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 and nine months ended September 30, 2018.

This MD&A should be read in conjunction with Essential's September 30, 2018 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2017 Financial Report for the financial year ended December 31, 2017. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned annual MD&A. Readers should carefully read the sections regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective November 7, 2018 and was approved and authorized for issuance by the Board of Directors of the Company on November 7, 2018.

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

SELECTED INFORMATION

(in thousands of dollars except per share, percentages, hours and fleet data)	For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Revenue	**$ 50,636**	$ 48,751	**$ 148,708**	$ 132,646
Gross margin	**10,112**	11,524	**27,420**	27,402
Gross margin %	**20%**	24%	**18%**	21%
EBITDAS[(1)] from continuing operations	**7,047**	8,541	**18,029**	17,456
Net income from continuing operations	**2,228**	2,344	**4,876**	819
Per share – basic and diluted	**0.02**	0.02	**0.03**	0.01
Net income	**2,228**	2,344	**4,876**	489
Per share – basic and diluted	**0.02**	0.02	**0.03**	0.00
Operating hours				
Coil tubing rigs	**13,236**	13,751	**38,717**	37,210
Pumpers	**17,237**	18,094	**50,912**	46,276

	As at September 30, 2018	2017
Total assets	**$ 229,358**	$ 223,695
Long-term debt	**23,667**	20,606
Equipment fleet[(i)]		
Coil tubing rigs	**28**	31
Pumpers	**26**	29

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

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

HIGHLIGHTS

Essential's activity was relatively strong in July and August 2018 but slowed down in mid-September due to wet weather. Revenue for the three months ended September 30, 2018 was $50.6 million, a $1.9 million increase from the same prior year period. EBITDAS[1] was $7.0 million, $1.5 million lower than the third quarter 2017.

Key operating highlights included:

- Essential Coil Well Service ("ECWS") third quarter 2018 revenue was $27.8 million, slightly below the third quarter 2017. Essential's coil tubing rigs and pumpers experienced strong activity, slowing down late in the quarter due to wet weather.
- Tryton third quarter 2018 revenue was $22.8 million, a 13% increase compared to the third quarter 2017 due to customer demand in Canada. Activity benefitted from customer well completion, maintenance and abandonment work.

For the nine months ended September 30, 2018 Essential reported revenue of $148.7 million, $16.1 million higher than the prior year period. EBITDAS[1] was $18.0 million, a $0.6 million increase from the nine months ended September 30, 2017. The increase in revenue without a corresponding increase in gross margin was due to increased operating costs, particularly repairs and maintenance, fuel and labour costs. These cost increases were not recovered from customers through service price increases due to competitive pressure.

At September 30, 2018, Essential's long-term debt, net of cash was $22.8 million and funded debt[1] to bank EBITDA[1] was 1.19x. Working capital[1] was $63.7 million at September 30, 2018, exceeding long-term debt, net of cash by $40.9 million. On November 7, 2018, there was $19.2 million of long-term debt, net of cash outstanding.

INDUSTRY OVERVIEW

Third quarter 2018 activity in the Canadian oil and natural gas industry was lower than the third quarter 2017. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB") declined 13%[a] and 2%[a] for the three and nine months ended September 30, 2018 compared to the same prior year periods. The price of oil averaged approximately U.S. $70 per barrel (West Texas Intermediate ("WTI")), a significant increase from U.S. $48 per barrel in the third quarter 2017. The differential between Canadian benchmark prices and WTI expanded through the third quarter and Canadian exploration and production ("E&P") companies did not realize the same appreciation in prices. Canadian oil price discounts reflect oversupply and export capacity constraints in the WCSB. Canadian natural gas prices remained significantly below third quarter 2017 prices. While Canadian E&P companies realized some benefit from higher oil prices compared to 2017, the incremental cash flow generally has not translated into increased spending on drilling and completion programs, which limited improvement in oilfield service activity.

OVERVIEW OF ESSENTIAL

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

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

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 of up to 7,200 meters using 2 ⅜ inch coil if the coil is transported on the rig and up to 9,400 meters using 2 ⅜ inch coil 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 production and completion tools and rentals for horizontal and vertical wells. Operations for this segment are well-placed geographically across the WCSB and in the U.S.

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

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously. Tryton offers a variety of MSFS® tools that provide customers with a choice of completion technologies to use on their horizontal well completion program. The completion technology selected will vary based on wellbore characteristics and client preference. Revenue and cost parameters of each completion technology vary depending on the nature of the tools used and the services provided:
    - Ball & Seat – Tryton's Ball & Seat system uses open hole packers and sleeves, which are opened in sequential order by dropping progressively larger balls through a liner, to isolate and fracture each zone along the non-cased horizontal leg of a well. The number of zones, or "stages", that can be fractured using a Ball & Seat system is limited by the size specifications of the balls and seats used.
    - V-Sleeve – The Tryton V-Sleeve is a cemented-in-liner system that involves cementing a tool string into the wellbore with sliding sleeves set at specified intervals and using a coil-actuated sleeve shifting tool to sequentially open each sliding sleeve. The Tryton V-Sleeve system enables customers to fracture an unlimited number of stages in the horizontal leg.

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

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

- Conventional Tools – Includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and abandonment operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers, specialty equipment for steam-assisted gravity drainage wells, and various other tools and handling equipment.

