FINANCIAL REPORT

For the year ended December 31, 2018

ESSENTIAL ENERGY SERVICES

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 year ended December 31, 2018.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the year ended December 31, 2018 and 2017, the notes contained therein to which the readers are referred and the statements 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 March 6, 2019 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 6, 2019.

SELECTED INFORMATION

(in thousands of dollars except per share, percentages, hours and fleet data)	For the three months ended December 31, **2018**	2017	For the years ended December 31, **2018**	2017	2016
Revenue	**$ 41,186**	$ 43,262	**$ 189,894**	$ 175,908	$ 97,527
Gross margin	**5,261**	4,522	**32,681**	31,924	7,787
Gross margin %	**13%**	10%	**17%**	18%	8%
Adjusted EBITDAS[1] from continuing operations	**2,140**	1,153	**20,169**	18,609	(4,415)
Net loss from continuing operations[(i)(ii)]	**(13,654)**	(3,843)	**(8,778)**	(3,024)	(62,622)
Per share – basic and diluted	**(0.10)**	(0.03)	**(0.06)**	(0.02)	(0.48)
Net loss[(i)(ii)]	**(13,654)**	(3,843)	**(8,778)**	(3,354)	(90,629)
Per share – basic and diluted	**(0.10)**	(0.03)	**(0.06)**	(0.02)	(0.70)
Operating hours					
Coil tubing rigs	**8,262**	11,215	**46,979**	48,425	32,306
Pumpers	**12,146**	14,581	**63,058**	60,857	37,022

	As at December 31, **2018**	2017	2016
Total assets	**$ 201,270**	$ 219,448	$ 209,270
Long-term debt	**21,388**	17,975	11,250
Equipment fleet[(iii)]			
Coil tubing rigs	**29**	30	31
Pumpers	**27**	26	32

(i) The fourth quarter and year ended December 31, 2018 includes an onerous lease contract expense of $0.5 million. The year ended December 31, 2016 includes an onerous lease contract expense of $4.8 million.
(ii) The fourth quarter and year ended December 31, 2018 includes an asset write-down of $17.9 million. The year ended December 31, 2016 includes an impairment loss of $51.2 million.
(iii) Fleet data represents the number of units at the end of the period.

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

INDUSTRY OVERVIEW

2018 Canadian oil and natural gas activity was lower than 2017 as political, regulatory and market access issues continued to restrict investment in the Canadian oil and natural gas industry. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB") declined 14%[a] and 5%[a] for the three months and year ended December 31, 2018, respectively, compared to the same prior year periods. In 2018, West Texas Intermediate ("WTI") oil prices averaged U.S. $65 per barrel compared to U.S. $51 per barrel in 2017. Canadian exploration and production ("E&P") companies did not realize this price appreciation, as the differential between WTI and Western Canadian Select ("WCS") widened during 2018. Canadian natural gas prices as measured by the AECO benchmark averaged $1.53 per MMBTU in 2018 compared to $2.19 per MMBTU in 2017.

During the fourth quarter 2018, amid concerns over the global economy slowing and excess world oil supply, WTI price dropped from U.S. $75 per barrel at the beginning of the quarter to U.S. $45 per barrel by December 31, 2018. This was compounded in Canada as increased oil production and market access constraints resulted in oil inventories in the WCSB nearing record storage volumes in the second half of 2018 causing the Canadian oil price differential to increase. The price for WCS fell to U.S. $12.59 per barrel on November 13, 2018 and the differential between WCS and the WTI averaged U.S. $29 per barrel for the fourth quarter 2018. Oil price volatility resulted in E&P companies reducing spending due to market uncertainty.

At the beginning of December 2018, the provincial government intervened in the oil market in Alberta announcing that it would temporarily require the largest oil producers to curtail production beginning on January 1, 2019, with the goal to reduce WCSB inventories and support higher Canadian oil prices. Unfortunately, such provincial government intervention in the Alberta oil market added to uncertainty in the Canadian oil industry, further restricting E&P investment.

HIGHLIGHTS

Fourth Quarter 2018

Revenue for the three months ended December 31, 2018 was $41.2 million, a 5% decrease from the fourth quarter 2017, primarily due to lower Essential Coil Well Service ("ECWS") activity partially offset by stronger Tryton revenue. Adjusted EBITDAS[1] was $2.1 million, a $1.0 million increase compared to the prior year period.

Key operating highlights included:

- ECWS gross margin was $0.5 million higher compared to the fourth quarter 2017. Despite a revenue decrease of $3.7 million, ECWS successfully balanced crew retention with cost management during a period of slower activity.
- Tryton revenue was $22.9 million, a 7% increase compared to the fourth quarter 2017 due to higher Canadian Multi-Stage Fracturing System® ("MSFS®") revenue and continued Tryton U.S. revenue growth, particularly in the Permian Basin.
- ECWS's first retrofitted Generation IV coil tubing rig successfully completed several jobs during the quarter, validating this rig's new design and engineering. Management, crews and customers are pleased with the performance of this lighter rig that has the capacity to reach 7,200 meters.

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

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

Year 2018

Revenue was $189.9 million, $14.0 million higher than prior year despite the industry slowdown. Adjusted EBITDAS[1] was $20.2 million, a $1.6 million increase from 2017.

Key operating highlights included:

- ECWS revenue increased $5.6 million, primarily due to demand for Essential's Generation III coil tubing rigs and quintuplex fluid pumpers, which are well-suited for deep horizontal wells, particularly in the Montney and Duvernay regions of the WCSB.
- Tryton revenue increased $8.4 million due to strong demand for conventional tools in Canada used for production and decommissioning work and continued Tryton U.S. revenue growth, particularly in the Permian Basin.
- Essential's capital expenditures were $15.7 million, comprised of $6.1 million of growth capital and $9.6 million of maintenance capital. Growth capital was targeted at equipment to service long-reach horizontal wells, and included the completion of two quintuplex fluid pumpers, a retrofitted Generation IV coil tubing rig, a nitrogen pumper and costs to begin upgrading a coil tubing reel trailer.

At December 31, 2018, Essential was financially well positioned with debt outstanding of $21.4 million and funded debt[1] to bank EBITDA[1] of 1.04x. Working capital[1] was $60.8 million at December 31, 2018, exceeding long-term debt by $39.4 million. In 2018, the Company renewed and extended its revolving secured credit facility (the "Credit Facility") to June 30, 2021 and increased the commitment to $50 million. On March 6, 2019, Essential had $10.7 million of debt outstanding, lower than the balance at December 31, 2018, primarily due to timing of customer payments and reduced spending.

The Company recognized a write-down of assets of $17.9 million in the fourth quarter 2018. Uncertainty related to political, regulatory and market access issues in the Canadian oil and natural gas industry significantly increased in the fourth quarter 2018. This uncertainty negatively impacted the operating and financial outlook for Canadian E&P and oilfield service companies, including Essential. As a result, Essential reduced the future demand and cash flow expectations, and the fair value of certain coil tubing rigs, fluid and nitrogen pumpers. With the initial success of the first retrofitted Generation IV coil tubing rig, Essential also reduced the fair value of the remaining Generation IV coil tubing rigs to acknowledge that certain components of the original Generation IV design have been rendered obsolete by the design and engineering improvements incorporated into the retrofit program.

