |
| Corporate | | **-** | | - |
| Total equipment expenditures | | **2,244** | | 1,305 |
| Less proceeds on disposal of equipment | **$** | **(303)** | $ | (478) |
| Net equipment expenditures[1] | **$** | **1,941** | $ | 827 |

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

| (in thousands of dollars) | | For the three months ended March 31, **2021** | | 2020 |
|---|---|---|---|---|
| Growth capital [1] | **$** | **1,663** | $ | - |
| Maintenance capital [1] | | **581** | | 1,305 |
| Total equipment expenditures | **$** | **2,244** | $ | 1,305 |

During the first quarter, Essential acquired two quintuplex pumpers, which will be refurbished and are expected to go into service early in the second half of 2021. The remaining equipment expenditures were focused on maintenance activities on the active fleet.

Essential's 2021 capital budget remains at $5.4 million. The 2021 capital budget is expected to be funded with cash, operational cash flow and, if needed, the Credit Facility.

### SHARE CAPITAL

As at May 4, 2021, there were 141,856,813 common shares and 2,218,583 share options ("Share Options") outstanding. Of the 2,218,583 Share Options, 2,068,915 were exercisable of which nil were "in-the-money".

### COMMITMENTS

*Leases*

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

| (in thousands of dollars) | **As at March 31, 2021** | As at December 31, 2020 |
|---|---|---|
| Less than one year | **$ 4,801** | $ 4,678 |
| One to five years | **7,153** | 8,305 |
| | **$ 11,954** | $ 12,983 |

## 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 2020 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2020, 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 International Financial Reporting Standards ("IFRS"). The Company's CEO and CFO are responsible for designing, or causing to be designed under their supervision, ICFR related to the Company, including its consolidated subsidiaries.

Essential reported on ICFR as part of its 2020 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2020, 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

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, 2020, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in

Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

**OUTLOOK**

Current and near-term expected oil and natural gas commodity prices are supportive of improved oilfield services activity in the WCSB. With the increasing distribution of COVID-19 vaccines in the coming months, general economic activity is also expected to improve. That, combined with the extension of ongoing government subsidies and support programs, is expected to have a positive impact on the demand for oilfield services in the second half of 2021.

The price of WTI has been trading near, or higher than, U.S. $60 per barrel since mid-February 2021. Canadian natural gas prices continue to show strength as storage levels currently sit below the five-year average. The price of AECO natural gas has generally been trading between $2.50 and $3.00 per gigajoule since the beginning of 2021, boding well for natural gas activity. The current forward curves for WTI and AECO are supportive of improved activity in the WCSB in 2021, compared to 2020. Some E&P companies have announced modest increases in their capital spending programs as a result of the duration and growing confidence in stronger commodity prices.

Commodity price-driven E&P cash flow increases are significant and have generally been applied to strengthen balance sheets, return cash to shareholders and facilitate mergers and acquisitions. This is expected to continue in the near-term. E&P capital reinvestment ratios (capital spending as a percentage of cash flow) are setting up to be much lower in 2021 than the past ten years. Given the current and anticipated strength of commodity prices in 2021 compared to the severe oil price weakness in April to October 2020, industry analysts and associations expect an eventual increase in Canadian E&P spending compared to 2020 as the year progresses. This would benefit oilfield service activity, including for Essential.

Low service prices continue to be an issue for the oilfield services sector. The current business landscape is such that E&P customers are reluctant to support pricing increases despite recent rising costs, and years of depressed oilfield service pricing since the commencement of the downturn in 2015. At current industry drilling and completion levels, sufficient crewed equipment and inventory is typically available. As industry conditions improve in the second half of the year, however, and into 2022, current oilfield service pricing may not be sufficient to support the expansion of active equipment and crews. Essential is optimistic that a portion of improved E&P cash flow will translate into improved pricing for oilfield services, which can then be re-invested into equipment upgrades and fleet expansion, crew additions and important environmental, social and governance ("ESG") initiatives.

