

## 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, 2019.

This MD&A should be read in conjunction with Essential's September 30, 2019 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2018 Financial Report for the financial year ended December 31, 2018. 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 6, 2019 and was approved and authorized for issuance by the Board of Directors of the Company on November 6, 2019.

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, including the Company's Annual Information Form ("AIF"), can be found under Essential's profile on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.essentialenergy.ca](http://www.essentialenergy.ca).

## SELECTED INFORMATION

(in thousands of dollars except per share, percentages, hours and fleet data)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue	\$ 39,278	\$ 50,636	\$ 113,810	\$ 148,708
Gross margin <sup>(i)</sup>	8,873	10,112	23,039	27,420
Gross margin %	23%	20%	20%	18%
EBITDAS <sup>(1)(i)</sup>	6,294	7,047	15,246	18,029
Net income <sup>(i)</sup>	1,555	2,228	1,605	4,876
Per share – basic and diluted	0.01	0.02	0.01	0.03
Operating hours				
Coil tubing rigs	11,098	13,236	31,642	38,717
Pumpers	13,449	17,237	38,879	50,912
			As at September 30,	
			2019	2018
Working capital		\$	54,378	\$ 63,686
Total assets			202,503	229,358
Long-term debt			10,782	23,667
Equipment fleet <sup>(ii)</sup>				
Coil tubing rigs			29	28
Pumpers			27	26

(i) Effective January 1, 2019, Essential adopted the IFRS 16 – Leases standard ("IFRS 16"). Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased gross margin, EBITDAS<sup>(1)</sup> and net income for the three months ended September 30, 2019 by \$1.0 million, \$1.4 million and \$0.2 million, respectively, compared to the prior year period. For the nine months ended September 30, 2019, gross margin, EBITDAS<sup>(1)</sup> and net income increased by \$2.8 million, \$3.9 million and \$0.4 million, respectively, compared to the prior year period. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".

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

<sup>1</sup> Refer to "Non-IFRS Measures" section for further information.

## INDUSTRY OVERVIEW

Third quarter 2019 industry drilling and well completion activity remained below 2018 in Western Canada as concerns about political, regulatory and market access issues continued throughout the quarter. Faced with this uncertainty, Canadian exploration and production (“E&P”) companies maintained their cautious approach to spending during the quarter, which led to lower drilling and completion activity in the Western Canadian Sedimentary Basin (“WCSB”). Third quarter 2019 well completions represented the lowest third quarter activity since 2016<sup>(a)</sup>. Well completions declined 21%<sup>(a)</sup> compared to the three months ended September 30, 2018 and 23%<sup>(a)</sup> compared to the nine months ended September 30, 2018.

## HIGHLIGHTS

Revenue for the three months ended September 30, 2019 was \$39.3 million, a 22% decrease from the third quarter 2018, due to lower activity. Given the challenging industry backdrop, Essential’s persistent focus on cost management resulted in EBITDAS<sup>(1)</sup> of \$6.3 million, only \$0.8 million lower than the same prior year period, despite the \$11.4 million decrease in revenue.

Key operating highlights included:

- Essential Coil Well Service (“ECWS”) revenue was \$22.6 million, 19% lower than the third quarter 2018. Gross margin improved to 26%, compared to 19% in the same prior year period despite lower revenue, primarily a result of cost management. Essential continues to be pleased with the demand for its equipment specifically designed to work on long-reach, deep horizontal wells, which experienced stronger activity than the third quarter 2018, despite the decline in industry.
- Tryton revenue was \$16.7 million, 27% lower than the third quarter 2018 as industry activity deteriorated. Gross margin was 22%, consistent with the same prior year period. Tryton’s conventional tools and rentals activity, while steady, was lower than the prior year period, as customers continued to spend on production and decommissioning work. Tryton’s MSFS<sup>®</sup> operations experienced sequential growth compared to the second quarter 2019, however activity remained below the third quarter 2018.

For the nine months ended September 30, 2019, Essential reported revenue of \$113.8 million, 23% lower than the prior year period. EBITDAS<sup>(1)</sup> was \$15.2 million, a 15% decrease from the nine months ended September 30, 2018.

Over the past twelve months, Essential reduced its long-term debt by \$12.9 million, which was a significant accomplishment given the challenging industry environment. This was achieved through the Company’s focus on ensuring its service offerings meet customer demand, cost management and modest capital spending. At September 30, 2019, long-term debt was \$10.8 million and funded debt<sup>(1)</sup> to bank EBITDA<sup>(1)</sup> was 0.7x. Working capital<sup>(1)</sup> was \$54.4 million on September 30, 2019, exceeding long-term debt by \$43.6 million. On November 6, 2019, Essential had \$8.2 million of long-term debt outstanding.

## CHANGE IN ACCOUNTING POLICY – IFRS 16 – LEASES

On January 1, 2019, Essential adopted the IFRS 16 – Leases standard (“IFRS 16”). Comparative information, including non-GAAP measures, has not been restated and therefore may not be comparable. Where the impact was material, the amounts have been quantified for comparative analysis purposes in the respective sections of this document. The implications for the nine months ended September 30, 2019 were:

- On January 1, 2019, Essential recognized a right-of-use asset of \$14.1 million, and a lease liability of \$18.4 million for its office and shop premises. Leases are capitalized at the commencement of each lease at the present value of the future lease payments;

---

(a) Source: Daily Oil Bulletin on October 30, 2019.

<sup>®</sup> MSFS is a registered trademark of Essential Energy Services Ltd.

- Lease payments, which were previously expensed as either an operating or general and administrative expense, are no longer expensed. There is now a depreciation charge for the right-of-use asset on a straight-line basis over the lease term; and
- As lease payments are made, the lease liability is reduced by the discounted value of each lease payment, with the difference between the amount of the lease payment and the discounted value of the lease payment recognized as a finance cost over the term of the lease.

This change in accounting policy increased gross margin, EBITDAS<sup>(1)</sup> and net income for the three months ended September 30, 2019 by \$1.0 million, \$1.4 million and \$0.2 million, respectively, compared to the prior year period. Depreciation expense and finance costs related to the right-of-use asset and lease liability increased by \$0.9 million and \$0.3 million, respectively, compared to the prior year.

For the nine months ended September 30, 2019, gross margin, EBITDAS<sup>(1)</sup> and net income increased by \$2.8 million, \$3.9 million and \$0.4 million, respectively, compared to the prior year period. Depreciation expense and finance costs related to the right-of-use asset and lease liability increased by \$2.5 million and \$0.8 million, respectively, compared to the prior year.

## OVERVIEW OF ESSENTIAL

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

### Essential Coil Well Service

Coil Tubing Rigs – Essential operates one of the largest coil tubing fleets in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential’s coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 ¾ inches in diameter. The rigs have a depth capacity using 2 ¾ inch coil of up to 7,200 meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential’s coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential’s coil tubing fleet make this equipment ideally suited to work in all facets of a customer’s horizontal well completion and work-over program.