CORPORATE INFORMATION

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, including the Financial Statements and the Annual Information Form for the year ended December 31, 2018, as well as the 2017 Annual MD&A, the Financial Statements and the Annual Information Form for the year ended December 31, 2017, can be found under Essential's profile on SEDAR at www.sedar.com.

OVERVIEW OF ESSENTIAL

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

Essential Coil Well Service

Coil Tubing Rigs – Essential operates one of the largest coil tubing fleets in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity using 2 ⅜ inch

coil of up to 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 – Includes 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

Appeal Update:

Essential successfully defended itself against a patent litigation initiated by Packers Plus Energy Services Inc. (“Packers Plus” or “Packers”). Subsequent to the Federal Court of Canada (the “Court”) ruling that the asserted patent was not valid and that Essential did not infringe the patent (the “Decision”), Packers Plus filed an appeal (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.

The Appeal Court heard the Appeal on February 6, 2019 but has not released its ruling on the Appeal. The timing of the release of a decision by the Appeal Court is unknown.

To have any claim of damages against Essential, Packers Plus must successfully overturn all three of the following independent 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.

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

Background:

On October 23, 2013, Packers Plus filed a Statement of Claim with 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.

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.”

As part of the November 3, 2017 Decision, the Court awarded costs in favor of Essential. Over the past five years, Essential incurred significant defence costs with respect to this litigation. A hearing date for cost recovery has been scheduled for May 10, 2019. The timing of release of a decision with regard to cost recovery is unknown.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended December 31, **2018**	2017	For the years ended December 31, **2018**	2017
Revenue	**$ 41,186**	$ 43,262	**$ 189,894**	$ 175,908
Operating expenses	**35,925**	38,740	**157,213**	143,984
Gross margin	**5,261**	4,522	**32,681**	31,924
General and administrative expenses	**3,121**	3,369	**12,512**	13,315
Adjusted EBITDAS[1] from continuing operations	**2,140**	1,153	**20,169**	18,609
Onerous lease contract expense	**450**	-	**450**	-
EBITDAS[1] from continuing operations	**1,690**	1,153	**19,719**	18,609
Depreciation and amortization	**3,741**	3,957	**15,075**	15,774
Share-based compensation (recovery) expense	**(1,552)**	1,432	**(1,311)**	4,201
Write-down of assets	**17,921**	-	**17,921**	-
Other (income) expense	**(530)**	(34)	**(1,406)**	708
Finance costs	**288**	278	**1,259**	1,233
Loss before income tax from continuing operations	**(18,178)**	(4,480)	**(11,819)**	(3,307)
Current income tax expense (recovery)	**-**	(752)	**63**	(960)
Deferred income tax (recovery) expense	**(4,524)**	115	**(3,104)**	677
Income tax recovery	**(4,524)**	(637)	**(3,041)**	(283)
Net loss from continuing operations	**$ (13,654)**	$ (3,843)	**$ (8,778)**	$ (3,024)
Net loss from discontinued operations	**-**	-	**-**	(330)
Net loss	**$ (13,654)**	$ (3,843)	**$ (8,778)**	$ (3,354)
Net loss from continuing operations per share Basic and diluted	**$ (0.10)**	$ (0.03)	**$ (0.06)**	$ (0.02)
Net loss per share Basic and diluted	**$ (0.10)**	$ (0.03)	**$ (0.06)**	$ (0.02)

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)		For the three months ended December 31, 2018		2017		For the years ended December 31, 2018		2017
Revenue	**$**	**18,334**	$	22,002	**$**	**99,513**	$	93,896
Operating expenses		**16,858**		21,072		**84,501**		79,314
Gross margin	**$**	**1,476**	$	930	**$**	**15,012**	$	14,582
Gross margin %		**8%**		4%		**15%**		16%
Operating hours								
Coil tubing rigs		**8,262**		11,215		**46,979**		48,425
Pumpers		**12,146**		14,581		**63,058**		60,857
Equipment fleet [(i)]								
Coil tubing rigs		**29**		30		**29**		30
Fluid pumpers		**19**		18		**19**		18
Nitrogen pumpers		**8**		8		**8**		8

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

ECWS fourth quarter 2018 revenue was $18.3 million, 17% lower than the same prior year period due to lower activity from key customers. Declining oil prices, weak natural gas prices, political, regulatory and market access uncertainty all factored into lower Canadian industry activity in the fourth quarter 2018, compared to the same period in the prior year. Generation III coil tubing rigs and quintuplex fluid pumpers had the highest utilization in the fleet as this equipment is well-suited for horizontal deep wells in the WCSB where key customers worked. The retrofitted Generation IV coil tubing rig was well received by customers and crews, successfully completing several jobs during the quarter in the Montney and Duvernay regions, validating its design and engineering. Pricing remained consistent with the fourth quarter 2017 and the first nine months of 2018 with fluctuations in revenue per hour due to type of work.

Fourth quarter gross margin was 8%, an improvement from the same period in the prior year. With continued focus on balancing crew retention with cost management, ECWS incurred lower labour costs in the fourth quarter 2018 compared to the same period in 2017. This was partially offset by higher repairs and maintenance costs and increased fuel prices.

2018 revenue was $99.5 million, a $5.6 million increase compared to 2017. Demand for ECWS's Generation III coil tubing rigs, quintuplex fluid pumpers and nitrogen pumpers exceeded 2017 activity. Gross margin was 15%, consistent with the prior year as the contribution from increased revenue was offset by higher repairs and maintenance costs and fuel prices. Increased repairs and maintenance costs were primarily the result of an increase in fluid-end replacements on the fluid pumpers due to higher pressure work on long-reach horizontal wells. ECWS was not able to recover these cost increases from customers through service price increases due to competitive pressures.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended December 31, **2018**		2017	For the years ended December 31, **2018**		2017
Revenue	**$**	**22,852**	$ 21,260	**$**	**90,381**	$ 82,012
Operating expenses		**18,831**	17,074		**71,095**	62,555
Gross margin	**$**	**4,021**	$ 4,186	**$**	**19,286**	$ 19,457
Gross margin %		**18%**	20%		**21%**	24%
Tryton revenue – % of revenue						
Tryton MSFS®		**43%**	44%		**45%**	49%
Conventional Tools & Rentals		**57%**	56%		**55%**	51%

Fourth quarter 2018 revenue was $22.9 million, a 7% increase compared to the fourth quarter 2017 due to higher Canadian MSFS® revenue and continued Tryton U.S. growth, particularly in the Permian Basin. As Canadian oil and natural gas industry uncertainty increased through the fourth quarter 2018, with volatile and declining prices, Tryton Canada's activity declined as well.