ECWS added to its total fleet with the acquisition of two used quintuplex fluid pumpers in March 2021. These fluid pumpers are being refurbished and are expected to be field-ready and included in the active fleet early in the second half of 2021. Essential plans to pair these higher-capacity fluid pumpers with its industry leading long-reach deep coil tubing fleet, to meet the ever-increasing demands of complex horizontal well completions. ECWS has been experiencing good demand for this type of high-rate pumper. With these additions, ECWS's active fleet will include 12 coil tubing rigs and 11 fluid pumpers. This allows each customer to have access to preferred, efficient equipment for differing completion techniques and regional needs. There are fewer crewed packages than active. ECWS continues to monitor anticipated activity and adjust crew counts, as required.

Tryton expects to experience ongoing improvement in conventional downhole tool activity related to the federally funded site rehabilitation programs in the remainder of 2021 and into 2022. Combined with E&P funded work and programs for the Alberta and Saskatchewan orphan well associations, Tryton expects to see growth in wellsite restoration services. From an ESG perspective, Essential is pleased to be providing Tryton's downhole tools and service expertise to the ongoing clean-up of the industry's legacy environmental footprint.

Essential is in a strong financial position. On May 4, 2021, cash, net of long-term debt, was $7.1 million. The value and importance of Essential's ongoing low/zero debt position is a strategic advantage as the industry transitions into a period of expected growth. Essential's net cash position and its Credit Facility are expected to provide sufficient liquidity and financial flexibility to meet financial needs through to the end of 2021.

## SUMMARY OF QUARTERLY DATA

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

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

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

| (in thousands of dollars, except per share amounts, percentages, hours and fleet data) | **Mar 31, 2021** | Dec 31, 2020 | Sept 30, 2020 | June 30, 2020 | **Mar 31, 2020** | Dec 31, 2019 | Sept 30, 2019 | June 30, 2019 |
|---|---|---|---|---|---|---|---|---|
| Essential Coil Well Service | **15,856** | 13,059 | 9,909 | 6,116 | **24,539** | 14,278 | 22,609 | 16,006 |
| Tryton | **14,294** | 11,495 | 9,332 | 4,839 | **16,884** | 13,045 | 16,669 | 11,080 |
| Total revenue | **30,150** | 24,554 | 19,241 | 10,955 | **41,423** | 27,323 | 39,278 | 27,086 |
| Gross margin | **6,738** | 5,810 | 5,314 | 876 | **8,418** | 3,016 | 8,873 | 3,607 |
| Gross margin % | **22%** | 24% | 28% | 8% | **20%** | 11% | 23% | 13% |
| EBITDAS [(1)(i)] | **4,888** | 4,105 | 4,033 | (492) | **5,884** | 1,729 | 6,294 | 1,408 |
| Bank EBITDA [(1)] | **3,836** | 3,038 | 3,193 | (691) | **4,687** | 498 | 4,943 | 135 |
| Net (loss) income [(i)] | **(2,593)** | (4,226) | (1,529) | (6,030) | **(5,025)** | (3,161) | 1,555 | (1,357) |
| Per share - basic and diluted | **(0.02)** | (0.03) | (0.01) | (0.04) | **(0.04)** | (0.02) | 0.01 | (0.01) |
| Total assets | **161,283** | 159,863 | 163,188 | 161,531 | **183,999** | 191,395 | 202,503 | 195,532 |
| Cash | **6,251** | 6,082 | 6,625 | 5,664 | **959** | 846 | 1,020 | 899 |
| Long-term debt | **53** | 53 | 145 | 665 | **8,544** | 6,563 | 10,782 | 7,451 |
| Operating hours | | | | | | | | |
| Coil tubing rigs | **8,629** | 7,047 | 5,348 | 3,060 | **13,013** | 7,110 | 11,098 | 7,126 |
| Pumpers | **11,603** | 9,242 | 7,131 | 3,712 | **15,892** | 9,894 | 13,449 | 9,348 |
| Tryton - % of revenue | | | | | | | | |
| Tryton MSFS® | **34%** | 33% | 40% | 34% | **35%** | 17% | 29% | 14% |
| Conventional Tools & Rentals | **66%** | 67% | 60% | 66% | **65%** | 83% | 71% | 86% |

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

## FORWARD-LOOKING STATEMENTS AND INFORMATION

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

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

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

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

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

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

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

## [1]Non-IFRS Measures

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

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

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash. It does not include the lease liability.