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

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

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

## Tryton

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

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously. Tryton offers a variety of MSFS® tools that provide customers with a choice of completion technologies to use on their horizontal well completion program. The completion technology selected will vary based on wellbore characteristics and client preference. Revenue and cost parameters of each completion technology vary depending on the nature of the tools used and the services provided:
  - Ball & Seat – Tryton's Ball & Seat system uses open hole packers and sleeves, which are opened in sequential order by dropping progressively larger balls through a liner, to isolate and fracture each zone along the non-cased horizontal leg of a well. The number of zones, or "stages", that can be fractured using a Ball & Seat system is limited by the size specifications of the balls and seats used.
  - V-Sleeve – The Tryton V-Sleeve is a cemented-in-liner system that involves cementing a tool string into the wellbore with sliding sleeves set at specified intervals and using a coil-actuated sleeve shifting tool to sequentially open each sliding sleeve. The Tryton V-Sleeve system enables customers to fracture an unlimited number of stages in the horizontal leg.
  - Composite Bridge Plug – Tryton's Composite Bridge Plug provides customers the ability to fracture an unlimited number of stages in the horizontal leg. These plugs are relatively quick to mill-out post-fracturing.
  - Hybrid MSFS® – Tryton's Hybrid MSFS® combines Tryton's Ball & Seat system, installed closer to the "toe" of the horizontal leg of a well, with Tryton's Composite Bridge Plug, installed towards the "heel" of the well. The Hybrid MSFS® enables customers to fracture an unlimited number of stages in the horizontal leg.
- Conventional Tools – These include conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and decommissioning operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers and various other tools and handling equipment.

## Patent Litigation

Essential continues to successfully defend itself against a patent litigation initiated by Packers Plus Energy Services Inc. ("Packers Plus"). The following provides a brief summary of the litigation with Packers Plus. Based on the strength of both the Trial Decision and the Appeal Decision, as described below, Essential continues to believe that Packers Plus' claims are without merit.

**Application for Leave to Appeal the Appeal Decision** – On June 24, 2019, Packers Plus filed an application seeking leave from the Supreme Court of Canada (the "Supreme Court") to hear an appeal of the Appeal Decision, as described below. Filing an application for leave to appeal to the Supreme Court does not guarantee the Supreme Court will agree to hear the matter. In recent years, the Supreme Court has agreed to hear only approximately 10% of the appeals where leave to appeal was sought.

On August 26, 2019, Essential and the other respondents (collectively, the "Respondents") filed a Joint Response to the Application filed by Packers Plus, which detailed the Respondents' arguments for why there is no basis for leave to be granted in this case and are asking for the application to be dismissed with costs awarded to the Respondents.

The Supreme Court's ruling on whether it will grant leave to hear the appeal will not be known until late 2019 or 2020.

**Appeal Decision** – On April 25, 2019, the Federal Court of Appeal (the "Appeal Court") released its decision (the "Appeal Decision"), dismissing the appeal filed by Packers Plus in January 2018 (the "Appeal") with costs in favour of the

Respondents. In its reasons, the Appeal Court upheld the portion of the Trial Decision, as described below, that was released on December 6, 2017, that the asserted patent was invalid for obviousness and, as a result, it was not necessary for the Appeal Court to consider the other two findings of the Federal Court of Canada (the “Trial Court”) of invalidity due to prior disclosure and non-infringement.

**Trial Decision** – Essential successfully defended itself against the patent litigation initiated by Packers Plus in October 2013. On December 6, 2017, the trial judgment in the Trial Court was released. The trial judge held that the asserted Packers Plus patent was invalid on two, independent grounds (either of which would have been sufficient to invalidate the patent) and that Essential did not, in any event, infringe the patent and therefore Packers Plus’ action was dismissed with costs in favour of Essential and the other defendants (the “Trial Decision”).

**Cost Recovery** – As noted above, in both the Trial Decision and the Appeal Decision, Essential was awarded costs related to this litigation.

Since October 2013, Essential has incurred approximately \$5 million in costs. In calculating the cost awards, the Trial Court and the Appeal Court will separately consider costs incurred by Essential related to the following three aspects of this litigation:

1. Trial Costs – Costs incurred between October 2013 and March 2017 to prepare for and participate in the trial (“Trial Costs”).
2. Post-Trial Costs – Costs incurred between the end of the trial in March 2017 up to December 2017 when the Trial Decision was released.
3. Appeal Costs – Costs incurred between December 2017 and April 2019 related to the Appeal.

In setting Essential’s cost awards, the Trial Court and Appeal Court will separately consider the nature and quantum of the costs incurred for each aspect of the litigation over which each presided. The successful party is generally awarded a portion of the actual legal fees and disbursements that it incurred rather than obtaining full cost recovery.

On May 10, 2019, the Trial Court held a hearing on Essential’s submission related to quantification of its Trial Costs. The timing of the release of the Trial Court’s decision with respect to Essential’s Trial Costs is unknown.

Cost recovery submissions related to the other two aspects of Essential’s litigation costs will be prepared and submitted after the Trial Court has released its decision on Essential’s cost award related to its Trial Costs.

## RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue	\$ 39,278	\$ 50,636	\$ 113,810	\$ 148,708
Operating expenses <sup>(i)</sup>	30,405	40,524	90,771	121,288
Gross margin <sup>(i)</sup>	8,873	10,112	23,039	27,420
General and administrative expenses <sup>(i)</sup>	2,579	3,065	7,793	9,391
EBITDAS <sup>(1)(i)</sup>	6,294	7,047	15,246	18,029
Depreciation and amortization <sup>(i)</sup>	3,876	3,774	12,068	11,334
Share-based compensation expense	142	107	1,026	241
Other (income) expense	(92)	17	493	(876)
Finance costs <sup>(i)</sup>	429	316	1,355	971
Income before income tax <sup>(i)</sup>	1,939	2,833	304	6,359
Current income tax expense	-	55	67	63
Deferred income tax expense (recovery)	384	550	(1,368)	1,420
Income tax expense (recovery)	384	605	(1,301)	1,483
Net income <sup>(i)</sup>	\$ 1,555	\$ 2,228	\$ 1,605	\$ 4,876
Net income per share				
Basic and diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".