2018 Tryton revenue was $90.4 million, an $8.4 million increase compared to the prior year, as Tryton experienced year-over-year revenue growth in both its Canadian and U.S. downhole tool operations. In Canada, Tryton's growth was driven by increased customer spending on production and decommissioning services and continued strong performance by Tryton Canada's MSFS® business. In the U.S., Tryton's revenue continued to grow, particularly in the Permian Basin. The increase in Tryton's revenue without a corresponding increase in gross margin was due to lower contribution from the higher margin rentals business in 2018 compared to 2017 and lower pricing in Tryton's U.S. operations in an effort to expand its customer base.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended December 31, **2018**		2017	For the years ended December 31, **2018**		2017
General and administrative expenses	**$**	**3,121**	$ 3,369	**$**	**12,512**	$ 13,315

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

ONEROUS LEASE CONTRACT

(in thousands of dollars)	For the three months ended December 31, **2018**		2017	For the years ended December 31, **2018**		2017
Onerous lease contract expense	**$**	**450**	$ -	**$**	**450**	$ -

When the contractual obligations of a lease exceed the benefits expected to be received, IFRS requires the present value of the minimum future contractual lease payments be recorded as an expense in the reporting period. Essential recognized an onerous lease expense related to an ECWS facility in southern Alberta that was closed in early 2019.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended December 31, **2018**	2017	For the years ended December 31, **2018**	2017
Depreciation and amortization expense	**$ 3,741**	$ 3,957	**$ 15,075**	$ 15,774

Depreciation and amortization expense for 2018 was consistent with 2017.

SHARE-BASED COMPENSATION

(in thousands of dollars)	For the three months ended December 31, **2018**	2017	For the years ended December 31, **2018**	2017
Share-based compensation (recovery) expense	**$ (1,552)**	$ 1,432	**$ (1,311)**	$ 4,201

Essential's liability for share-based compensation fluctuates based on Essential's share price. As the share price decreased, the estimated amount of future payments also decreased and resulted in a lower share-based compensation expense.

For the three and twelve months ended December 31, 2018, the reduction in share-based compensation expense was due to the cost of share-based incentives issued in 2018 being more than offset by the value of a corresponding reduction in Essential's share price during those periods.

WRITE-DOWN OF ASSETS

(in thousands of dollars)	For the three months ended December 31, **2018**	2017	For the years ended December 31, **2018**	2017
Write-down of assets	**$ 17,921**	$ -	**$ 17,921**	$ -

The Company recognized a write-down of assets of $17.9 million in the fourth quarter 2018. Uncertainty related to political, regulatory and market access issues in the Canadian oil and natural gas industry significantly increased in the fourth quarter 2018. This uncertainty negatively impacted the operating and financial outlook for Canadian E&P and oilfield service companies, including Essential. As a result, Essential reduced the future demand and cash flow expectations for, and the recoverable amount of certain coil tubing rigs, fluid and nitrogen pumpers. With the initial success of the first retrofitted Generation IV coil tubing rig, Essential also reduced the carrying value of the remaining Generation IV coil tubing rigs to acknowledge that certain components of the original Generation IV design have been rendered obsolete by the design and engineering improvements incorporated into the retrofit program.

OTHER (INCOME) EXPENSE

(in thousands of dollars)	For the three months ended December 31, 2018	2017	For the years ended December 31, 2018	2017
Loss (gain) on disposal	**$ 122**	$ 8	**$ (145)**	$ (176)
Realized foreign exchange loss	**13**	44	**51**	68
Unrealized foreign exchange (gain) loss	**(756)**	(82)	**(1,185)**	834
Other loss (gain)	**91**	(4)	**(127)**	(18)
Other (income) expense	**$ (530)**	$ (34)	**$ (1,406)**	$ 708

Weakening of the Canadian dollar in relation to the U.S. dollar during the three and twelve months ended December 31, 2018 resulted in unrealized foreign exchange gains.

FINANCE COSTS

(in thousands of dollars)	For the three months ended December 31, 2018	2017	For the years ended December 31, 2018	2017
Finance costs	**$ 288**	$ 278	**$ 1,259**	$ 1,233

For the year ended December 31, 2018, finance costs were consistent with the same period in 2017. The higher average long-term debt outstanding in 2018 was offset by a lower interest rate on the Company's Credit Facility compared to the same prior year period.

INCOME TAXES

(in thousands of dollars)	For the three months ended December 31, 2018	2017	For the years ended December 31, 2018	2017
Current income tax expense (recovery)	**$ -**	$ (752)	**$ 63**	$ (960)
Deferred income tax (recovery) expense	**(4,524)**	115	**(3,104)**	677
Income tax (recovery) expense	**$ (4,524)**	$ (637)	**$ (3,041)**	$ (283)

Essential's statutory income tax rate was 27% for 2018, consistent with the prior year. For the quarter and year ended December 31, 2018, deferred income tax recovery increased compared to the same periods in 2017 due to the reversal of temporary differences arising from the asset write-down recorded on ECWS equipment. Current income tax recovery in the prior year periods related to 2017 losses that were applied to recover income taxes paid in previous years.

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 December 31, 2018	2017	For the years ended December 31, 2018	2017
Net cash provided by operating activities	**$ 5,279**	$ 7,581	**$ 9,338**	$ 10,481
Decreases (increases) in non-cash working capital[(1)]	**883**	6,829	**(13,679)**	(4,885)
Operating cash flow before changes in non-cash operating working capital[(1)]	**$ 4,396**	$ 752	**$ 23,017**	$ 15,366
Per share – basic and diluted	**$ 0.03**	$ 0.01	**$ 0.16**	$ 0.11

WORKING CAPITAL

(in thousands of dollars, except ratios)		**As at December 31, 2018**		As at December 31, 2017
Current assets	**$**	**78,614**	$	74,883
Current liabilities		**(17,766)**		(24,712)
Working capital[1]	**$**	**60,848**	$	50,171
Working capital ratio		**4.4:1**		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] 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. As at December 31, 2018 the maximum of $50 million under the Credit Facility was available to Essential.

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.

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. As at December 31, 2018, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	**As at December 31, 2018**
Funded debt[1] to capitalization	≤ 50%	**12%**
Funded debt[1] to bank EBITDA[1]	≤ 3.50x	**1.04x**
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.

As at December 31, 2018, Essential had consolidated funded debt[1] of $21.0 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 March 6, 2019, Essential had $10.7 million of long-term debt.

EQUIPMENT EXPENDITURES

(in thousands of dollars)	For the three months ended December 31, 2018	2017	For the years ended December 31, 2018	2017
ECWS	**$ 3,418**	$ 4,448	**$ 12,288**	$ 15,880
Tryton	**1,174**	1,808	**3,029**	3,991
Corporate	**15**	34	**353**	348
Total equipment expenditures	**4,607**	6,290	**15,670**	20,219
Less proceeds on disposal of property and equipment	**(1,993)**	(891)	**(5,083)**	(2,660)
Net equipment expenditures[1]	**$ 2,614**	$ 5,399	**$ 10,587**	$ 17,559

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

(in thousands of dollars)	For the three months ended December 31, 2018	2017	For the years ended December 31, 2018	2017
Growth capital[1]	**$ 1,892**	$ 4,521	**$ 6,103**	$ 11,382
Maintenance capital[1]	**2,715**	1,769	**9,567**	8,837
Total equipment expenditures	**$ 4,607**	$ 6,290	**$ 15,670**	$ 20,219

2018 growth capital included completion of two quintuplex fluid pumpers, a nitrogen pumper, a retrofitted Generation IV coil tubing rig and costs to begin upgrading an existing coil tubing reel trailer, offering Generation IV rig capability when paired with a Generation II coil tubing rig. The quintuplex fluid pumpers support Essential's deep coil tubing fleet working on long-reach horizontal wells where greater pumping capacity is required due to the depths and pressures of these wells.