<u>Patent Litigation</u>

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

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

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

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

On January 5, 2018, Packers Plus filed an appeal of the trial judge's rulings on validity and infringement (the "Appeal") with the Federal Court of Appeal (the "Appeal Court"). The filing of an appeal from a trial judgment is very common and does not diminish the significance of the Decision. By July 9, 2018, all parties, Essential, the co-defendants and Packers Plus, had filed their court documents related to the Appeal and requested a hearing date from the Appeal Court. The Appeal Court schedules hearings based on availability of Appeal Court judges and other schedule considerations. As the end of 2018 approaches, it is becoming increasingly more likely that the Appeal hearing may not be scheduled until 2019.

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

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

Based on the findings made by the trial judge and the strength of the written judgment in support of the Decision, Essential believes the Appeal is without merit.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Revenue	**$ 50,636**	$ 48,751	**$ 148,708**	$ 132,646
Operating expenses	**40,524**	37,227	**121,288**	105,244
Gross margin	**10,112**	11,524	**27,420**	27,402
General and administrative expenses	**3,065**	2,983	**9,391**	9,946
EBITDAS(1) from continuing operations	**7,047**	8,541	**18,029**	17,456
Depreciation and amortization	**3,774**	3,935	**11,334**	11,817
Share-based compensation expense	**107**	546	**241**	2,769
Other expense (income)	**17**	572	**(876)**	742
Finance costs	**316**	218	**971**	955
Income before income tax from continuing operations	**2,833**	3,270	**6,359**	1,173
Current income tax expense (recovery)	**55**	339	**63**	(208)
Deferred income tax expense	**550**	587	**1,420**	562
Income tax expense	**605**	926	**1,483**	354
Net income from continuing operations	**$ 2,228**	$ 2,344	**$ 4,876**	$ 819
Net loss from discontinued operations	**-**	-	**-**	(330)
Net income	**$ 2,228**	$ 2,344	**$ 4,876**	$ 489
Net income from continuing operations per share Basic and diluted	**$ 0.02**	$ 0.02	**$ 0.03**	$ 0.01
Net income per share Basic and diluted	**$ 0.02**	$ 0.02	**$ 0.03**	$ 0.00

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Revenue	**$ 27,831**	$ 28,606	**$ 81,179**	$ 71,894
Operating expenses	**22,524**	21,984	**67,643**	58,242
Gross margin	**$ 5,307**	$ 6,622	**$ 13,536**	$ 13,652
Gross margin %	**19%**	23%	**17%**	19%
Operating hours				
Coil tubing rigs	**13,236**	13,751	**38,717**	37,210
Pumpers	**17,237**	18,094	**50,912**	46,276
Equipment fleet (i)				
Coil tubing rigs	**28**	31	**28**	31
Fluid pumpers	**19**	18	**19**	18
Nitrogen pumpers	**7**	11	**7**	11

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

ECWS third quarter 2018 revenue was $27.8 million as ECWS experienced strong coil tubing rig and pumper activity, particularly the Generation III coil tubing rigs and quintuplex fluid pumpers, which are well-suited for horizontal deep wells in the WCSB. ECWS activity was ahead of the same prior year period for most of the third quarter until wet weather in mid-September limited access to customer sites and resulted in reduced activity. Revenue per hour remained consistent with the third quarter 2017 and the first half of 2018.

Gross margin was 19% for the third quarter 2018, lower than the same period in the prior year due to higher repairs and maintenance costs and increased fuel prices. These incremental cost increases were not recovered from customers through service price increases due to competitive pressure. Increased repairs and maintenance costs were primarily a result of an increase in fluid-end replacements on the fluid pumpers due to higher pressure work on long-reach horizontal wells.

On a year-to-date basis, ECWS revenue was $81.2 million, a 13% increase compared to the nine months ended September 30, 2017 due to higher activity and strong customer demand for the Generation III coil tubing rigs, quintuplex fluid pumpers and nitrogen pumpers. Gross margin was $13.5 million for the nine months ended September 30, 2018, consistent with the same prior year period. The increase in revenue without a corresponding increase in gross margin was due to higher repairs and maintenance, fuel and labour costs that ECWS was not able to recover from customers through price increases.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Revenue	**$ 22,805**	$ 20,145	**$ 67,529**	$ 60,752
Operating expenses	**17,528**	14,690	**52,264**	45,481
Gross margin	**$ 5,277**	$ 5,455	**$ 15,265**	$ 15,271
Gross margin %	**23%**	27%	**23%**	25%
Tryton revenue – % of revenue				
Tryton MSFS®	**41%**	48%	**45%**	52%
Conventional Tools & Rentals	**59%**	52%	**55%**	48%

Third quarter 2018 revenue was $22.8 million, a $2.7 million increase compared to the same period in 2017. Tryton's conventional downhole tool business generated higher revenue compared to the same prior year period, as customers increased their focus on well maintenance and abandonment work. Tryton MSFS® revenue remained consistent with the third quarter 2017.

On a year-to-date basis, Tryton revenue was $67.5 million, an 11% increase compared to the nine months ended September 30, 2017. Gross margin remained strong for the three and nine months ended September 30, 2018, supported by Tryton's broad customer base, wide product offering and variable cost structure.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
General and administrative expenses	**$ 3,065**	$ 2,983	**$ 9,391**	$ 9,946

General and administrative expenses ("G&A") are comprised of wages, professional fees, office rent and other corporate and operational administrative costs. G&A for the nine months ended September 30, 2018 decreased compared to the same period in 2017 due to significant legal fees incurred in the first quarter 2017 related to the Packers Plus trial.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Depreciation and amortization expense	**$ 3,774**	$ 3,935	**$ 11,334**	$ 11,817

Depreciation and amortization expense for the three and nine months ended September 30, 2018 was consistent with the same period in 2017.