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

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

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

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

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| (in thousands of dollars) | | **2021** | | 2020 |
| Bank EBITDA | **$** | **3,836** | $ | 4,687 |
| Impact of lease accounting under IFRS | | **(1,081)** | | (1,225) |
| Permitted adjustments | | **29** | | 28 |
| EBITDAS | **$** | **4,888** | $ | 5,884 |
| Share-based compensation expense (recovery) | | **2,309** | | (1,680) |
| Other expense (income) | | **127** | | (1,587) |
| EBITDA | **$** | **2,452** | $ | 9,151 |
| Impairment loss | | **-** | | 10,293 |
| Depreciation and amortization | | **4,813** | | 3,914 |
| Finance costs | | **231** | | 394 |
| Loss before income tax | **$** | **(2,592)** | $ | (5,450) |
| Income tax expense (recovery) | | **1** | | (425) |
| Net loss | **$** | **(2,593)** | $ | (5,025) |

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

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

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

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

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

# Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

March 31, 2021

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

| *(in thousands of dollars)* | | **As at March 31, 2021** | | As at December 31, 2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current | | | | |
| Cash | **$** | **6,251** | $ | 6,082 |
| Trade and other accounts receivable *(note 4)* | | **26,799** | | 22,026 |
| Inventory *(note 5)* | | **31,587** | | 32,157 |
| Prepayments and deposits | | **1,456** | | 1,625 |
| | | **66,093** | | 61,890 |
| Non-current | | | | |
| Property and equipment *(note 6)* | | **87,469** | | 89,460 |
| Right-of-use lease asset *(note 9)* | | **7,721** | | 8,513 |
| | | **95,190** | | 97,973 |
| Total assets | **$** | **161,283** | $ | 159,863 |
| **Liabilities** | | | | |
| Current | | | | |
| Trade and other accounts payable *(note 7)* | **$** | **12,444** | $ | 8,905 |
| Share-based compensation *(note 12)* | | **1,714** | | 1,369 |
| Income taxes payable | | **25** | | 25 |
| Current portion of lease liability *(note 9)* | | **4,272** | | 4,089 |
| | | **18,455** | | 14,388 |
| Non-current | | | | |
| Share-based compensation *(note 12)* | | **4,364** | | 3,443 |
| Long-term debt *(note 8)* | | **53** | | 53 |
| Long-term lease liability *(note 9)* | | **6,758** | | 7,801 |
| | | **11,175** | | 11,297 |
| Total liabilities | | **29,630** | | 25,685 |
| **Equity** | | | | |
| Share capital *(note 10)* | | **272,732** | | 272,732 |
| Deficit | | **(147,803)** | | (145,210) |
| Other reserves *(note 11)* | | **6,724** | | 6,656 |
| Total equity | | **131,653** | | 134,178 |
| Total liabilities and equity | **$** | **161,283** | $ | 159,863 |

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

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

| | For the three months ended March 31, | |
|---|---|---|
| *(in thousands of dollars, except per share amounts)* | **2021** | 2020 |
| Revenue | **$ 30,150** | $ 41,423 |
| Operating expenses (*note 2)* | **23,412** | 33,005 |
| Gross margin | **6,738** | 8,418 |
| General and administrative expenses (*note 2)* | **1,850** | 2,534 |
| Depreciation and amortization *(notes 6 and 9)* | **4,813** | 3,914 |
| Share-based compensation expense *(note 12)* | **2,309** | (1,680) |
| Impairment loss *(note 6)* | **-** | 10,293 |
| Other expense (income) | **127** | (1,587) |
| Operating loss | **(2,361)** | (5,056) |
| Finance costs | **231** | 394 |
| Loss before taxes | **(2,592)** | (5,450) |
| Current income tax expense | **1** | 1 |
| Deferred income tax recovery | **-** | (426) |
| Income tax expense (recovery) | **1** | (425) |
| Net loss | **(2,593)** | (5,025) |
| Unrealized foreign exchange gain (loss) *(note 11)* | **66** | (269) |
| Comprehensive loss | **$ (2,527)** | $ (5,294) |
| Net loss per share *(note 13)* | | |
| Basic and diluted | **$ (0.02)** | $ (0.04) |
| Comprehensive loss per share *(note 13)* | | |
| Basic and diluted | **$ (0.02)** | $ (0.04) |