The retrofitted Generation IV coil tubing rig successfully completed several jobs in the Montney and Duvernay regions during the fourth quarter 2018, validating its design and engineering. This rig was converted from a masted rig to a conventional rig and 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 with higher injector capacity required for deeper horizontal wells. Using 2 ⅜ inch coil, the retrofitted rig can reach 7,200 meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately.

Given the uncertain outlook for oil and natural gas activity in the WCSB, Essential's 2019 capital budget is $6 million, primarily for maintenance capital. The budget includes costs to finish upgrading a coil tubing reel trailer so it can work with a Generation II conventional coil tubing rig and achieve the same depth capacity as a Generation IV coil tubing rig.

SHARE CAPITAL

As at March 6, 2019, there were 141,856,813 common shares and 5,888,249 share options ("Share Options") outstanding. Of the 5,888,249 Share Options, 4,645,689 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
2019	$	6,167
2020		5,694
2021		4,804
2022		4,670
2023		2,309
Thereafter		1,424
As at December 31, 2018	$	25,068

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. As at December 31, 2018, such officers have evaluated, or caused to be evaluated under their supervision, the design and effectiveness of the Company's disclosure controls and procedures and have concluded that the Company's disclosure controls and procedures are effective with no material weakness as at December 31, 2018.

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.

During the year, the Company's management, under the supervision of and with the participation of its CEO and CFO, completed an assessment on the design and effectiveness of ICFR. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework 2013. The assessment includes a risk-based evaluation, documentation and testing of key processes. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that disclosures and financial information is accurate and complete.

Through management's assessment of the design and effectiveness of ICFR, no material weaknesses were found. The broad scope of senior management's oversight and strong entity level controls are expected to compensate for any non-material control weaknesses. In addition, non-material control weaknesses identified are mitigated by the active involvement of senior management in all the affairs of the Company; open lines of communication within the Company and its divisions; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management; and the existence of a Company whistle-blower policy.

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2018 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Critical Accounting Estimates

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

Provision for Impairment of Trade Receivables

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon expected credit losses. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. Given the cyclical nature of the oil and natural gas industry, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Net Realizable Value of Inventory

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

Depreciation and Amortization

Equipment is depreciated based upon estimated useful lives and residual values. For intangible assets, amortization policies are intended to amortize assets over their expected lives or contracted terms. The Company reviews its historical experience with similar assets to ensure that depreciation and amortization rates are appropriate. Actual useful lives of assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity.

Impairment of Long-Lived Assets

At each reporting date Essential assesses whether there is an indication that an asset or group of assets, including goodwill and intangible assets, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, forecasts and industry considerations affecting the Company and the CGU.

Share-based Compensation

Share-based compensation is provided in respect of the Share Option, Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans.

The expense for the Share Option Plan is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, the Company uses estimates and assumptions to determine risk-free interest rates, expected terms, anticipated volatility and dividend yield.

The Board is authorized to grant RSUs to participants under the RSU Plan. RSUs granted represent the right to receive a cash payment at the time of vesting. As determined by the Board, RSUs vest over a specified time period, vest based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

The Board is authorized to grant DSUs to participants under the DSU Plan. Unless otherwise determined, DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding expense is charged to net loss evenly over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in net loss.

Provisions

Provisions are recognized when Essential has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of net loss and other comprehensive loss.

Deferred Income Tax Liabilities and Assets

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for most taxable temporary differences, with certain exceptions being applied. Deferred income tax assets are re-measured at each reporting date and recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Future Accounting Policies

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 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 loss and comprehensive loss will be replaced by a depreciation charge for right-of-use assets and finance costs on lease liabilities. On January 1, 2019, Essential will record a right-of-use asset of approximately $17 million with a corresponding lease liability of approximately $22 million. The annual impact is anticipated to be an increase in EBITDAS[1] of approximately $5 million.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form for the year ended December 31, 2018, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's Annual Information Form. The risks and uncertainties in Essential's Annual Information Form are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business.

OUTLOOK

The Canadian oil and natural gas industry continues to be challenged by political, regulatory and market access issues. These issues, along with the Alberta government's mandated production curtailments and commodity price uncertainty, have resulted in reduced E&P capital spending plans for 2019, compared to 2018. In January 2019, the Petroleum Services Association of Canada revised their 2019 WCSB drilling forecast to reflect a 25% decrease in the number of wells drilled compared to 2018. With lower industry activity and excess oilfield service equipment in the WCSB, it remains a challenge for Essential to balance crew retention, equipment maintenance and other escalating costs with competitive pricing pressures and sporadic activity.

To date in the first quarter, Essential has experienced activity and revenue slightly below 2018 in ECWS and Tryton. However, unlike March 2018, activity in March 2019 is expected to slow. Beyond spring break-up, activity and demand remains uncertain. Essential is focused on what it can control in this environment: cost management, capital discipline, ensuring its service offerings meet customer demand and allocating free cash flow to reduce debt.

From a cost management perspective, since late in the fourth quarter of 2018, Essential has been focused on reducing fixed costs including compensation reductions, employee layoffs and a shop closure, among other initiatives. Essential's 2019 capital budget is prudent at $6 million and is primarily for maintenance capital. ECWS's active coil tubing rig count has been reduced as maintaining a smaller active fleet results in lower support costs and maintenance capital requirements.

ECWS's upgraded coil tubing reel trailer was completed and went to the field in February 2019, offering Generation IV rig capability when paired with a Generation II coil tubing rig. The first retrofitted Generation IV coil tubing rig went to work in the fourth quarter 2018 and continued to be busy into the first quarter. These rigs are excellent additions to the existing deep fleet of Generation III coil tubing rigs that, along with the quintuplex fluid pumpers, are ideally suited to work on long-reach horizontal wells, particularly in the Montney and Duvernay regions.