Share-based Compensation

(in thousands of dollars)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Share-based compensation expense	**$ 107**	$ 546	**$ 241**	$ 2,769

For the three and nine months ended September 30, 2018, the reduction in share-based compensation expense was due to a corresponding reduction in Essential's share price during those periods. Essential's liability for share-based compensation granted to participants fluctuates based on Essential's share price. As the share price decreased, the estimated amount of future payments to participants also decreased and resulted in a lower share-based compensation expense.

Other Expense (Income)

(in thousands of dollars)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
(Gain) loss on disposal of assets	**$ (79)**	$ 86	**$ (267)**	$ (184)
Foreign exchange loss (gain)	**260**	481	**(391)**	940
Other (gain) loss	**(164)**	5	**(218)**	(14)
Other expense (income)	**$ 17**	$ 572	**$ (876)**	$ 742

The (gain) loss on disposal of assets related to assets that were sold as they were no longer used in operations. Weakening of the Canadian dollar in relation to the U.S. dollar during the nine months ended September 30, 2018 resulted in a foreign exchange gain.

Finance Costs

(in thousands of dollars)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Finance costs	**$ 316**	$ 218	**$ 971**	$ 955

For the nine months ended September 30, 2018, finance costs were higher than the same periods in 2017. The higher average long-term debt outstanding in 2018 was offset by a lower interest rate on the Company's revolving credit facility (the "Credit Facility") compared to the nine months ended September 30, 2018.

Income Taxes

(in thousands of dollars)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Current income tax expense (recovery)	**$ 55**	$ 339	**$ 63**	$ (208)
Deferred income tax expense	**550**	587	**1,420**	562
Income tax expense	**$ 605**	$ 926	**$ 1,483**	$ 354

Essential's statutory income tax rate was 27% for the nine months ended 2018, consistent with the same prior year period. The Company's effective income tax rate for the nine months ended September 30, 2018 was 23% compared to 30% for the nine months ended September 30, 2017. The lower effective 2018 tax rate was due to recognition of previously unrecognized U.S. tax losses from prior years against current year U.S. income.

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 September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Net cash (used in) provided by operating activities	**$ (2,216)**	$ (6,564)	**$ 4,059**	$ 2,900
Increases in non-cash working capital[1]	**(9,054)**	(13,839)	**(14,562)**	(11,714)
Operating cash flow before changes in non-cash operating working capital[1]	**$ 6,838**	$ 7,275	**$ 18,621**	$ 14,614
Per share – basic and diluted	**$ 0.05**	$ 0.05	**$ 0.13**	$ 0.10

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at September 30, 2018**	As at December 31, 2017
Current assets	**$ 87,751**	$ 74,883
Current liabilities	**(24,065)**	(24,712)
Working capital[1]	**$ 63,686**	$ 50,171
Working capital ratio	**3.6:1**	3.0:1

Working capital[1] is comprised primarily of accounts receivable and inventory, net of accounts payable. Working capital[1] typically grows through the first, third and fourth quarters of the year when industry activity is stronger. Essential uses its Credit Facility to meet the variable nature of its working capital[1] needs for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt tends to increase and in periods of lower activity, debt tends to decline.

CREDIT FACILITY

Essential's Credit Facility is comprised of a $50 million revolving 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. 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 September 30, 2018, Essential had a consolidated funded debt[1] balance of $22.8 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 November 7, 2018, Essential had $19.2 million of long-term debt, net of cash.

Financial Covenants

As at September 30, 2018 the maximum of $50 million was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	**As at September 30, 2018**
Funded debt(1) to capitalization	≤ 50%	**12%**
Funded debt(1) to bank EBITDA(1)	≤ 3.50x	**1.19x**
Fixed charge coverage ratio(1)	≥ 1.25x	**16.2x**
Distributions(i) cannot exceed distributable cash flow(1)		**N/A**

(i) Distributions include dividends and share buybacks.

EQUIPMENT EXPENDITURES

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Essential Coil Well Service	**$ 1,115**	$ 3,073	**$ 8,870**	$ 11,432
Tryton	**556**	352	**1,855**	2,183
Corporate	**29**	76	**338**	314
Total equipment expenditures	**1,700**	3,501	**11,063**	13,929
Less proceeds on disposal of property and equipment	**(496)**	(1,154)	**(3,090)**	(1,769)
Net equipment expenditures(1)	**$ 1,204**	$ 2,347	**$ 7,973**	$ 12,160

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

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Growth capital(1)	**$ 113**	$ 515	**$ 4,211**	$ 6,861
Maintenance capital(1)	**1,587**	2,986	**6,852**	7,068
Total equipment expenditures	**$ 1,700**	$ 3,501	**$ 11,063**	$ 13,929

During the nine months ended September 30, 2018, growth capital included completion of two quintuplex fluid pumpers, a nitrogen pumper and a retrofitted Generation IV coil tubing rig.

The retrofitted Generation IV coil tubing rig was delivered at the end of the third quarter and successfully completed its first job for a large E&P company in the Duvernay region in October 2018. This rig was converted from a masted rig to a conventional rig by NOV Completion & Production Solutions, a manufacturer in Calgary, Alberta. It is well-suited for deep horizontal wells in the Montney and Duvernay. The rig is lighter than the original Generation IV coil tubing rig design allowing ease of movement between work sites. It has a quick-change reel system for efficiency and 130K and 160K injector capability, with higher injector capacity required for deeper horizontal wells. The retrofitted rig can reach 7,200 meters with 2 ⅜ inch coil if the coil is transported on the rig and up to 9,400 meters with 2 ⅜ inch coil if the coil is transported separately.

Essential's 2018 capital forecast is $16 million and is comprised of $7 million of growth capital and $9 million of maintenance capital. Growth capital remaining in 2018 includes the purchase of a set of high pressure blow out preventers to support ECWS's coil tubing fleet and long lead time components for the Generation IV coil tubing rig retrofits.