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

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

| | For the three months ended March 31, | |
|---|---|---|
| *(in thousands of dollars)* | **2021** | 2020 |
| **Equity:** | | |
| Share Capital | | |
| Balance, January 1 and March 31 *(note 10)* | **$ 272,732** | $ 272,732 |
| Deficit | | |
| Balance, January 1 | **$ (145,210)** | $ (128,400) |
| Net loss | **(2,593)** | (5,025) |
| Balance, March 31 | **$ (147,803)** | $ (133,425) |
| Other reserves | | |
| Balance, January 1 | **$ 6,656** | $ 6,339 |
| Other comprehensive gain (loss) | **66** | (269) |
| Share-based compensation *(note 12)* | **2** | 6 |
| Balance, March 31 | **$ 6,724** | $ 6,076 |
| **Total equity** | **$ 131,653** | $ 145,383 |

*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)* | **2021** | 2020 |
| **Operating Activities:** | | |
| Net loss | **$ (2,593)** | $ (5,025) |
| Non-cash adjustments to reconcile net loss to operating cash flow: | | |
| Depreciation and amortization *(notes 6 and 9)* | **4,813** | 3,914 |
| Deferred income tax recovery | **-** | (426) |
| Share-based compensation *(note 12)* | **2** | 6 |
| (Recovery) provision for impairment of trade receivable *(note 4)* | **(50)** | 150 |
| Finance costs | **231** | 394 |
| Impairment loss *(note 6)* | **-** | 10,293 |
| Gain on disposal of assets | **(29)** | (168) |
| Funds flow | **2,374** | 9,138 |
| Changes in non-cash operating working capital: | | |
| Trade and other accounts receivable before provision | **(4,638)** | (6,817) |
| Inventory | **556** | 274 |
| Income taxes payable | **-** | 7 |
| Prepayments and deposits | **168** | 410 |
| Trade and other accounts payable | **3,490** | 222 |
| Share-based compensation | **1,265** | (2,765) |
| Net cash provided by operating activities | **3,215** | 469 |
| **Investing Activities:** | | |
| Purchase of property, equipment and intangible assets *(note 6)* | **(2,244)** | (1,305) |
| Non-cash trade and other accounts payable in working capital | **51** | (154) |
| Proceeds on disposal of equipment | **303** | 478 |
| Net cash used in investing activities | **(1,890)** | (981) |
| **Financing Activities:** | | |
| Increase in long-term debt *(note 8)* | **-** | 1,950 |
| Finance costs paid | **(61)** | (130) |
| Payments of lease liability *(note 9)* | **(1,081)** | (1,225) |
| Net cash (used in) provided by financing activities | **(1,142)** | 595 |
| Foreign exchange (loss) gain on cash held in a foreign currency | **(14)** | 30 |
| Net increase in cash | **169** | 113 |
| Cash, beginning of period | **6,082** | 846 |
| Cash, end of period | **$ 6,251** | $ 959 |

*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, 2021 and 2020 were approved by the Board of Directors of Essential ("Board of Directors") on May 4, 2021.

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

## 2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements as at and for the three months ended March 31, 2021 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, 2020. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020.

*GOVERNMENT GRANTS*

Government grants of $1.1 million (2020 – $nil) related to the Canadian Emergency Wage Subsidy program have been included in the condensed consolidated interim statements of net loss and comprehensive loss for the three months ended March 31, 2021. For the three months ended March 31, 2021, $1.0 million (2020 – $nil) has been recorded as a reduction of operating expenses and $0.1 million (2020 – $nil) has been recorded as a reduction of general and administrative expenses.

Government grants of $0.3 million (2020 – $nil) related to the Canadian Emergency Rent Subsidy program have been included in the condensed consolidated interim statements of net loss and comprehensive loss for the three months ended March 31, 2021. For the three months ended March 31, 2021, $0.2 million (2020 – $nil) has been recorded as a reduction of operating expenses and $0.1 million (2020 – $nil) has been recorded as a reduction of general and administrative expenses.

Government grants of $0.2 million (2020 – $nil) related to the U.S. Employment Retention Tax Credit program have been included in the condensed consolidated interim statements of net loss and comprehensive loss for the three months ended March 31, 2021. For the three months ended March 31, 2021, $0.2 million (2020 – $nil) has been recorded as a reduction of operating expenses.