Essential continues to have low debt with debt outstanding at March 6, 2019 of $10.7 million. At the end of 2018, debt to bank EBITDA[(1)] was 1.04x. Essential believes it is financially well-positioned to meet its working capital and capital 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 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)	**Dec 31, 2018**	Sept 30, 2018	June 30, 2018	Mar 31, 2018	**Dec 31, 2017**	Sept 30, 2017	June 30, 2017	Mar 31, 2017
Essential Coil Well Service	**18,334**	27,831	20,774	32,574	**22,002**	28,606	14,569	28,719
Tryton	**22,852**	22,805	17,164	27,560	**21,260**	20,145	13,076	27,531
Total revenue	**41,186**	50,636	37,938	60,134	**43,262**	48,751	27,645	56,250
Gross margin	**5,261**	10,112	4,838	12,470	**4,522**	11,524	1,484	14,394
Gross margin %	**13%**	20%	13%	21%	**10%**	24%	5%	26%
EBITDAS[(1)] from continuing operations[(i)]	**1,690**	7,047	1,837	9,145	**1,153**	8,541	(1,291)	10,206
Adjusted EBITDAS[(1)] from continuing operations[(i)]	**2,140**	7,047	1,837	9,145	**1,153**	8,541	(1,291)	10,206
Bank EBITDA[(1)]	**2,170**	7,264	1,871	9,150	**1,220**	8,624	(1,272)	10,224
Continuing operations								
Net (loss) income[(i)(ii)]	**(13,654)**	2,228	(2,405)	5,053	**(3,843)**	2,344	(5,005)	3,480
Per share – basic and diluted	**(0.10)**	0.02	(0.02)	0.04	**(0.03)**	0.02	(0.04)	0.02
Net (loss) income[(i)(ii)]	**(13,654)**	2,228	(2,405)	5,053	**(3,843)**	2,344	(5,005)	3,150
Per share – basic and diluted	**(0.10)**	0.02	(0.02)	0.04	**(0.03)**	0.02	(0.04)	0.02
Total assets	**201,270**	229,358	221,935	241,472	**219,448**	223,695	208,337	227,646
Long-term debt	**21,388**	23,667	19,087	31,943	**17,975**	20,606	13,337	18,169
Operating hours								
Coil tubing rigs	**8,262**	13,236	9,311	16,170	**11,215**	13,751	7,039	16,420
Pumpers	**12,146**	17,237	13,236	20,439	**14,581**	18,094	9,529	18,653
Total equipment fleet[(i)]								
Coil tubing rigs	**29**	28	30	30	**30**	31	31	31
Fluid pumpers	**19**	19	20	19	**18**	18	20	21
Nitrogen pumpers	**8**	7	7	7	**8**	11	11	11
Tryton - % of revenue								
Tryton MSFS®	**43%**	41%	47%	47%	**44%**	48%	42%	59%
Conventional Tools & Rentals	**57%**	59%	53%	53%	**56%**	52%	58%	41%

(i) The quarter ended December 31, 2018 includes an onerous lease contract expense of $0.5 million.
(ii) The quarter ended December 31, 2018 includes an asset write-down of $17.9 million.
(iii) 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”, “should”, “can”, “typically” or “tends to” 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 decision and the cost recovery process; the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities and financial condition; Essential’s capital budget; accounting standard implementation; oil and natural gas industry activity and outlook; political and regulatory uncertainty; Essential’s activity levels; equipment suitability; equipment retrofitting, capabilities of equipment retrofits; operating challenges with lower activity; Essential’s competitive position, operational focus, outlook and the demand for Essential’s services; Essential’s focus on what it can control and each of those elements; and Essential’s financial position and ability to 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, 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; 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 loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net loss and net loss per share as calculated in accordance with IFRS.

Adjusted EBITDAS – This measure is EBITDAS adjusted for onerous lease contract expense. This measure is considered more relevant as it provides EBITDAS without the impact of non-recurring items.

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.

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

Distributable cash flow – This measure is generally defined in Essential's Credit Facility as net loss excluding share-based compensation expense, depreciation and amortization, deferred income tax expense, provision for accounts receivable impairment, gains/losses on disposal, write-down of assets, onerous lease contract expense and severance costs, 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, 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, Adjusted EBITDAS from continuing operations, EBITDAS from continuing operations, and EBITDA from continuing operations, to the IFRS measure, net loss from continuing operations:

(in thousands of dollars)	For the three months ended December 31, **2018**	2017	For the years ended December 31, **2018**	2017
Bank EBITDA	**$ 2,170**	$ 1,220	**$ 20,455**	$ 18,796
Severance costs	**30**	67	**286**	187
Adjusted EBITDAS from continuing operations	**$ 2,140**	$ 1,153	**$ 20,169**	$ 18,609
Onerous lease contract expense	**450**	-	**450**	-
EBITDAS from continuing operations	**$ 1,690**	$ 1,153	**$ 19,719**	$ 18,609
Share-based compensation	**(1,552)**	1,432	**(1,311)**	4,201
Other (income) expense	**(530)**	(34)	**(1,406)**	708
EBITDA from continuing operations	**$ 3,772**	$ (245)	**$ 22,436**	$ 13,700
Depreciation and amortization	**3,741**	3,957	**15,075**	15,774
Write-down of assets	**17,921**	-	**17,921**	-
Finance costs	**288**	278	**1,259**	1,233
Loss before income tax from continuing operations	**$ (18,178)**	$ (4,480)	**$ (11,819)**	$ (3,307)
Total income tax recovery	**(4,524)**	(637)	**(3,041)**	(283)
Net loss from continuing operations	**$ (13,654)**	$ (3,843)	**$ (8,778)**	$ (3,024)

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

(in thousands of dollars, except ratios)		Trailing 12 months ended December 31, 2018
Bank EBITDA	$	**20,455**
Less current income tax recovery		**(63)**
	$	**20,392**
Finance costs	$	**1,259**
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".

Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2018

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

Management has established and maintains an accounting and reporting system supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records.

KPMG LLP, an independent firm of Chartered Professional Accountants, has been engaged, as approved by a vote of shareholders at the Company's most recent annual general meeting as external auditors of the Company. The Independent Auditors' Report to the shareholders, which describes the scope of their examination and expresses their opinion, is presented on the following page.

The Audit Committee of the Board of Directors, whose members are independent of management, meet to review the consolidated financial statements with management and the auditors, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements.

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Allan Mowbray"

ALLAN MOWBRAY
Vice President, Finance and
Chief Financial Officer

March 6, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Essential Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of Essential Energy Services Ltd., which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- and notes to the consolidated financial statements, including a summary of significant accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "Financial Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

Information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Financial Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Signed "KPMG LLP"

Chartered Professional Accountants
The engagement partner on the audit resulting in
this auditors' report is Reinier Deurwaarder
Calgary, Canada
March 6, 2019

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)		**As at December 31, 2018**		As at December 31, 2017
Assets				
Current				
Cash	**$**	**410**	$	46
Trade and other accounts receivable *(note 5)*		**35,775**		35,919
Inventories *(note 6)*		**40,255**		35,683
Income taxes receivable *(note 12)*		**-**		1,129
Prepayments and deposits		**2,174**		2,106
		78,614		74,883
Non-current				
Property and equipment *(note 7)*		**118,249**		139,734
Intangible assets		**662**		1,387
Goodwill *(note 8)*		**3,745**		3,444
		122,656		144,565
Total assets	**$**	**201,270**	$	219,448
Liabilities				
Current				
Trade and other accounts payable *(note 9)*	**$**	**16,092**	$	22,504
Share-based compensation *(note 19)*		**657**		1,498
Current portion of onerous lease contracts *(note 10)*		**1,017**		710
		17,766		24,712
Non-current				
Long-term onerous lease contracts *(note 10)*		**2,816**		3,432
Share-based compensation *(note 19)*		**2,093**		4,397
Long-term debt *(note 11)*		**21,388**		17,975
Deferred tax liabilities *(note 12)*		**5,025**		8,129
		31,322		33,933
Total liabilities		**49,088**		58,645
Commitments and contingencies *(note 21)*				
Equity				
Share capital *(note 13)*		**272,732**		272,732
Deficit		**(126,734)**		(117,956)
Other reserves *(note 14)*		**6,184**		6,027
Total equity		**152,182**		160,803
Total liabilities and equity	**$**	**201,270**	$	219,448

See accompanying notes to the consolidated financial statements.