Share Capital

As at November 7, 2018, there were 141,856,813 common shares and 5,821,249 share options outstanding. Of the 5,821,249 share options, 4,264,022 were exercisable of which nil were "in-the-money".

Commitments

Operating leases

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

(in thousands of dollars)		Amount
2018 (for the three months ending December 31)	$	1,501
2019		6,138
2020		5,638
2021		4,757
2020		4,625
Thereafter		3,609
As at September 30, 2018	$	26,268

FUTURE ACCOUNTING STANDARDS

International Financial Reporting Standard ("IFRS") 16 *Leases* introduces a single, on-balance sheet lease accounting model for lessees, where a lessee recognizes a right-of-use asset and a lease liability. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

Essential will adopt IFRS 16 on January 1, 2019. The most significant impact identified is that Essential will recognize new right-of-use assets and lease liabilities for office and shop premises operating leases. In addition, lease expenses now included as part of operating and general and administrative expenses on the statements of net income and comprehensive income will be replaced by a depreciation charge for right-of-use assets and finance costs on lease liabilities.

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

OUTLOOK

Management expects fourth quarter activity to slow as the quarter progresses and customers complete their 2018 capital programs. During this time, ECWS will remain focused on balancing crew retention with cost management. Tryton is expected to continue to benefit in the fourth quarter from customers working on well maintenance and abandonment activities.

Since the beginning of the third quarter, Canadian oil prices have been trending downward, increasing the differential between WTI and Canadian benchmark pricing. This, along with depressed Canadian natural gas prices and an uncertain regulatory environment, is limiting investment in the WCSB.

Industry analysts are generally forecasting 2019 activity to be similar to 2018, with some forecasting a slight uptick and others a slight reduction. The Petroleum Services Association of Canada announced on November 1, 2018 its estimate that the number of wells drilled in 2019 will be 5% lower than its estimate for 2018. Visibility into 2019 for Essential will become clearer later in 2018 and early 2019 as customers announce their 2019 capital budgets and plan their work requirements.

Industry activity in Canada is expected to remain constrained due to significant political, regulatory and market access issues. Until these issues are resolved, investment in Canadian oil and natural gas development is expected to remain limited, which in turn confines oilfield service activity and puts downward pressure on pricing. The recent LNG Canada announcement to proceed with an LNG facility is positive for Canadian natural gas, but is not expected to benefit the Canadian industry in the near term. Continued delays with the Trans Mountain Pipeline expansion are not constructive to the long-term health of the Canadian energy industry.

ECWS's first retrofitted Generation IV coil tubing rig was delivered at the end of September and the rig successfully completed its first job in October with a high-profile customer. This first retrofit validates the design and engineering. It is a lighter rig and has a quick-change reel system with higher injector capacity, that's required for deeper horizontal wells. The retrofitted rig can reach 7,200 meters with 2 ⅜ inch coil if the coil is transported on the rig and up to 9,400 meters with 2 ⅜ inch coil if the coil is transported separately. ECWS has four additional Generation IV retrofits that can be undertaken as market demand dictates. The time and cost of a retrofit is significantly lower than a new build, providing the opportunity to enhance Essential's deep coil tubing fleet.

Essential's strong balance sheet positions it well to adjust its operations as activity changes and allows it to invest in equipment to meet customer's needs for completing long reach horizontal wells. With long-term debt, net of cash of $19.2 million on November 7, 2018, Essential believes it is well-positioned to meet its working capital and spending requirements.

SUMMARY OF QUARTERLY DATA

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

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

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Sept 30, 2018**	June 30, 2018	Mar 31, 2018	Dec 31, 2017	**Sept 30, 2017**	June 30, 2017	Mar 31, 2017	Dec 31, 2016
Essential Coil Well Service	**27,831**	20,774	32,574	22,002	**28,606**	14,569	28,719	17,564
Tryton	**22,805**	17,164	27,560	21,260	**20,145**	13,076	27,531	15,655
Inter-segment eliminations	**-**	-	-	-	**-**	-	-	(176)
Total revenue	**50,636**	37,938	60,134	43,262	**48,751**	27,645	56,250	33,043
Gross margin	**10,112**	4,838	12,470	4,522	**11,524**	1,484	14,394	4,148
Gross margin %	**20%**	13%	21%	10%	**24%**	5%	26%	13%
EBITDAS[(1)] from continuing operations	**7,047**	1,837	9,145	1,153	**8,541**	(1,291)	10,206	(4,161)
Bank EBITDA[(1)]	**7,264**	1,871	9,150	1,220	**8,624**	(1,272)	10,224	11,541
Continuing operations								
Net income (loss)	**2,228**	(2,405)	5,053	(3,843)	**2,344**	(5,005)	3,480	(9,832)
Per share – basic and diluted	**0.02**	(0.02)	0.04	(0.03)	**0.02**	(0.04)	0.02	(0.07)
Net income (loss)	**2,228**	(2,405)	5,053	(3,843)	**2,344**	(5,005)	3,150	(25,411)
Per share – basic and diluted	**0.02**	(0.02)	0.04	(0.03)	**0.02**	(0.04)	0.02	(0.18)
Total assets	**229,358**	221,935	241,472	219,448	**223,695**	208,337	227,646	209,270
Long-term debt	**23,667**	19,087	31,943	17,975	**20,606**	13,337	18,169	11,250
Operating hours								
Coil tubing rigs	**13,236**	9,311	16,170	11,215	**13,751**	7,039	16,420	11,119
Pumpers	**17,237**	13,236	20,439	14,581	**18,094**	9,529	18,653	12,341
Total equipment fleet[(i)]								
Coil tubing rigs	**28**	30	30	30	**31**	31	31	31
Fluid pumpers	**19**	20	19	18	**18**	20	21	21
Nitrogen pumpers	**7**	7	7	8	**11**	11	11	11
Tryton - % of revenue								
Tryton MSFS®	**41%**	47%	47%	44%	**48%**	42%	59%	53%
Conventional Tools & Rentals	**59%**	53%	53%	56%	**52%**	58%	41%	47%