**SEGMENT RESULTS – ESSENTIAL COIL WELL SERVICE**

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 22,609	\$ 27,831	\$ 64,684	\$ 81,179
Operating expenses <sup>(i)</sup>	16,815	22,524	49,889	67,643
Gross margin	\$ 5,794	\$ 5,307	\$ 14,795	\$ 13,536
Gross margin %	26%	19%	23%	17%
<b>Operating hours</b>				
Coil tubing rigs	11,098	13,236	31,642	38,717
Pumpers	13,449	17,237	38,879	50,912
<b>Equipment fleet<sup>(ii)</sup></b>				
Coil tubing rigs	29	28	29	28
Fluid pumpers	19	19	19	19
Nitrogen pumpers	8	7	8	7

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased ECWS gross margin for the three and nine months ended September 30, 2019 by \$0.6 million and \$1.6 million, respectively, compared to the prior year. For further information see the section titled “Change in Accounting Policy – IFRS 16 – Leases”.

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

ECWS revenue for the three months ended September 30, 2019 was \$22.6 million, a 19% decrease compared to the same prior year period, consistent with the 21% decrease in industry well completions. Lower revenue was due to decreased coil tubing and pumping activity. Although total ECWS operating hours were down, operating hours for the equipment designed to work on long-reach, deep horizontal wells were higher than the three months ended September 30, 2018. This equipment continued to be in demand, with activity weighted towards the Duvernay and Montney regions. Revenue per hour for coil tubing rigs and pumpers was relatively flat compared to the same prior year period.

ECWS gross margin was 26%, higher than the three months ended September 30, 2018. Effective cost management, including wage reductions and a stronger focus on variable operating costs resulted in improvement from the same prior year period.

On a year-to-date basis, ECWS revenue was \$64.7 million, 20% lower than the nine months ended September 30, 2018, consistent with the 23% decrease in industry well completions. Gross margin, however, improved year-over-year to 23% of revenue, compared to 17% in the prior year period, a result of proactive and effective cost management practices.

## SEGMENT RESULTS – TRYTON

(in thousands of dollars, except percentages)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Revenue	\$ 16,669	\$ 22,805	\$ 49,126	\$ 67,529
Operating expenses <sup>(i)</sup>	13,048	17,528	39,722	52,264
Gross margin	\$ 3,621	\$ 5,277	\$ 9,404	\$ 15,265
Gross margin %	22%	23%	19%	23%
Tryton revenue – % of revenue				
Tryton MSFS®	29%	41%	30%	45%
Conventional Tools & Rentals	71%	59%	70%	55%

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased Tryton gross margin for the three and nine months ended September 30, 2019 by \$0.4 million and \$1.2 million, respectively, compared to the prior year. For further information see the section titled “Change in Accounting Policy – IFRS 16 – Leases”.

Third quarter 2019 Tryton revenue was \$16.7 million, a 27% decrease compared to the third quarter 2018, due primarily to lower industry activity in Canada. Tryton’s Canadian MSFS® and conventional tool operations generated less revenue compared to the same prior year period, as customer activity slowed. Conventional tools and rentals activity, while steady, was slower than the third quarter 2018, as customers continued to spend on production and decommissioning work. Tryton’s MSFS® operations experienced sequential growth compared to the second quarter 2019, however, activity was below the third quarter 2018. Rentals revenue was lower than the third quarter 2018, due to decreased drilling activity. Tryton’s U.S. conventional downhole tool operations continued to generate higher quarter-over-quarter activity, particularly in Texas, from a broader customer base.

Gross margin was 22% of revenue for the three months ended September 30, 2019, consistent with the third quarter 2018.

On a year-to-date basis, Tryton revenue was \$49.1 million, a 27% decrease compared to the nine months ended September 30, 2018. Gross margin was 19%, lower than the same prior year period. The year-over-year decline was due to decreased activity, particularly during the second quarter 2019, and fixed costs represented a greater portion of revenue. Pricing continued to be very competitive during the first nine months of 2019 for Tryton’s Canadian and U.S. operations.

## GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
General and administrative expenses	\$ 2,579	\$ 3,065	\$ 7,793	\$ 9,391

General and administrative expenses (“G&A”) are comprised of wages, professional fees and other corporate and operational administrative costs. G&A for the three and nine months ended September 30, 2019 decreased compared to the same prior year periods due to employee wage reductions, lower headcount, reduction of employee incentive plans, lower legal fees related to the Packers Plus litigation and the impact of IFRS 16.



## DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Depreciation and amortization expense	\$ 3,876	\$ 3,774	\$ 12,068	\$ 11,334

Depreciation and amortization expense for the three and nine months ended September 30, 2019 increased compared to the same periods in 2018. The Company recorded additional depreciation expense related to the right-of-use asset recognized under IFRS 16, partially offset by lower depreciation as a result of a reduction in net book value of the Company's equipment following the write-down recognized in the fourth quarter 2018.

## SHARE-BASED COMPENSATION

(in thousands of dollars)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Share-based compensation expense	\$ 142	\$ 107	\$ 1,026	\$ 241

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

During the nine months ended September 30, 2019, share-based compensation expense primarily related to vesting of grants under the share-based compensation plans, as Essential's share price changed nominally relative to December 31, 2018. In comparison, the Company's share price declined during the same prior year period and resulted in a lower expense for the nine months ended September 30, 2018.

## OTHER (INCOME) EXPENSE

(in thousands of dollars)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Loss (gain) on disposal of assets	\$ 216	\$ (79)	\$ (65)	\$ (267)
Foreign exchange (gain) loss	(185)	260	455	(391)
Other (income) expense	(123)	(164)	103	(218)
Other (income) expense	\$ (92)	\$ 17	\$ 493	\$ (876)

Loss on disposal of assets during the third quarter 2019 related to assets that were sold as they were no longer used in operations. The weakening of the Canadian dollar in relation to the U.S. dollar during the three months ended September 30, 2019 resulted in an unrealized foreign exchange gain.

For the nine months ended September 30, 2019, strengthening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange loss.

## FINANCE COSTS

(in thousands of dollars)	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Finance costs	\$ 429	\$ 316	\$ 1,355	\$ 971

Finance costs for the three and nine months ended September 30, 2019 increased compared to the same prior year periods due to lease liabilities recognized under IFRS 16, partially offset by lower interest paid on the Company's revolving credit facility (the "Credit Facility") as a result of lower average long-term debt outstanding in 2019.

## INCOME TAXES

(in thousands of dollars)	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Current income tax expense	\$ -	\$ 55	\$ 67	\$ 63
Deferred income tax expense (recovery)	\$ 384	\$ 550	\$ (1,368)	\$ 1,420
Income tax expense (recovery)	\$ 384	\$ 605	\$ (1,301)	\$ 1,483

For the three months ended September 30, 2019, income tax expense was consistent with the same prior year period.

For the nine months ended September 30, 2019, deferred income tax recovery increased compared to a deferred income tax expense in 2018 due to legislation that was enacted during the second quarter 2019 to decrease the Alberta provincial corporate income tax rate over the next four years from 12% to 8% by 2022. This rate decrease resulted in the revaluation of the deferred income tax liability during the second quarter.