Signed "Garnet K. Amundson"
Garnet K. Amundson
Director

Signed "James A. Banister"
James A. Banister
Director

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(in thousands of dollars, except per share amounts)	For the years ended December 31, **2018**	2017
Revenue	**$ 189,894**	$ 175,908
Operating expenses *(notes 15 and 17)*	**157,213**	143,984
Gross margin	**32,681**	31,924
General and administrative expenses *(notes 16 and 17)*	**12,512**	13,315
Onerous lease contract expense *(note 10)*	**450**	-
Depreciation and amortization *(note 7)*	**15,075**	15,774
Share-based compensation (recovery) expense *(note 19)*	**(1,311)**	4,201
Write-down of assets *(note 7)*	**17,921**	-
Other (income) expense *(note 18)*	**(1,406)**	708
Operating loss from continuing operations	**(10,560)**	(2,074)
Finance costs	**1,259**	1,233
Loss before taxes from continuing operations	**(11,819)**	(3,307)
Current income tax expense (recovery)	**63**	(960)
Deferred income tax (recovery) expense	**(3,104)**	677
Income tax recovery *(note 12)*	**(3,041)**	(283)
Net loss from continuing operations	**(8,778)**	(3,024)
Loss from discontinued operations, net of tax	**-**	(330)
Net loss	**(8,778)**	(3,354)
Unrealized foreign exchange (loss) gain from continuing operations *(note 14)*	**(82)**	133
Other comprehensive (loss) gain	**(82)**	133
Comprehensive loss	**$ (8,860)**	$ (3,221)
Net loss per share from continuing operations *(note 20)*		
Basic and diluted	**$ (0.06)**	$ (0.02)
Net loss per share *(note 20)*		
Basic and diluted	**$ (0.06)**	$ (0.02)
Comprehensive loss per share *(note 20)*		
Basic and diluted	**$ (0.06)**	$ (0.02)

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of dollars)	For the years ended December 31, **2018**	2017
Equity:		
Share capital		
Balance, January 1 and December 31 *(note 13)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (117,956)**	$ (114,602)
Net loss	**(8,778)**	(3,354)
Balance, December 31	**$ (126,734)**	$ (117,956)
Other reserves		
Balance, January 1	**$ 6,027**	$ 5,437
Other comprehensive (loss) gain	**(82)**	133
Share-based compensation *(note 19)*	**239**	457
Balance, December 31	**$ 6,184**	$ 6,027
Total equity	**$ 152,182**	$ 160,803

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES TD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	For the years ended December 31, **2018**	2017
Operating activities:		
Net loss from continuing operations	**$ (8,778)**	$ (3,024)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization *(note 7)*	**15,075**	15,774
Deferred income tax (recovery) expense *(note 12)*	**(3,104)**	677
Share-based compensation *(note 19)*	**239**	457
Provision for impairment of trade accounts receivable *(note 5)*	**100**	450
Finance costs	**1,259**	1,208
Onerous lease contract expense *(note 10)*	**450**	-
Write-down of assets	**17,921**	-
Gain on disposal of assets *(note 18)*	**(145)**	(176)
Operating cash flow before changes in non-cash operating working capital	**23,017**	15,366
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(415)**	(7,714)
Inventories	**(4,572)**	(8,672)
Income taxes receivable	**1,129**	5,845
Prepayments and deposits	**(68)**	(339)
Trade and other accounts payable	**(5,779)**	3,589
Onerous lease contract	**(829)**	(621)
Share-based compensation	**(3,145)**	3,027
Net cash provided by operating activities from continuing operations	**9,338**	10,481
Investing activities:		
Purchase of property, equipment and intangible assets *(note 7)*	**(15,670)**	(20,219)
Non-cash investing working capital in trade and other accounts payable	**(633)**	1,568
Proceeds on disposal of equipment	**5,083**	2,660
Net cash used in investing activities from continuing operations	**(11,220)**	(15,991)
Financing activities:		
Increase in long-term debt *(note 11)*	**3,600**	6,650
Net finance costs paid	**(1,375)**	(1,124)
Net cash provided by financing activities from continuing operations	**2,225**	5,526
Foreign exchange gain on cash held in a foreign currency	**21**	10
Net increase in cash	**364**	26
Net decrease in cash, discontinued operations	**-**	(123)
Cash, beginning of period	**46**	143
Cash, end of period	**$ 410**	$ 46
Supplemental cash flow information		
Cash taxes received	**$ (1,064)**	$ (8,006)
Cash interest and standby fees paid	**$ 947**	$ 1,099

See accompanying notes to the consolidated financial statements.

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the years ended December 31, 2018 and 2017 were approved by the Board of Directors of Essential ("Board of Directors") on March 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 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The Financial Statements for the year ended December 31, 2018, including comparative information, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of Presentation

The Financial Statements have been prepared on a historical cost basis, except as detailed in the Company's accounting policies in Note 2. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000's), except when otherwise indicated.

c) Principles of Consolidation

The Financial Statements include the accounts of the Company and its wholly owned subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Essential obtains control, and continue to be consolidated until the date that such control ceases.

The Financial Statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances, income, expenses and unrealized gains and losses resulting from intercompany transactions are eliminated.

d) Foreign Currency Translation

The results and financial position of the Company's foreign operations are translated from the functional currency of those operations, which is the local currency, into the presentation currency for each reporting period so that financial statements may be presented. The results and financial position are translated into the presentation currency using the following procedures:

i. assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position;
ii. income and expenses for the consolidated statements of net loss and comprehensive loss are translated at exchange rates at the dates of the transactions; and
iii. any resulting exchange differences are recognized in other comprehensive (loss) gain.

e) Business Combinations

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired and liabilities assumed are recognized and measured at their fair value at the date of the acquisition. The cost of an acquisition is the fair value of the net assets plus costs directly attributable to the issuance of equity or debt required to facilitate the acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is recognized directly in the consolidated statements of net loss and comprehensive loss.

On the date of acquisition, goodwill is allocated to each of the cash-generating units ("CGU") to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

f) Discontinued Operations

Financial results from continuing operations do not include the results of operations which have been identified as discontinued operations. IFRS requires the results from the discontinued operations for the current and comparative periods be segregated on the consolidated statements of net loss and comprehensive loss as discontinued operations. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as net loss or loss, net of tax from discontinued operations in the consolidated statements of net loss and comprehensive loss.

g) 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.

h) INCOME TAXES

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of net loss and comprehensive loss.