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

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “continues”, “projects”, “forecasts”, “potential”, “budget” and similar expressions, or are events or conditions that “will”, “would”, “may”, “likely”, “could” or “should” occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the grounds upon which Packers Plus could have a successful claim for damages or other relief against Essential, Essential’s belief that the Appeal is without merit and the timing of the Appeal process; the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities and financial condition; Essential’s capital forecast; accounting standard implementation; oil and natural gas industry activity and outlook; political and regulatory uncertainty; Essential’s activity levels; equipment retrofitting, capabilities of the retrofits, timing and cost of future retrofits; Essential’s competitive position, operational focus, outlook and the demand for Essential’s services; and Essential’s financial position and ability to adjust operations and meet its working capital and capital spending requirements.

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

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

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

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

(1)Non-IFRS Measures

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

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

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

Distributable cash flow – This measure is generally defined in Essential's Credit Facility as net income excluding share-based compensation expense, depreciation and amortization, deferred income tax expense, provision for accounts receivable impairment, gains/losses on disposal and write-down of assets and Permitted Adjustments, less required principal repayments for the most recent trailing twelve months.

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
(in thousands of dollars)	**2018**	2017	**2018**	2017
Bank EBITDA	**$ 7,264**	$ 8,624	**$ 18,285**	$ 17,576
Permitted Adjustments	**217**	83	**256**	120
EBITDAS from continuing operations	**$ 7,047**	$ 8,541	**$ 18,029**	$ 17,456
Share-based compensation	**107**	546	**241**	2,769
Other expense (income)	**17**	572	**(876)**	742
EBITDA from continuing operations	**$ 6,923**	$ 7,423	**$ 18,664**	$ 13,945
Depreciation and amortization	**3,774**	3,935	**11,334**	11,817
Finance costs	**316**	218	**971**	955
Income before income tax from continuing operations	**$ 2,833**	$ 3,270	**$ 6,359**	$ 1,173
Total income tax expense	**605**	926	**1,483**	354
Net income from continuing operations	**$ 2,228**	$ 2,344	**$ 4,876**	$ 819

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 September 30, 2018
Bank EBITDA	**$ 19,505**
Less current income tax recovery	**(689)**
	$ 20,194
Finance costs	**$ 1,249**
Fixed charge coverage ratio	**16.2x**

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

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

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

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

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

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

Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

September 30, 2018

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

(in thousands of dollars)		**As at September 30, 2018**		As at December 31, 2017
Assets				
Current				
Cash	**$**	**870**	$	46
Trade and other accounts receivable *(note 5)*		**43,179**		35,919
Inventories *(note 6)*		**41,132**		35,683
Income taxes receivable		**3**		1,129
Prepayments and deposits		**2,567**		2,106
		87,751		74,883
Non-current				
Property and equipment *(note 7)*		**137,227**		139,734
Intangible assets *(note 8)*		**827**		1,387
Goodwill		**3,553**		3,444
		141,607		144,565
Total assets	**$**	**229,358**	$	219,448
Liabilities				
Current				
Trade and other accounts payable *(note 9)*	**$**	**22,451**	$	22,504
Share-based compensation *(note 14)*		**931**		1,498
Current portion of onerous lease contract *(note 10)*		**683**		710
		24,065		24,712
Non-current				
Long-term onerous lease contract *(note 10)*		**2,833**		3,432
Share-based compensation *(note 14)*		**3,423**		4,397
Long-term debt *(note 11)*		**23,667**		17,975
Deferred tax liabilities		**9,549**		8,129
		39,472		33,933
Total liabilities		**63,537**		58,645
Commitments and contingencies *(note 16)*				
Equity				
Share capital *(note 12)*		**272,732**		272,732
Deficit		**(113,080)**		(117,956)
Other reserves *(note 13)*		**6,169**		6,027
Total equity		**165,821**		160,803
Total liabilities and equity	**$**	**229,358**	$	219,448

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

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

(in thousands of dollars, except per share amounts)	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Revenue	**$ 50,636**	$ 48,751	**$ 148,708**	$ 132,646
Operating expenses	**40,524**	37,227	**121,288**	105,244
Gross margin	**10,112**	11,524	**27,420**	27,402
General and administrative expenses	**3,065**	2,983	**9,391**	9,946
Depreciation and amortization *(notes 7 and 8)*	**3,774**	3,935	**11,334**	11,817
Share-based compensation expense *(note 14)*	**107**	546	**241**	2,769
Other expense (income)	**17**	572	**(876)**	742
Operating income from continuing operations	**3,149**	3,488	**7,330**	2,128
Finance costs	**316**	218	**971**	955
Income before income taxes from continuing operations	**2,833**	3,270	**6,359**	1,173
Current income tax expense (recovery)	**55**	339	**63**	(208)
Deferred income tax expense	**550**	587	**1,420**	562
Income tax expense	**605**	926	**1,483**	354
Net income from continuing operations	**2,228**	2,344	**4,876**	819
Loss from discontinued operations, net of tax	**-**	-	**-**	(330)
Net income	**2,228**	2,344	**4,876**	489
Unrealized foreign exchange gain (loss) from continuing operations *(note 13)*	**8**	80	**(45)**	142
Other comprehensive gain (loss)	**8**	80	**(45)**	142
Comprehensive income	**$ 2,236**	$ 2,424	**$ 4,831**	$ 631
Net income per share from continuing operations *(note 15)*				
Basic and diluted	**$ 0.02**	$ 0.02	**$ 0.03**	$ 0.01
Net income per share *(note 15)*				
Basic and diluted	**$ 0.02**	$ 0.02	**$ 0.03**	$ 0.00
Comprehensive income per share *(note 15)*				
Basic and diluted	**$ 0.02**	$ 0.02	**$ 0.03**	$ 0.00