## 3. RISKS AND UNCERTAINTIES

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

The COVID-19 pandemic has resulted in reduced demand for oil, disruptions to global supply chains and volatile financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which has affected commodity prices, borrowing rates and credit risk. This is having negative implications to the North American oil industry. The duration and total extent of demand destruction from COVID-19 is unknown and, in addition to impacting the oil industry, could also have negative implications to the North American natural gas industry.

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

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

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

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

## 4. TRADE AND OTHER ACCOUNTS RECEIVABLE

| | **As at March 31, 2021** | As at December 31, 2020 |
|---|---|---|
| Trade accounts receivable, net of provision | **$ 26,219** | $ 21,616 |
| Other receivables | **580** | 410 |
| | **$ 26,799** | $ 22,026 |

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

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

The aging analysis of trade accounts receivable is as follows:

| | **As at March 31, 2021** | As at December 31, 2020 |
|---|---|---|
| 0-30 days | **$ 11,639** | $ 7,635 |
| 31-60 days | **9,463** | 7,907 |
| 61-90 days | **3,415** | 4,568 |
| > 90 days | **1,702** | 1,506 |
| | **$ 26,219** | $ 21,616 |

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

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 and comprehensive loss. Uncollectable amounts included in the provision are written off against the provision when there is no expectation of recovery. The movements in the provision during the period were as follows:

| | **For the three months ended March 31, 2021** | For the twelve months ended December 31, 2020 |
|---|---|---|
| Balance, beginning of period | **$ 1,706** | $ 1,068 |
| (Recovery) provision for receivable impairment | **(50)** | 1,100 |
| Receivables recovered against the provision | **-** | (462) |
| Balance, end of period | **$ 1,656** | $ 1,706 |

## 5. INVENTORY

| | **As at March 31, 2021** | As at December 31, 2020 |
|---|---|---|
| Tryton tools | **$ 19,983** | $ 20,807 |
| Coil tubing and supplies | **11,604** | 11,350 |
| | **$ 31,587** | $ 32,157 |

Inventory charged through operating expenses in the consolidated interim statements of net loss and comprehensive loss for the three months ended March 31, 2021 was $9.9 million (2020 – $10.1 million).

## 6. PROPERTY AND EQUIPMENT

| **As at March 31, 2021** | **Cost** | **Accumulated Depreciation** | **Net Book Value** |
|---|---|---|---|
| Coil tubing rigs, pumpers and equipment | **$ 147,996** | **$ 90,377** | **$ 57,619** |
| Other oilfield equipment | **57,824** | **39,564** | **18,260** |
| Vehicles | **29,625** | **19,176** | **10,449** |
| Office and computer equipment | **3,525** | **3,220** | **305** |
| Other | **9,861** | **9,025** | **836** |
| | **$ 248,831** | **$ 161,362** | **$ 87,469** |

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

| As at December 31, 2020 | | Cost | | Accumulated Depreciation | | Net Book Value |
|---|---|---|---|---|---|---|
| Coil tubing rigs, pumpers and equipment | $ | 147,203 | $ | 89,367 | $ | 57,836 |
| Other oilfield equipment | | 57,761 | | 38,620 | | 19,141 |
| Vehicles | | 29,668 | | 18,606 | | 11,062 |
| Office and computer equipment | | 3,525 | | 3,193 | | 332 |
| Other | | 9,861 | | 8,772 | | 1,089 |
| | $ | 248,018 | $ | 158,558 | $ | 89,460 |

Included in property and equipment is $2.1 million (December 31, 2020 – $0.4 million) of assets under construction which will not be depreciated until put into use.