## 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,		For the nine months ended September 30,	
	2019	2018	2019	2018
Net cash (used in) provided by operating activities	\$ (1,094)	\$ (2,216)	\$ 19,386	\$ 4,059
(Increases) decreases in non-cash working capital <sup>(1)</sup>	(7,802)	(9,054)	5,359	(14,562)
Operating cash flow before changes in non-cash operating working capital <sup>(1)</sup>	\$ 6,708	\$ 6,838	\$ 14,027	\$ 18,621
Per share – basic and diluted	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.13

### WORKING CAPITAL

(in thousands of dollars, except ratios)	As at September 30, 2019	As at December 31, 2018
	Current assets	\$ 73,525
Current liabilities	(19,147)	(17,766)
Working capital <sup>(1)</sup>	\$ 54,378	\$ 60,848
Working capital ratio	3.8:1	4.4:1

Working capital<sup>(1)</sup> is comprised primarily of accounts receivable and inventory, net of accounts payable. Working capital<sup>(1)</sup> typically grows through the first and third quarters of the year when industry activity is stronger. Essential uses its Credit Facility to meet the variable nature of its working capital<sup>(1)</sup> requirements for the cost of carrying customer

accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt tends to increase and in periods of lower activity, debt tends to decline.

#### **CREDIT FACILITY**

Essential's Credit Facility is comprised of a \$50 million revolving secured term loan facility with a \$20 million accordion feature available at the lender's consent. The Credit Facility matures on June 30, 2021, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets, among other requirements and restrictions. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date.

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

- certain financial covenants, with the covenant thresholds detailed in the table below; and
- an equity cure provision whereby the proceeds from an equity offering may be applied to the calculation of bank EBITDA<sup>(1)</sup> in the funded debt<sup>(1)</sup> to bank EBITDA<sup>(1)</sup> covenant and the fixed charge coverage ratio<sup>(1)</sup> 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, 2019, Essential had consolidated funded debt<sup>(1)</sup> of \$10.0 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 6, 2019, Essential had \$8.2 million of long-term debt.

#### **Financial Covenants**

As at September 30, 2019, the maximum of \$50 million under the Credit Facility was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	As at September 30, 2019
Funded debt <sup>(1)</sup> to capitalization <sup>(1)</sup>	≤ 50%	6%
Funded debt <sup>(1)</sup> to bank EBITDA <sup>(1)</sup>	≤ 3.50x	0.7x
Fixed charge coverage ratio <sup>(1)</sup>	≥ 1.25x	16.0x
Distributions <sup>(i)</sup> cannot exceed distributable cash flow <sup>(1)</sup>		N/A

(i) Distributions include dividends and share buybacks.

#### **EQUIPMENT EXPENDITURES**

(in thousands of dollars)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
ECWS	\$ 1,651	\$ 1,115	\$ 2,769	\$ 8,870
Tryton	443	556	2,569	1,855
Corporate	47	29	138	338
Total equipment expenditures	2,141	1,700	5,476	11,063
Less proceeds on disposal of equipment	(574)	(496)	(2,403)	(3,090)
Net equipment expenditures <sup>(1)</sup>	\$ 1,567	\$ 1,204	\$ 3,073	\$ 7,973

Essential classifies its equipment expenditures as growth capital<sup>(1)</sup> and maintenance capital<sup>(1)</sup>:

(in thousands of dollars)	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Growth capital <sup>(1)</sup>	\$ 79	\$ 113	\$ 798	\$ 4,211
Maintenance capital <sup>(1)</sup>	2,062	1,587	4,678	6,852
Total equipment expenditures	\$ 2,141	\$ 1,700	\$ 5,476	\$ 11,063

During the nine months ended September 30, 2019, equipment expenditures included costs to retrofit a second Generation IV coil tubing rig and the purchase of Tryton rental pipe. This second retrofitted coil tubing rig is expected to be in-service in late 2019.

Essential's 2019 capital forecast remains unchanged at \$8 million.

### **SHARE CAPITAL**

As at November 6, 2019, there were 141,856,813 common shares and 4,428,583 share options ("Share Options") outstanding. Of the 4,428,583 Share Options, 3,636,248 were exercisable of which nil were "in-the-money".

### **COMMITMENTS**

#### *Leases*

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

(in thousands of dollars)	Amount
Less than one year	\$ 4,810
One to five years	13,028
More than five years	1,975
As at September 30, 2019	\$ 19,813

### **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 2018 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2018, which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Essential's website at [www.essentialenergy.ca](http://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 2018 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2018, which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Essential's website at [www.essentialenergy.ca](http://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

Similar to 2018, fourth quarter Canadian oilfield service activity is expected to slow as the quarter progresses and customers complete their 2019 capital programs. During this time, Essential will continue to focus on balancing crew retention with cost management.

Looking to 2020, some industry analysts are projecting E&P spending to be flat to slightly below 2019 levels as producers are generally focused on operating within cash flow. The Petroleum Services Association of Canada announced on October 31, 2019, its estimate that the number of wells drilled in 2020 will be 10% lower than its estimate for 2019. For Essential, visibility into 2020 will become clearer later in 2019 and early 2020 as customers announce their 2020 capital budgets and plan their work requirements.

The Canadian oil and gas industry is nearing the start of a sixth year of industry downturn. The underlying issue was initially low global commodity prices, but soon evolved into Canadian political, regulatory and market access issues. Access to capital for E&P companies and oilfield service companies has become progressively more problematic as the duration of the downturn extends, and the "made in Canada" egress issues have not been resolved.

Beyond 2020, there are some positives for the industry including the possibility of completion of the Trans Mountain Pipeline, incremental Enbridge takeaway capacity and progression of an LNG industry in Canada.

Essential's financial position continues to be strong with long-term debt outstanding, net of cash at November 6, 2019 of \$6.6 million. At September 30, 2019, funded debt<sup>(1)</sup> to bank EBITDA<sup>(1)</sup> was 0.7x. Essential's focus on ensuring services meet customer demand, cost management and modest capital spending has resulted in long-term debt decreasing from \$23.7 million at September 30, 2018 to \$10.8 million at September 30, 2019.