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 nine months ended September 30, **2018**	2017
Equity:		
Share capital		
Balance, January 1 and September 30 *(note 12)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (117,956)**	$ (114,602)
Net income	**4,876**	489
Balance, September 30	**$ (113,080)**	$ (114,113)
Other reserves		
Balance, January 1	**$ 6,027**	$ 5,437
Other comprehensive (loss) income	**(45)**	142
Share-based compensation *(note 14)*	**187**	345
Balance, September 30	**$ 6,169**	$ 5,924
Total equity	**$ 165,821**	$ 164,543

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

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

	For the nine months ended September 30,	
(in thousands of dollars)	**2018**	2017
Operating activities:		
Net income from continuing operations	$ **4,876**	$ 819
Non-cash adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization	**11,334**	11,817
Deferred income tax expense	**1,420**	562
Share-based compensation *(note 14)*	**187**	345
Provision for impairment of trade accounts receivable *(note 5)*	**100**	300
Finance costs	**971**	955
Gain on disposal of assets	**(267)**	(184)
Operating cash flow before changes in non-cash operating working capital	**18,621**	14,614
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(7,560)**	(16,420)
Inventories	**(5,449)**	(5,435)
Income taxes receivable	**1,126**	6,598
Prepayments and deposits	**(461)**	(974)
Trade and other accounts payable	**(2)**	3,099
Onerous lease contract	**(675)**	(433)
Share-based compensation	**(1,541)**	1,851
Net cash provided by operating activities from continuing operations	**4,059**	2,900
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 7 and 8)*	**(11,063)**	(13,929)
Non-cash investing working capital in trade and other accounts payable	**(51)**	(213)
Proceeds on disposal of equipment	**3,090**	1,769
Net cash used in investing activities from continuing operations	**(8,024)**	(12,373)
Financing activities:		
Increase in long-term debt *(note 11)*	**5,900**	9,356
Net finance costs paid	**(1,130)**	(955)
Net cash provided by financing activities from continuing operations	**4,770**	8,401
Foreign exchange gain on cash held in a foreign currency	**19**	14
Net increase in cash	**824**	(1,058)
Net increase in cash, discontinued operations	**-**	(364)
Cash, beginning of period	**46**	143
Cash, end of period	$ **870**	$ (1,279)
Supplemental cash flow information		
Cash taxes received	$ **(1,064)**	$ (8,006)
Cash interest and standby fees paid	$ **705**	$ 871

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 and nine months ended September 30, 2018 and 2017 were approved by the Board of Directors of Essential ("Board of Directors") on November 7, 2018.

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

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements as at and for the three and nine months ended September 30, 2018 were prepared in accordance with IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Financial Statements as were followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017. The Company adopted International Financial Reporting Standards ("IFRS") 15 and IFRS 9 on January 1, 2018. Changes to significant accounting policies are described in note 3.

3. CHANGES IN ACCOUNTING POLICY

NEW ACCOUNTING STANDARDS

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

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

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

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

IFRS 9 Financial Instruments

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

IFRS 16 *Leases* replaces existing leases guidance, including International Accounting Standard 17 *Leases*, International Financial Reporting Interpretations Committee 4 *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee ("SIC") - 15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard introduces a single, on-balance sheet lease accounting model for lessees, where a lessee recognizes a right-of-use asset and a lease liability. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The Company reviewed its various lease agreements and is in the process of completing its assessment of the impact on its consolidated financial statements. Essential will adopt this standard on January 1, 2019. The impact on the financial statements on January 1, 2019 will be dependent on the Company's borrowing rate, the composition of the Company's lease portfolio at that date and the Company's assessment of whether it will exercise any lease renewal options.

The most significant impact identified is that Essential will recognize new right-of-use assets and lease liabilities for office and shop premises operating leases. In addition, lease expenses now included as part of operating and general and administrative expenses on the statements of net income and comprehensive income will be replaced by a depreciation charge for right-of-use assets and finance costs on lease liabilities.

4. SUMMARY OF CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

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

Nature of products and services

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

i) Essential Coil Well Service ("ECWS")

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

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

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

ii) Tryton

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

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

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

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

5. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at September 30, 2018	As at December 31, 2017
Trade receivables, net of provision	**$ 42,608**	$ 35,855
Other receivables	**571**	64
	$ 43,179	$ 35,919

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

Receivables included in trade receivables are amounts due from customers for work completed, once Essential's rights to those amounts become unconditional.