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | | **2021** | | 2020 |
| Net book value, beginning of period | **$** | **89,460** | $ | 111,436 |
| Additions | | **2,244** | | 1,305 |
| Transfers | | **14** | | 117 |
| Disposals | | **(274)** | | (308) |
| Depreciation | | **(3,970)** | | (3,052) |
| Impairment loss | | **-** | | (6,559) |
| Currency translation adjustment | | **(5)** | | 54 |
| Net book value, end of period | **$** | **87,469** | $ | 102,993 |

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

## 7. TRADE AND OTHER ACCOUNTS PAYABLE

| | | **As at March 31, 2021** | | As at December 31, 2020 |
|---|---|---|---|---|
| Trade accounts payable | **$** | **8,177** | $ | 5,093 |
| Accrued payroll | | **2,471** | | 1,342 |
| Accrued payables | | **1,558** | | 2,341 |
| Other | | **238** | | 129 |
| | **$** | **12,444** | $ | 8,905 |

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

## 8. LONG-TERM DEBT

| | | As at March 31, 2021 | | As at December 31, 2020 |
|---|---|---|---|---|
| Paycheck Protection Program Loans ("PPP Loans") | **$** | **53** | $ | 53 |
| | **$** | **53** | $ | 53 |

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

As at March 31, 2021, $15.0 million under the Credit Facility was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

In 2020, Essential received $0.7 million of PPP Loans. The PPP Loans were used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they were incurred. Interest on the PPP Loans accrued at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. As at March 31, 2021, the remaining balance of $0.1 million for the PPP Loans related to the unforgiveable portion (December 31, 2020 - $0.1 million).

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

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | | **2021** | | 2020 |
| Balance, beginning of period | **$** | **53** | $ | 6,563 |
| Cash changes: | | | | |
| Increase in long-term debt | | **-** | | 1,950 |
| Non-cash changes: | | | | |
| Amortization of deferred financing fees | | **-** | | 31 |
| Balance, end of period | **$** | **53** | $ | 8,544 |

## 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, 2021** | For the twelve months ended December 31, 2020 |
|---|---|---|
| Beginning of period | **$ 8,513** | $ 12,600 |
| Leases added in year | **61** | 1,252 |
| Lease modification | **-** | (1,836) |
| Depreciation | **(843)** | (3,472) |
| Foreign exchange loss | **(10)** | (31) |
| End of period | **$ 7,721** | $ 8,513 |

**Lease liability**

| | **As at March 31, 2021** | As at December 31, 2020 |
|---|---|---|
| Maturity analysis - contractual undiscounted cash flow | | |
| Less than one year | **$ 4,801** | $ 4,678 |
| One to five years | **7,153** | 8,305 |
| Total undiscounted lease liability, end of period | **$ 11,954** | $ 12,983 |
| Discounted value of future lease payments | | |
| Current portion of lease liability | **$ 4,272** | $ 4,089 |
| Long-term portion of lease liability | **6,758** | 7,801 |
| Lease liability included in the statements of financial position | **$ 11,030** | $ 11,890 |

For the three months ended March 31, 2021, Essential recognized $0.2 million (2020 - $0.2 million) of finance costs related to the lease liability in its consolidated interim statements of net loss and comprehensive loss and $1.1 million (2020 - $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, 2021, December 31, 2020 and January 1, 2020 | **141,857** | $ | **272,732** |

## 11. OTHER RESERVES

| | | Contributed Surplus | | Accumulated Other Comprehensive Income | | Total |
|---|---|---|---|---|---|---|
| As at January 1, 2020 | $ | 5,870 | $ | 469 | $ | 6,339 |
| Share-based compensation | | 22 | | - | | 22 |
| Unrealized foreign exchange gain | | - | | 295 | | 295 |
| As at December 31, 2020 | $ | 5,892 | $ | 764 | $ | 6,656 |
| Share-based compensation | | **2** | | **-** | | **2** |
| Unrealized foreign exchange gain | | **-** | | **66** | | **66** |
| **As at March 31, 2021** | **$** | **5,894** | **$** | **830** | **$** | **6,724** |

## 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 expense (recovery) are as follows:

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| | | **2021** | | 2020 |
| Share options | **$** | **2** | $ | 6 |
| Restricted share units | | **1,228** | | (358) |
| Deferred share units | | **1,079** | | (1,328) |
| Share-based compensation expense (recovery) | **$** | **2,309** | $ | (1,680) |