## SUMMARY OF QUARTERLY DATA

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

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

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

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	Sept 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017
Essential Coil Well Service	22,609	16,006	26,069	18,334	27,831	20,774	32,574	22,002
Tryton	16,669	11,080	21,377	22,852	22,805	17,164	27,560	21,260
Total revenue	39,278	27,086	47,446	41,186	50,636	37,938	60,134	43,262
Gross margin <sup>(i)</sup>	8,873	3,607	10,559	5,261	10,112	4,838	12,470	4,522
Gross margin %	23%	13%	22%	13%	20%	13%	21%	10%
EBITDAS <sup>(1)(ii)(iii)</sup>	6,294	1,408	7,544	1,690	7,047	1,837	9,145	1,153
Bank EBITDA <sup>(1)</sup>	4,943	135	6,378	2,170	7,264	1,871	9,150	1,220
Net income (loss) <sup>(ii)(iii)</sup>	1,555	(1,357)	1,407	(13,654)	2,228	(2,405)	5,053	(3,843)
Per share – basic and diluted	0.01	(0.01)	0.01	(0.10)	0.02	(0.02)	0.04	(0.03)
Total assets	202,503	195,532	207,704	201,270	229,358	221,935	241,472	219,448
Long-term debt	10,782	7,451	12,827	21,388	23,667	19,087	31,943	17,975
Operating hours								
Coil tubing rigs	11,098	7,126	13,418	8,262	13,236	9,311	16,170	11,215
Pumpers	13,449	9,348	16,082	12,146	17,237	13,236	20,439	14,581
Total equipment fleet <sup>(iv)</sup>								
Coil tubing rigs	29	29	29	29	28	30	30	30
Fluid pumpers	19	19	19	19	19	20	19	18
Nitrogen pumpers	8	8	8	8	7	7	7	8
Tryton - % of revenue								
Tryton MSFS®	29%	14%	40%	43%	41%	47%	47%	44%
Conventional Tools & Rentals	71%	86%	60%	57%	59%	53%	53%	56%

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".

(ii) The quarter ended December 31, 2018 includes an onerous lease contract expense of \$0.5 million.

(iii) The quarter ended December 31, 2018 includes an asset write-down of \$17.9 million.

(iv) 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”, “future”, “project”, “beyond”, “possible”, “forecasts”, “potential”, “budget” and similar expressions, or are events or conditions that “will”, “would”, “may”, “likely”, “could”, “should”, “can”, “typically”, “traditionally” or “tends to” occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: Essential’s belief that Packers Plus’ claims are without merit, the cost recovery process in connection therewith and the timing of a Supreme Court ruling on whether it will grant leave to hear the appeal; the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities; Essential’s capital forecast and timing; oil and natural gas industry activity and outlook; and Essential’s outlook, activity levels and operational focus.

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](http://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, 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; global economic events; changes to Essential’s financial position and cash flow; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; potential industry developments; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive and should refer to “Risk Factors” set out in the AIF.

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

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

## <sup>(1)</sup>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, including the equity cure, excluding onerous lease contract expense and severance costs ("Permitted Adjustments") and excluding the impact of IFRS 16, for the most recent trailing twelve months.

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

**Distributable cash flow** – This measure is generally defined in Essential's Credit Facility as net income excluding share-based compensation expense, depreciation and amortization, deferred income tax expense, provision for accounts receivable impairment, gains/losses on disposal, write-down of assets, onerous lease contract expense and severance costs, less required principal repayments, for the most recent trailing twelve months. The impact of IFRS 16 is excluded from the calculation.

**EBITDAS** (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 income:

(in thousands of dollars)	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Bank EBITDA	\$ 4,943	\$ 7,264	\$ 11,456	\$ 18,285
Impact of IFRS 16	(1,351)	-	(3,879)	-
Deduct Permitted Adjustments	-	217	89	256
EBITDAS <sup>(i)</sup>	\$ 6,294	\$ 7,047	\$ 15,246	\$ 18,029
Share-based compensation expense	142	107	1,026	241
Other (income) expense	(92)	17	493	(876)
EBITDA <sup>(i)</sup>	\$ 6,244	\$ 6,923	\$ 13,727	\$ 18,664
Depreciation and amortization	3,876	3,774	12,068	11,334
Finance costs	429	316	1,355	971
Income before income tax <sup>(i)</sup>	\$ 1,939	\$ 2,833	\$ 304	\$ 6,359
Total income tax expense (recovery)	384	605	(1,301)	1,483
Net income <sup>(i)</sup>	\$ 1,555	\$ 2,228	\$ 1,605	\$ 4,876

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased EBITDAS, EBITDA, income before income tax and net income for the three months ended September 30, 2019 by \$1.4 million, \$1.4 million, \$0.2 million and \$0.2 million, respectively, compared to the prior year. For the nine months ended September 30, 2019, EBITDAS, EBITDA, income before income tax and net income increased by \$3.9 million, \$3.9 million, \$0.6 million and \$0.4 million respectively, compared to the prior year. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".



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, 2019	
Bank EBITDA	\$	<b>13,626</b>
Less current income tax expense		<b>(67)</b>
	\$	<b>13,559</b>
Finance costs <sup>(i)</sup>	\$	<b>849</b>
Fixed charge coverage ratio		<b>16.0x</b>

(i) Finance costs in the Credit Facility exclude finance costs related to IFRS 16.

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 related to IFRS 16.

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.

Net equipment expenditures<sup>(i)</sup> – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to managing Essential’s property and equipment.

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

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

## **Unaudited Condensed Consolidated Interim Financial Statements**

Essential Energy Services Ltd.

September 30, 2019

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

<i>(in thousands of dollars)</i>	As at September 30, 2019	As at December 31, 2018
<b>Assets</b>		
Current		
Cash	\$ 1,020	\$ 410
Trade and other accounts receivable <i>(note 5)</i>	32,954	35,775
Inventory <i>(note 6)</i>	37,380	40,255
Prepayments and deposits	2,171	2,174
	<b>73,525</b>	<b>78,614</b>
Non-current		
Property and equipment <i>(note 7)</i>	111,581	118,249
Right-of-use lease asset <i>(note 4)</i>	13,416	-
Intangible assets	346	662
Goodwill	3,635	3,745
	<b>128,978</b>	<b>122,656</b>
<b>Total assets</b>	<b>\$ 202,503</b>	<b>\$ 201,270</b>
<b>Liabilities</b>		
Current		
Trade and other accounts payable <i>(note 8)</i>	\$ 14,504	\$ 16,092
Share-based compensation <i>(note 12)</i>	699	657
Income taxes payable	35	-
Current portion of lease liability <i>(note 4)</i>	3,909	-
Current portion of onerous lease contracts	-	1,017
	<b>19,147</b>	<b>17,766</b>
Non-current		
Share-based compensation <i>(note 12)</i>	2,076	2,093
Long-term debt <i>(note 9)</i>	10,782	21,388
Deferred tax liability	3,636	5,025
Long-term lease liability <i>(note 4)</i>	13,083	-
Long-term onerous lease contracts	-	2,816
	<b>29,577</b>	<b>31,322</b>
<b>Total liabilities</b>	<b>48,724</b>	<b>49,088</b>
Contingencies <i>(note 14)</i>		
<b>Equity</b>		
Share capital <i>(note 10)</i>	272,732	272,732
Deficit	(125,239)	(126,734)
Other reserves <i>(note 11)</i>	6,286	6,184
<b>Total equity</b>	<b>153,779</b>	<b>152,182</b>
<b>Total liabilities and equity</b>	<b>\$ 202,503</b>	<b>\$ 201,270</b>