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

The aging analysis of trade receivables is as follows:

	As at September 30, 2018	As at December 31, 2017
< 31 days	**$ 18,198**	$ 13,468
31-60 days	**15,088**	11,630
61-90 days	**6,661**	8,551
> 90 days	**2,661**	2,206
	$ 42,608	$ 35,855

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

	For the nine months ended September 30, 2018	For the twelve months ended December 31, 2017
Balance, beginning of period	**$ 671**	$ 532
Provision for receivables impairment	**100**	450
Receivables written off against the provision	**(16)**	(311)
Balance, end of period	**$ 755**	$ 671

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

6. INVENTORIES

	As at September 30, 2018	As at December 31, 2017
Tryton tools	**$ 28,529**	$ 24,192
Coil tubing and supplies	**12,603**	11,491
	$ 41,132	$ 35,683

Inventory charged through operating expenses in the consolidated interim statements of net income and comprehensive income for the three and nine months ended September 30, 2018 was $14.1 million and $40.8 million (2017 – $12.8 million and $35.6 million), respectively.

7. PROPERTY AND EQUIPMENT

As at September 30, 2018	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Coil rigs, pumpers and equipment	**$ 162,779**	**$ 68,872**	**$ 93,907**
Other oilfield equipment	**59,012**	**31,667**	**27,345**
Vehicles	**32,399**	**17,651**	**14,748**
Office and computer equipment	**4,045**	**3,385**	**660**
Other	**3,955**	**3,388**	**567**
	$ 262,190	**$ 124,963**	**$ 137,227**

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

Included in coil rigs, pumpers and equipment is $4.6 million (December 31, 2017 – $6.5 million) of assets under construction which will not be depreciated until put into use.

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	**2018**	2017
Net book value, beginning of period	**$ 139,538**	$ 139,606	**$ 139,734**	$ 137,039
Additions	**1,697**	3,434	**11,030**	13,757
Disposals	**(409)**	(1,239)	**(2,823)**	(1,584)
Depreciation	**(3,586)**	(3,758)	**(10,719)**	(11,155)
Currency translation adjustment	**(13)**	(14)	**5**	(28)
Net book value, end of period	**$ 137,227**	$ 138,029	**$ 137,227**	$ 138,029

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

8. INTANGIBLE ASSETS

As at September 30, 2018	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 1,553**	**$ 1,372**	**$ 181**
Computer software	**5,292**	**4,697**	**595**
Non-compete agreement	**427**	**376**	**51**
	$ 7,272	**$ 6,445**	**$ 827**

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

	For the three months ended September 30, **2018**	2017	For the nine months ended September 30, **2018**	2017
Net book value, beginning of period	**$ 1,016**	$ 1,725	**$ 1,387**	$ 2,132
Additions	**3**	67	**33**	172
Amortization	**(188)**	(177)	**(615)**	(662)
Currency translation adjustment	**(4)**	(28)	**22**	(55)
Net book value, end of period	**$ 827**	$ 1,587	**$ 827**	$ 1,587

9. TRADE AND OTHER ACCOUNTS PAYABLE

	As at September 30, 2018	As at December 31, 2017
Trade accounts payable	**$ 11,375**	$ 11,608
Accrued payables	**5,621**	4,795
Accrued payroll	**4,222**	5,170
Other	**1,233**	931
	$ 22,451	$ 22,504

10. ONEROUS LEASE CONTRACT

	As at September 30, 2018	As at December 31, 2017
Beginning of the year	**$ 4,142**	$ 4,754
Liability released in the period	**(569)**	(621)
Change in estimate	**(107)**	-
Accretion expense	**50**	9
End of period	**$ 3,516**	$ 4,142
Current portion of onerous lease contract liability	**683**	710
Long-term portion of onerous lease liability	**$ 2,833**	$ 3,432

Essential's onerous lease contract liability relates to its Calgary office space that is no longer used. The lease will expire in 2023.

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

11. LONG-TERM DEBT

		As at September 30, 2018		As at December 31, 2017
Term loan	**$**	**24,000**	$	18,100
Deferred financing costs		**(333)**		(125)
Non-current portion of long-term debt	**$**	**23,667**	$	17,975

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 September 30, 2018, the maximum of $50 million was available to Essential and all financial debt covenants and all banking requirements under the Credit Facility were satisfied.

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

	For the nine months ended September 30,			
		2018		2017
Balance, December 31	**$**	**17,975**	$	11,250
Cash changes:				
Increase in long-term debt		**5,900**		9,300
Non cash changes:				
Deferred financing costs for Credit Facility renewal		**(363)**		-
Amortization of deferred financing costs		**155**		56
Balance, September 30	**$**	**23,667**	$	20,606

12. SHARE CAPITAL

Authorized

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

	Number of Common Shares (000's)		Amount
As at September 30, 2018 and December 31, 2017	**141,857**	**$**	**272,732**

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

13. OTHER RESERVES

		Contributed Surplus		Accumulated Other Comprehensive Income		Total
As at January 1, 2017	$	5,091	$	346	$	5,437
Share-based compensation		457		-		457
Unrealized foreign exchange gain from continuing operations		-		133		133
As at December 31, 2017	$	5,548	$	479	$	6,027
Share-based compensation		**187**		**-**		**187**
Unrealized foreign exchange loss from continuing operations		**-**		**(45)**		**(45)**
As at September 30, 2018	**$**	**5,735**	**$**	**434**	**$**	**6,169**

14. SHARE-BASED COMPENSATION

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

The maximum number of share options issuable under the Share Option Plan may not exceed 9% of the Company's outstanding Common Shares. As at September 30, 2018, the maximum number of share options allowed for issuance was 12,767,114 (2017 – 12,767,114).