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

### a) Share Option Plan

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

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

| | **For the three months ended March 31, 2021** | | For the three months ended March 31, 2020 | |
|---|---|---|---|---|
| | **Number of Options (000's)** | **Weighted Average Exercise Price** | Number of Options (000's) | Weighted Average Exercise Price |
| Outstanding, beginning of period | **3,263** | **$ 0.62** | 4,428 | $ 0.77 |
| Expired | **(1,045)** | **0.55** | (245) | 1.46 |
| Outstanding, end of period | **2,218** | **$ 0.65** | 4,183 | $ 0.73 |
| Exercisable, end of period | **2,069** | **$ 0.68** | 3,884 | $ 0.76 |

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, 2021** | | | | |
| **$0.32 - $0.50** | **448** | **2.77** | **$ 0.32** | **299** |
| **$0.51 - $0.83** | **1,770** | **0.56** | **$ 0.74** | **1,770** |
| | **2,218** | **1.01** | **$ 0.65** | **2,069** |
| 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 |

### b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. Grants generally vest in three equal instalments but can be issued with time vesting and/or performance vesting feature(s). The performance-based units vest when certain conditions are met. Essential's liability as at March 31, 2021 was $2.1 million (December 31, 2020 – $1.9 million) of which $1.7 million is due within one year (December 31, 2020 – $1.4 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) | **2021** | 2020 |
| Outstanding, beginning of period | **14,483** | 8,077 |
| Issued | **10,729** | 7,506 |
| Vested | **(4,548)** | (2,965) |
| Forfeited | **(122)** | - |
| Outstanding, end of period | **20,542** | 12,618 |

### 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, 2021 was $4.0 million (December 31, 2020 – $2.9 million) of which $nil is due within one year (December 31, 2020 – $nil).

The following table summarizes information with respect to DSUs outstanding:

| | For the three months ended March 31, | |
|---|---|---|
| Number of DSUs (000's) | **2021** | 2020 |
| Outstanding, beginning of period | **11,464** | 5,551 |
| Issued | **2,330** | - |
| Redeemed | **(81)** | - |
| Forfeited | **(323)** | - |
| Outstanding, end of period | **13,390** | 5,551 |

## 13. EARNINGS PER SHARE

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

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

| | For the three months ended March 31, | |
|---|---|---|
| (000'S) | **2021** | 2020 |
| 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 and third quarters of the year and lower in the second and fourth quarters.

## 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) ECWS

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

### b) Tryton

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

### c) Corporate

The Corporate segment is comprised of corporate costs and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. Loss before income taxes for the three months ended March 31, 2021 for the Corporate segment includes corporate costs and certain operational costs of $1.7 million (2020 - $2.6 million), and $2.9 million related to share-based compensation expense (recovery), depreciation and amortization, finance costs and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar (2020 – $(3.3) million).

*(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, 2021** | | **ECWS** | | **Tryton** | | **Corporate** | | **Consolidated** |
|---|---|---|---|---|---|---|---|---|
| Revenue | **$** | **15,856** | **$** | **14,294** | **$** | **-** | **$** | **30,150** |
| Income (loss) before taxes | **$** | **289** | **$** | **1,733** | **$** | **(4,614)** | **$** | **(2,592)** |
| Depreciation and amortization | **$** | **3,353** | **$** | **1,222** | **$** | **238** | **$** | **4,813** |
| Total assets | **$** | **106,267** | **$** | **52,967** | **$** | **2,049** | **$** | **161,283** |
| Total liabilities | **$** | **15,719** | **$** | **10,677** | **$** | **3,234** | **$** | **29,630** |
| Property, equipment and intangible asset expenditures | **$** | **2,180** | **$** | **64** | **$** | **-** | **$** | **2,244** |

| 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 taxes | $ | (2,055) | $ | (4,121) | $ | 726 | $ | (5,450) |
| Depreciation and amortization | $ | 2,393 | $ | 1,229 | $ | 292 | $ | 3,914 |
| Impairment | $ | 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 |

# CORPORATE INFORMATION

## Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Robert T. German[1, 3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2, 3]

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

## Auditors

KPMG LLP

## Bankers

National Bank of Canada

ATB Financial

Canadian Western Bank

## Legal Counsel

Fasken Martineau DuMoulin LLP

## Transfer Agent

Computershare Trust Company of Canada

## Management

Garnet K. Amundson
President and Chief Executive Officer

Jeff B. Newman
Chief Financial Officer

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Finance and Corporate Secretary

## Stock Exchange Listing

TSX: ESN

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