*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)**

<i>(in thousands of dollars, except per share amounts)</i>	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenue <i>(note 17)</i>	\$ 39,278	\$ 50,636	\$ 113,810	\$ 148,708
Operating expenses	30,405	40,524	90,771	121,288
Gross margin	8,873	10,112	23,039	27,420
General and administrative expenses	2,579	3,065	7,793	9,391
Depreciation and amortization <i>(notes 4 and 7)</i>	3,876	3,774	12,068	11,334
Share-based compensation expense <i>(note 12)</i>	142	107	1,026	241
Other (income) expense	(92)	17	493	(876)
Operating income	2,368	3,149	1,659	7,330
Finance costs	429	316	1,355	971
Income before taxes	1,939	2,833	304	6,359
Current income tax expense	-	55	67	63
Deferred income tax expense (recovery)	384	550	(1,368)	1,420
Income tax expense (recovery)	384	605	(1,301)	1,483
Net income	1,555	2,228	1,605	4,876
Unrealized foreign exchange (loss) gain	(21)	8	44	(45)
Comprehensive income	\$ 1,534	\$ 2,236	\$ 1,649	\$ 4,831
Net income per share <i>(note 13)</i>				
Basic and diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Comprehensive income per share <i>(note 13)</i>				
Basic and diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03

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

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

<i>(in thousands of dollars)</i>	For the nine months ended September 30,	
	<b>2019</b>	2018
<b>Equity:</b>		
<b>Share capital</b>		
Balance, January 1 and September 30 <i>(note 10)</i>	\$ 272,732	\$ 272,732
<b>Deficit</b>		
Balance, January 1	\$ (126,734)	\$ (117,956)
Adjustment on adoption of IFRS 16 (net of tax) <i>(note 3)</i>	(110)	-
Net income	1,605	4,876
Balance, September 30	\$ (125,239)	\$ (113,080)
<b>Other reserves</b>		
Balance, January 1	\$ 6,184	\$ 6,027
Other comprehensive gain (loss)	44	(45)
Share-based compensation <i>(note 12)</i>	58	187
Balance, September 30	\$ 6,286	\$ 6,169
<b>Total equity</b>	<b>\$ 153,779</b>	<b>\$ 165,821</b>

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

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

<i>(in thousands of dollars)</i>	For the nine months ended September 30,	
	<b>2019</b>	2018
<b>Operating activities:</b>		
Net income	\$ 1,605	\$ 4,876
Non-cash adjustments to reconcile net income to operating cash flow:		
Depreciation and amortization <i>(notes 4 and 7)</i>	12,068	11,334
Deferred income tax (recovery) expense	(1,368)	1,420
Share-based compensation <i>(note 12)</i>	58	187
Provision for impairment of trade accounts receivable <i>(note 5)</i>	450	100
Finance costs	1,355	971
Gain on disposal of assets & finance leases	(141)	(267)
Operating cash flow before changes in non-cash operating working capital	14,027	18,621
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	2,545	(7,560)
Inventory	3,418	(5,449)
Income taxes payable	35	1,126
Prepayments and deposits	3	(461)
Trade and other accounts payable	(667)	(2)
Onerous lease contract	-	(675)
Share-based compensation	25	(1,541)
Net cash provided by operating activities	19,386	4,059
<b>Investing activities:</b>		
Purchase of property, equipment and intangible assets <i>(note 7)</i>	(5,476)	(11,063)
Non-cash investing working capital in trade and other accounts payable	(665)	(51)
Proceeds on disposal of equipment	2,403	3,090
Net cash used in investing activities	(3,738)	(8,024)
<b>Financing activities:</b>		
(Decrease) increase in long-term debt <i>(note 9)</i>	(10,700)	5,900
Net finance costs paid	(468)	(1,130)
Payments of lease liability <i>(note 4)</i>	(3,879)	-
Net cash (used in) provided by financing activities	(15,047)	4,770
Foreign exchange gain on cash held in a foreign currency	9	19
Net increase in cash	610	824
Cash, beginning of period	410	46
Cash, end of period	\$ 1,020	\$ 870
Supplemental cash flow information		
Cash taxes paid (received)	\$ 29	\$ (1,064)
Cash interest and standby fees paid	\$ 439	\$ 705

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

## ESSENTIAL ENERGY SERVICES LTD.

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019

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

#### 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, 2019 and 2018 were approved by the Board of Directors of Essential (“Board of Directors”) on November 6, 2019.

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, 2019 were prepared in accordance with IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). Except for the accounting standard adopted during the period as described in note 3, 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, 2018. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018. The Company adopted IFRS 16 on January 1, 2019. Changes to significant accounting policies are described in note 3.

#### 3. CHANGE IN ACCOUNTING POLICY

##### NEW ACCOUNTING STANDARD

Except as noted below, the Company has consistently applied the accounting policies to all periods presented in these Financial Statements.

##### *IFRS 16 Leases*

IFRS 16 *Leases* (“IFRS 16”) introduced a single, on-balance sheet lease accounting model for lessees, where a lessee recognizes a right-of-use asset representing the rights to the use of the underlying assets and a lease liability representing its obligation to make lease payments.

Effective January 1, 2019, Essential adopted IFRS 16 using a modified retrospective approach without restatement of comparative information. The cumulative effect of the adoption of IFRS 16 is recognized in retained earnings on January 1, 2019. Under this approach, the comparative information presented for 2018 has not been restated and continues to be reported under IAS 17.

The table below shows the adjustments recorded on transition to IFRS 16 on January 1, 2019.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

## Interim consolidated statement of financial position

(in thousands of dollars)	December 31, 2018	Adjustments on adoption	January 1, 2019
Right-of-use asset	\$ -	\$ 14,102	\$ 14,102
Current portion of onerous lease contracts	1,017	(1,017)	-
Trade and other accounts payable	16,092	(330)	15,762
Long-term onerous lease contracts	2,816	(2,816)	-
Deferred tax liability	5,025	(22)	5,003
Lease liability	-	18,398	18,398
Deficit	\$ (126,734)	\$ (110)	\$ (126,844)

When measuring its lease liability, the Company discounted the value of future lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 5.95%. Essential's lease liability as at January 1, 2019 was \$18.4 million and its undiscounted lease commitment as at January 1, 2019 was \$21.4 million.

**4. LEASES**

The Company applied IFRS 16 using the modified retrospective approach. The impact of this change is disclosed in note 3.

*Significant accounting policy*

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

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

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

*Transition*

Previously, Essential classified property leases as operating leases under IAS 17. These include office and shop premises.