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

	For the three months ended September 30,				For the nine months ended September 30,			
		2018		2017		**2018**		2017
Share options	**$**	**49**	$	105	**$**	**187**	$	345
Restricted share units		**245**		370		**832**		744
Deferred share units		**(187)**		71		**(778)**		1,680
Share-based compensation expense	**$**	**107**	$	546	**$**	**241**	$	2,769

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)

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Number of Options (000's)		**Weighted Average Exercise Price**	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of period	**6,398**	**$**	**1.11**	6,950	$	1.42
Issued	**-**		**-**	1,315		0.83
Expired	**(577)**		**2.29**	(1,557)		2.10
Forfeited	**-**		**-**	(290)		1.96
Outstanding, end of period	**5,821**	**$**	**0.99**	6,418	$	1.11
Exercisable, end of period	**4,264**	**$**	**1.09**	2,952	$	1.51

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 September 30, 2018					
$0.55 – $1.00	**3,726**	**2.75**	**$**	**0.66**	**2,169**
$1.01 – $2.00	**1,630**	**1.61**	**$**	**1.19**	**1,630**
$2.01 – $2.90	**465**	**0.27**	**$**	**2.90**	**465**
	5,821	**2.23**	**$**	**0.99**	**4,264**
As at September 30, 2017					
$0.55 – $1.00	3,726	3.75	$	0.66	804
$1.01 – $2.00	1,650	2.58	$	1.20	1,106
$2.01 – $2.90	1,042	0.82	$	2.56	1,042
	6,418	2.97	$	1.11	2,952

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 contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, when dividends are paid, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at September 30, 2018 was $1.3 million (December 31, 2017 – $2.1 million) of which $0.9 million is due within one year (December 31, 2017 – $1.5 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 nine months ended September 30,	
Number of RSUs (000's)	**2018**	2017
Outstanding, beginning of period	**4,833**	3,826
Issued	**2,824**	2,660
Vested	**(2,471)**	(737)
Forfeited	**(90)**	(575)
Outstanding, end of period	**5,096**	5,174

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Under the terms of the plan, when dividends are paid, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at September 30, 2018 was $3.0 million (December 31, 2017 – $3.8 million) of which nil is due within one year (December 31, 2017 – nil).

The following table summarizes information with respect to DSUs outstanding:

	For the nine months ended September 30,	
Number of DSUs (000's)	**2018**	2017
Outstanding, beginning of period	**5,509**	3,270
Issued	**722**	2,239
Outstanding, end of period	**6,231**	5,509

15. EARNINGS PER SHARE

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

In calculating the diluted earnings per share, share options 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 September 30,		For the nine months ended September 30,	
(000's)	**2018**	2017	**2018**	2017
Basic	**141,857**	141,857	**141,857**	141,857
Dilutive Common Shares from share options	**-**	764	**633**	1,005
Total diluted	**141,857**	142,621	**142,490**	142,862

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

16. COMMITMENTS AND CONTINGENCIES

Operating leases

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

		Amount
2018 (for the three months ending December 31)	$	1,501
2019		6,138
2020		5,638
2021		4,757
2022		4,625
Thereafter		3,609
	$	26,268

Contingencies

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

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

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

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

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

By July 9, 2018, all parties, Essential, the co-defendants and Packers Plus, had filed their court documents related to the Appeal and requested a hearing date from the Federal Court of Appeal.

17. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

18. SEASONALITY OF OPERATIONS

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

19. SEGMENTED INFORMATION

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

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

a) Essential Coil Well Service

The ECWS segment provides well completion 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 before income taxes for the three and nine months ended September 30, 2018 for the Corporate segment substantially represents corporate office and certain operational costs of $3.2 million and $9.7 million (September 30, 2017 - $3.3 million and $10.6 million), respectively, and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

As at and for the three months ended September 30, 2018	**ECWS**	**Tryton**	**Corporate**	**Consolidated**
Revenue	$ 27,831	$ 22,805	$ -	$ 50,636
Income (loss) before income taxes from continuing operations	$ 2,659	$ 4,090	$ (3,916)	$ 2,833
Depreciation and amortization	$ 2,596	$ 1,008	$ 170	$ 3,774
Total assets	$ 151,569	$ 76,054	$ 1,735	$ 229,358
Total liabilities	$ 23,524	$ 9,377	$ 30,636	$ 63,537
Property, equipment and intangible asset expenditures	$ 1,115	$ 556	$ 29	$ 1,700

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

As at and for the three months ended September 30, 2017		ECWS		Tryton		Corporate		Consolidated
Revenue	$	28,606	$	20,145	$	-	$	48,751
Income (loss) before income taxes from continuing operations	$	3,484	$	4,285	$	(4,499)	$	3,270
Depreciation and amortization	$	2,728	$	1,046	$	161	$	3,935
Total assets	$	154,218	$	67,325	$	2,152	$	223,695
Total liabilities	$	16,989	$	3,920	$	38,243	$	59,152
Property, equipment and intangible asset expenditures	$	3,073	$	352	$	76	$	3,501

As at and for the nine months ended September 30, 2018		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	**$**	**81,179**	**$**	**67,529**	**$**	**-**	**$**	**148,708**
Income (loss) before income taxes from continuing operations	**$**	**5,177**	**$**	**11,578**	**$**	**(10,396)**	**$**	**6,359**
Depreciation and amortization	**$**	**7,670**	**$**	**3,088**	**$**	**576**	**$**	**11,334**
Property, equipment and intangible asset expenditures	**$**	**8,870**	**$**	**1,855**	**$**	**338**	**$**	**11,063**

As at and for the nine months ended September 30, 2017		ECWS		Tryton		Corporate		Consolidated
Revenue	$	71,894	$	60,752	$	-	$	132,646
Income (loss) before income taxes from continuing operations	$	4,846	$	11,764	$	(15,437)	$	1,173
Depreciation and amortization	$	7,984	$	3,191	$	642	$	11,817
Property, equipment and intangible asset expenditures	$	11,432	$	2,183	$	314	$	13,929

CORPORATE INFORMATION

Directors

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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

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

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