At transition, for leases classified as operating leases under IAS 17, the lease liability was measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate as at January 1, 2019.

Essential used the following practical expedients when applying IFRS 16 to the leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term and for low-value leases; and
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.



**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

Information about the Company's office and shop premise leases are as follows:

## Right-of-use lease asset

(in thousands of dollars)	For the nine months ended September 30, 2019
Beginning of period	\$ 14,102
Leases added in period	1,451
Lease modification	399
Depreciation	(2,520)
Foreign exchange loss	(16)
End of period	\$ 13,416

## Lease Liability

(in thousands of dollars)	As at September 30, 2019
Maturity analysis – contractual undiscounted cash flow	
Less than one year	\$ 4,810
One to five years	13,028
More than five years	1,975
Total undiscounted lease liability, end of period	\$ 19,813
Discounted value of future lease payments	
Current portion of lease liability	\$ 3,909
Long-term portion of lease liability	13,083
Lease liability included in the statement of financial position	\$ 16,992

For the three and nine months ended September 30, 2019, Essential recognized \$0.3 million and \$0.8 million, respectively, of finance costs related to the lease liability in its consolidated interim statements of net income and comprehensive income. For the nine months ended September 30, 2019, Essential recognized \$3.9 million of total cash outflow for leases in the consolidated interim statement of cash flows.

**5. TRADE AND OTHER ACCOUNTS RECEIVABLE**

	As at September 30, 2019	As at December 31, 2018
Trade accounts receivable, net of provision	\$ 32,913	\$ 35,298
Other receivables	41	477
	\$ 32,954	\$ 35,775

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

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

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

The aging analysis of trade accounts receivable is as follows:

	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
< 31 days	\$ 14,332	\$ 9,674
31-60 days	10,839	13,286
61-90 days	6,000	9,762
> 90 days	1,742	2,576
	<b>\$ 32,913</b>	<b>\$ 35,298</b>

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 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:

	<b>For the nine months ended September 30, 2019</b>	<b>For the twelve months ended December 31, 2018</b>
Balance, beginning of period	\$ 715	\$ 671
Provision for receivables impairment	450	100
Receivables written off against the provision	(125)	(56)
Balance, end of period	<b>\$ 1,040</b>	<b>\$ 715</b>

**6. INVENTORY**

	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
Tryton tools	\$ 24,946	\$ 27,441
Coil tubing and supplies	12,434	12,814
	<b>\$ 37,380</b>	<b>\$ 40,255</b>

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, 2019 was \$10.7 million and \$30.3 million (2018 – \$14.1 million and \$40.8 million), respectively.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***7. PROPERTY AND EQUIPMENT**

<b>As at September 30, 2019</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Coil rigs, pumpers and equipment	\$ 154,290	\$ 84,059	\$ 70,231
Other oilfield equipment	60,893	35,235	25,658
Vehicles	33,091	19,073	14,018
Office and computer equipment	4,056	3,578	478
Other	4,694	3,498	1,196
	\$ 257,024	\$ 145,443	\$ 111,581

<b>As at December 31, 2018</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Coil rigs, pumpers and equipment	\$ 159,087	\$ 86,047	\$ 73,040
Other oilfield equipment	60,408	32,495	27,913
Vehicles	34,259	18,595	15,664
Office and computer equipment	4,044	3,439	605
Other	4,467	3,440	1,027
	\$ 262,265	\$ 144,016	\$ 118,249

Included in property and equipment is \$1.5 million (December 31, 2018 – \$2.7 million) of assets under construction which will not be depreciated until put into use.

	For the three months ended		For the nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
Net book value, beginning of period	\$ 113,169	\$ 139,538	\$ 118,249	\$ 139,734
Additions	2,153	1,697	5,469	11,030
Disposals	(793)	(409)	(2,954)	(2,823)
Depreciation	(2,954)	(3,586)	(9,173)	(10,719)
Currency translation adjustment	6	(13)	(10)	5
Net book value, end of period	\$ 111,581	\$ 137,227	\$ 111,581	\$ 137,227

**8. TRADE AND OTHER ACCOUNTS PAYABLE**

	<b>As at September 30, 2019</b>	<b>As at December 31, 2018</b>
Trade accounts payable	\$ 7,004	\$ 6,882
Accrued payables	3,793	4,100
Accrued payroll	3,253	3,888
Other	454	1,222
	\$ 14,504	\$ 16,092

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***9. LONG-TERM DEBT**

	As at September 30, 2019	As at December 31, 2018
Term loan	\$ 11,000	\$ 21,700
Deferred financing costs	(218)	(312)
Non-current portion of long-term debt	\$ 10,782	\$ 21,388

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, 2019, the maximum of \$50 million was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

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

	For the nine months ended September 30,	
	2019	2018
Balance, beginning of period	\$ 21,388	\$ 17,975
Cash changes:		
Increase (decrease) increase in long-term debt	(10,700)	5,900
Non cash changes:		
Deferred financing costs for Credit Facility renewal	-	(363)
Amortization of deferred financing costs	94	155
Balance, end of period	\$ 10,782	\$ 23,667

**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 September 30, 2019, December 31, 2018 and January 1, 2018	141,857	\$ 272,732

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***11. OTHER RESERVES**

	Contributed Surplus	Accumulated Other Comprehensive Income	Total
As at January 1, 2018	\$ 5,548	\$ 479	\$ 6,027
Share-based compensation	239	-	239
Unrealized foreign exchange loss	-	(82)	(82)
As at December 31, 2018	\$ 5,787	\$ 397	\$ 6,184
Share-based compensation	58	-	58
Unrealized foreign exchange gain	-	44	44
As at September 30, 2019	\$ 5,845	\$ 441	\$ 6,286

**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 are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Share options	\$ 24	\$ 49	\$ 58	\$ 187
Restricted share units	184	245	840	832
Deferred share units	(66)	(187)	128	(778)
Share-based compensation expense	\$ 142	\$ 107	\$ 1,026	\$ 241

**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 September 30, 2019, the maximum number of share options issuable under the Share Option Plan may not exceed 6% (2018 – 9%) of the Company’s outstanding Common Shares. As at September 30, 2019, the maximum number of share options allowed for issuance was 8,511,409 (2018 – 12,767,114).

**ESSENTIAL ENERGY SERVICES LTD.**
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
*As at and for the three and nine months ended September 30, 2019*
*(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

	For the nine months ended September 30, 2019		For the nine months ended September 30, 2018	
	Number of Options (000's)	Weighted Average Exercise Price	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	5,821	\$ 0.99	6,398	\$ 1.11
Issued	532	0.32	-	-
Expired	(465)	2.90	(577)	2.29
Forfeited	(1,430)	0.80	-	-
Outstanding, end of period	4,458	\$ 0.77	5,821	\$ 0.99
Exercisable, end of period	3,666	\$ 0.82	4,264	\$ 1.09

The fair value of the share options issued during the period was \$0.15 (2018 – nil). Fair value is estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2019	2018
Risk-free interest rate	1.88%	n/a
Expected volatility	56.3 – 58.7%	n/a
Expected term	3.9 – 4.6 years	n/a
Expected forfeiture rate	7.6 - 13.7%	n/a
Dividend yield	nil	n/a

The expected term of the grant is determined based on the historical average life of grants issued. The risk-free interest rate is determined using the Canadian bond yield based on the expected term of the grant. The expected volatility is determined based on the change in the share price over the term of the grant. The expected forfeiture rate is calculated based on historical forfeitures of grants issued.

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)
<b>As at September 30, 2019</b>				
\$0.32 – \$1.00	3,263	2.11	\$ 0.62	2,471
\$1.01 – \$1.46	1,195	0.61	\$ 1.19	1,195
	4,458	1.71	\$ 0.77	3,666
<b>As at September 30, 2018</b>				
\$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

**b) Restricted Share Units**

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments and may contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Essential's liability as at September 30, 2019 was \$1.1 million (December 31, 2018 – \$1.0 million) of which \$0.7 million is due within one year (December 31, 2018 – \$0.7 million).

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(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:

Number of RSUs (000's)	For the nine months ended September 30,	
	2019	2018
Outstanding, beginning of period	4,930	4,833
Issued	6,827	2,824
Vested	(2,342)	(2,471)
Forfeited	(1,338)	(90)
Outstanding, end of period	8,077	5,096

**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 September 30, 2019 was \$1.7 million (December 31, 2018 – \$1.8 million) of which nil is due within one year (December 31, 2018 – nil).

The following table summarizes information with respect to DSUs outstanding:

Number of DSUs (000's)	For the nine months ended September 30,	
	2019	2018
Outstanding, beginning of period	6,231	5,509
Issued	601	722
Redeemed	(646)	-
Forfeited	(94)	-
Outstanding, end of period	6,092	6,231

**13. 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.

(000's)	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Basic	141,857	141,857	141,857	141,857
Dilutive effect on Common Shares from share options	-	-	-	633
Total diluted	141,857	141,857	141,857	142,490

## ESSENTIAL ENERGY SERVICES LTD.

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at and for the three and nine months ended September 30, 2019

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

#### 14. 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 "Trial 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 Trial 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 needed to successfully overturn all of the following elements of the Decision:

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

On April 25, 2019, the Federal Court of Appeal (the "Appeal Court") released its decision (the "Appeal Decision") dismissing the Appeal with costs in favour of Essential. In its reasons, the Appeal Court upheld the portion of the Decision that the asserted patent was invalid for obviousness and, as a result, it was not necessary for the Appeal Court to consider the Trial Court's findings of invalidity and non-infringement.

On June 24, 2019, Packers Plus filed an application seeking leave from the Supreme Court of Canada (the "Supreme Court") to hear an appeal of the Appeal Decision. Filing an application for leave to appeal to the Supreme Court does not guarantee the Supreme Court will agree to hear the matter. In recent years, the Supreme Court has agreed to hear only approximately 10% of the appeals where leave to appeal was sought.

On August 26, 2019, Essential and the other respondents (collectively, the "Respondents") filed a Joint Response to the Application filed by Packers Plus, which detailed the Respondents' arguments for why there is no basis for leave to be granted in this case and are asking for the application to be dismissed with costs awarded to the Respondents.

The Supreme Court's ruling on whether it will grant leave to hear the appeal will not be known until late 2019 or 2020.

#### 15. FINANCIAL INSTRUMENTS

The fair value hierarchy establishes three levels to classify the inputs for valuation techniques used to measure the fair value of financial instruments 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.

---

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



## **ESSENTIAL ENERGY SERVICES LTD.**

### **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*As at and for the three and nine months ended September 30, 2019*

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

#### **16. 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 lowest in the second quarter.

#### **17. SEGMENTED INFORMATION**

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

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

##### **a) Essential Coil Well Service**

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

##### **b) Tryton**

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

##### **c) Corporate**

The Corporate segment is comprised of corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. Loss before income taxes for the three and nine months ended September 30, 2019 for the Corporate segment includes corporate office and certain operational costs of \$2.9 million and \$8.1 million (September 30, 2018 - \$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.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***As at and for the three and nine months ended September 30, 2019**(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:

<b>As at and for the three months ended September 30, 2019</b>	<b>ECWS</b>	<b>Tryton</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 22,609	\$ 16,669	\$ -	\$ 39,278
Income (loss) before income taxes	\$ 3,100	\$ 2,116	\$ (3,277)	\$ 1,939
Depreciation and amortization	\$ 2,339	\$ 1,240	\$ 297	\$ 3,876
Total assets	\$ 126,180	\$ 72,855	\$ 3,468	\$ 202,503
Total liabilities	\$ 20,881	\$ 12,303	\$ 15,540	\$ 48,724
Property, equipment and intangible asset expenditures	\$ 1,651	\$ 443	\$ 47	\$ 2,141
<b>As at and for the three months ended September 30, 2018</b>	<b>ECWS</b>	<b>Tryton</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 27,831	\$ 22,805	\$ -	\$ 50,636
Income (loss) before income taxes	\$ 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
<b>As at and for the nine months ended September 30, 2019</b>	<b>ECWS</b>	<b>Tryton</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 64,684	\$ 49,126	\$ -	\$ 113,810
Income (loss) before income taxes	\$ 6,919	\$ 4,797	\$ (11,412)	\$ 304
Depreciation and amortization	\$ 7,331	\$ 3,783	\$ 954	\$ 12,068
Property, equipment and intangible asset expenditures	\$ 2,769	\$ 2,569	\$ 138	\$ 5,476
<b>As at and for the nine months ended September 30, 2018</b>	<b>ECWS</b>	<b>Tryton</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 81,179	\$ 67,529	\$ -	\$ 148,708
Income (loss) before income taxes	\$ 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

## CORPORATE INFORMATION

### Directors

James A. Banister, Chairman<sup>2</sup>

Garnet K. Amundson<sup>3</sup>

Michael J. Black<sup>3</sup>

Robert T. German<sup>1,3</sup>

Nicholas G. Kirton<sup>1,2</sup>

Robert B. Michaleski<sup>1, 2</sup>

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

### Calgary Office

Livingston Place West

1100, 250 2<sup>nd</sup> Street SW

Calgary, Alberta T2P 0C1

Phone: (403) 263-6778

Fax: (403) 263-6737

Email: [service@essentialenergy.ca](mailto:service@essentialenergy.ca)

Website: [www.essentialenergy.ca](http://www.essentialenergy.ca)