Deferred income taxes

Deferred income taxes are provided using the liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are re-measured at each reporting date and recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of net loss and comprehensive loss. Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. The measurement of deferred income tax assets and liabilities involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

i) Share-based Payment Transactions

Essential has a Share Option Plan, a Restricted Share Unit ("RSU") Plan and a Deferred Share Unit ("DSU") Plan for which share-based compensation expenses are incurred. The estimates used to determine fair value and forfeiture rates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. In addition, the dilutive effect of outstanding options are reflected as additional share dilution in the computation of diluted earnings per share.

Share Option Plan

The Board of Directors is authorized to grant options to participants under the Share Option Plan. At the time of issuance, Essential uses the Black-Scholes Option Pricing Model to measure the fair value of the options granted. The cost of the options is recorded as share-based compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that eventually vest. Upon exercise of the option, the associated amount is reclassified from contributed surplus to share capital. On exercise, the cash consideration received by the Company is recorded as share capital.

Restricted Share Unit Plan

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. RSUs represent the right to receive a cash payment at the time of vesting. As determined by the Board of Directors, RSUs may vest evenly over a specified period, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding share-based compensation expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU share-based compensation expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. Unless otherwise determined, DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding share-based compensation expense is charged to net loss over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense.

j) Financial Instruments

Fair value hierarchy

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

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

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

Financial assets

Financial assets are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial assets are measured based on their classification, as follows:

i. fair value through net loss; or
ii. amortized cost.

Financial assets at fair value through net loss

Cash is recognized at fair value through net loss. Gains or losses resulting from the periodic revaluation are recognized in the consolidated statements of net loss and comprehensive loss.

Amortized cost

Trade and other accounts receivable are measured at amortized cost using the effective interest rate method.

Financial liabilities

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, include directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial liabilities are measured based on their classification, as follows:

i. fair value through net loss; or
ii. amortized cost.

Financial liabilities at fair value through net loss

As at December 31, 2018, Essential had no financial liabilities measured at fair value through net loss.

Amortized cost
Trade and other payables and long-term debt are classified as "amortized cost". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

k) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of an asset. The costs of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The costs associated with repairs and maintenance are recognized in the consolidated statements of net loss and comprehensive loss as incurred.

Depreciation is recorded using either a straight-line method or unit of production method, net of salvage value, over the estimated useful lives of the assets. The Company reviews its historical experience with similar assets to help ensure that these depreciation rates are appropriate. The actual useful life of the assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

Depreciation rates are as follows:

Category	Period	Method
Coil rigs – certifications	24,000 hours	Hours of service
Coil rigs, pumpers and equipment	8-20 years	Straight-line
Other oilfield equipment	10-15 years	Straight-line
Vehicles	4-8 years	Straight-line
Office and computer equipment	3-10 years	Straight-line
Other	5-12 years	Straight-line
Leasehold improvements	varied	Over lease term

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the

net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of net loss and comprehensive loss in the period the asset is derecognized.

l) LEASES

At inception, leases are classified as either finance or operating leases.

Finance leases

Finance leases, which transfer to the Company substantially all the risks and benefits of ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations recorded under finance leases are reduced by the lease payments, net of imputed interest.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases

Any lease not classified as a finance lease is accounted for as an operating lease, and the associated payments are recorded over the lease term.

m) INTANGIBLE ASSETS

Intangible assets are comprised of the values attributable to computer software, customer relationships and a non-compete agreement from acquired businesses.

The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. The actual useful life of the assets may differ from the original estimate as they involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

Intangible assets are amortized on a straight-line basis over their expected lives as follows:

Customer relationships	5-10 years
Computer software	5 years
Non-compete agreement	5 years

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net proceeds from disposition and the carrying amount of the asset and are recognized in the consolidated statements of net loss and comprehensive loss when the asset is derecognized.

n) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

The cost basis of each category of inventory is as follows:

Tryton tools	weighted average cost basis
Coil tubing	specific cost basis
Supplies	weighted average cost basis

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

o) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon expected credit losses. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. The provision for impairment of trade receivables involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

p) IMPAIRMENT OF LONG-LIVED ASSETS

At each reporting date, the Company assesses whether there is an indication that an asset or group of assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Essential's three CGU's are ECWS, Tryton Tools and Rentals. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized in the consolidated statements of net loss and comprehensive loss. After an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, budgets and industry considerations affecting the Company and the CGU. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the CGU's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of net loss and comprehensive loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

q) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of identifiable net asset acquired, less any accumulated impairment losses after initial recognition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment

is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any goodwill impairment will be recognized as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

r) PROVISIONS

Provisions are recognized when Essential has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. The income or expense relating to any provision is presented in the consolidated statements of net loss and comprehensive loss.

An onerous lease contract liability is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The liability is determined by estimating the present value of the minimum future contractual payments the Company is obligated to make under the non-cancellable onerous lease contract, reduced by estimated recoveries.

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 2 (g) and 25.

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 completed its assessment of the impact on its consolidated financial statements. The Company will adopt this standard on January 1, 2019 using a modified retrospective approach.

The most significant impact identified is that Essential will recognize 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 loss and comprehensive loss will be changed to a depreciation charge for right-of-use assets and finance costs on lease liabilities. On January 1, 2019 the Company will record a right-of-use asset of approximately $17 million with a corresponding lease liability of approximately $22 million.

4. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

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

5. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31, **2018**	2017
Trade receivables, net of provision	**$ 35,298**	$ 35,855
Other receivables	**477**	64
	$ 35,775	$ 35,919

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

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

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

	As at December 31, **2018**	2017
Canadian dollar	**$ 32,052**	$ 34,373
U.S. dollar	**3,246**	1,482
	$ 35,298	$ 35,855

The aging analysis of trade receivables is as follows:

	As at December 31, 2018	2017
< 31 days	**$ 9,674**	$ 13,468
31-60 days	**13,286**	11,630
61-90 days	**9,762**	8,551
> 90 days	**2,576**	2,206
	$ 35,298	$ 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 statements of net loss and comprehensive loss. Uncollectable amounts included in the provision are written off against the provision when there is no expectation of recovery. The movements in the provision during the period were as follows:

	For the years ended December 31, 2018	2017
Balance, beginning of period	**$ 671**	$ 532
Provision for receivables impairment	**100**	450
Receivables written off against the provision	**(56)**	(311)
Balance, end of period	**$ 715**	$ 671

6. INVENTORIES

	As at December 31, 2018	2017
Tryton tools	**$ 27,441**	$ 24,192
Coil tubing and supplies	**12,814**	11,491
	$ 40,255	$ 35,683

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2018 was $55.5 million (2017 – $49.8 million).

7. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, 2018	2017
Coil rigs, pumpers and equipment	**$ 73,040**	$ 93,951
Other oilfield equipment	**27,913**	28,951
Vehicles	**15,664**	15,742
Office and computer equipment	**605**	525
Other	**1,027**	565
	$ 118,249	$ 139,734

Cost 2018	**Balance, beginning of year**	**Additions**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 160,949**	**$ 5,444**	**$ (7,306)**	**$ -**	**$ 159,087**
Other oilfield equipment	**57,462**	**4,792**	**(1,869)**	**23**	**60,408**
Vehicles	**32,199**	**4,396**	**(2,391)**	**55**	**34,259**
Office and computer equipment	**3,762**	**336**	**(54)**	**-**	**4,044**
Other	**3,811**	**654**	**-**	**2**	**4,467**
	$ 258,183	**$ 15,622**	**$ (11,620)**	**$ 80**	**$ 262,265**

Cost 2017					
Coil rigs, pumpers and equipment	$ 151,414	$ 11,573	$ (2,038)	$ -	$ 160,949
Other oilfield equipment	53,685	5,031	(1,160)	(94)	57,462
Vehicles	29,196	3,380	(326)	(51)	32,199
Office and computer equipment	3,674	5	-	83	3,762
Land	482	-	(482)	-	-
Other	4,721	25	(932)	(3)	3,811
	$ 243,172	$ 20,014	$ (4,938)	$ (65)	$ 258,183

Accumulated Depreciation 2018	**Balance, beginning of year**	**Depreciation**	**Disposals & write-down of assets**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 66,998**	**$ 6,295**	**$ 12,754**	**$ -**	**$ 86,047**
Other oilfield equipment	**28,511**	**4,453**	**(480)**	**11**	**32,495**
Vehicles	**16,457**	**3,087**	**(991)**	**42**	**18,595**
Office and computer equipment	**3,237**	**246**	**(44)**	**-**	**3,439**
Other	**3,246**	**191**	**-**	**3**	**3,440**
	$ 118,449	**$ 14,272**	**$ 11,239**	**$ 56**	**$ 144,016**

Accumulated Depreciation 2017					
Coil rigs, pumpers and equipment	$ 61,337	$ 6,584	$ (923)	$ -	$ 66,998
Other oilfield equipment	24,642	4,266	(389)	(8)	28,511
Vehicles	13,651	3,321	(489)	(26)	16,457
Office and computer equipment	2,935	306	-	(4)	3,237
Other	3,568	398	(718)	(2)	3,246
	$ 106,133	$ 14,875	$ (2,519)	$ (40)	$ 118,449

Included in coil rigs, pumpers and equipment is $2.7 million (December 31, 2017 – $6.5 million) of assets under construction which will not be depreciated until put into use.

The Company recognized a write-down of assets of $17.9 million in 2018. The write-down was based on a review of the carrying amount on an asset by asset basis, considering future demand and cash flow expectations given uncertainty about future industry activity, the success of the Generation IV coil tubing rig retrofit acknowledging certain components of the original design have been rendered obsolete by the design and engineering improvements incorporated into the retrofit program, and equipment market values.

Uncertainty related to political, regulatory and market access issues in the Canadian oil and natural gas industry significantly increased in the fourth quarter 2018. This uncertainty negatively impacted the operating and financial outlook for the Canadian exploration and production and oilfield service companies, including Essential. As at December 31, 2018, the market capitalization of Essential was below the book value of its equity, which combined with the increased industry uncertainty, caused Essential to complete an impairment test for each of the Company's CGU's.

In assessing whether a CGU has been impaired, the carrying amount, including goodwill, of each CGU is compared to its recoverable amount. The recoverable amounts of Essential's CGU's was based on value in use, determined using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.1% per annum (2017 – 2.5%) and an after tax discount rate of 14.0% (2017 – 15.2%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, economic conditions and trends. For the year ended December 31, 2018, the Company concluded that the recoverable amount of each of the CGU's exceed their carrying values. A 0.1 percentage point change in the discount rate would cause an impairment loss to be recognized in the ECWS CGU.

The process for determining recoverable amounts is subjective and required management to exercise judgement in determining future growth rates, discount rates, tax implications and other. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represent its best estimate. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results.

8. GOODWILL

	For the years ended December 31	
	2018	2017
Beginning of the year	**$ 3,444**	$ 3,686
Effect of movement in exchange rates	**301**	(242)
End of the year	**$ 3,745**	$ 3,444

Goodwill is allocated to the Company's Tryton Tools CGU.

For the year ended December 31, 2018, the carrying amount of the Tryton Tools CGU was determined to be lower than its recoverable amount of $69.3 million and no impairment loss was recognized. Management has identified that a 69 percentage point increase in the discount rate would result in an impairment loss to be recognized in the Tryton Tools CGU.

9. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31,	
	2018	2017
Trade accounts payable	**$ 6,882**	$ 11,608
Accrued payables	**4,100**	4,795
Accrued payroll	**3,888**	5,170
Other	**1,222**	931
	$ 16,092	$ 22,504

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

	As at December 31	
	2018	2017
Canadian dollar	**$ 5,834**	$ 10,481
U.S. dollar	**1,048**	1,127
	$ 6,882	$ 11,608

10. ONEROUS LEASE CONTRACTS

	As at December 31,	
	2018	2017
Beginning of the year	**$ 4,142**	$ 4,754
Liability recognized during the year	**450**	-
Liability released in the period	**(758)**	(621)
Change in estimate	**(71)**	-
Accretion expense	**70**	9
End of year	**$ 3,833**	$ 4,142
Current portion of onerous lease contracts liability	**1,017**	710
Long-term portion of onerous lease contracts liability	**$ 2,816**	$ 3,432

In 2018, Essential recognized an onerous lease contract liability related to an ECWS facility in southern Alberta that was closed in early 2019.

The onerous lease contract liability from the prior period relates to part of the Calgary head office space that is no longer used. The lease will expire in 2023.

11. LONG-TERM DEBT

	As at December 31,	
	2018	2017
Term loan	**$ 21,700**	$ 18,100
Deferred financing costs	**(312)**	(125)
Non-current portion of long-term debt	**$ 21,388**	$ 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 December 31, 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 the change in long-term debt to cash flows arising from financing activities:

	For the years ended December 31, **2018**	2017
Balance, beginning of year	**$ 17,975**	$ 11,250
Cash changes:		
Increase in long-term debt	**3,600**	6,650
Non cash changes:		
Deferred financing costs for Credit Facility renewal	**(363)**	-
Amortization of deferred financing costs	**176**	75
Balance, end of year	**$ 21,388**	$ 17,975

12. INCOME TAXES

	For the years ended December 31, **2018**	2017
Current income tax expense (recovery)	**$ 63**	$ (960)
Deferred income tax (recovery) expense	**(3,104)**	677
Total income tax recovery	**$ (3,041)**	$ (283)

Income tax recovery differs from the amount computed by applying the Canadian statutory rates on income before income taxes, as follows:

	For the years ended December 31, **2018**	2017
Loss before income taxes	**$ (11,819)**	$ (3,307)
Statutory tax rate	**27.0%**	27.0%
Expected income tax recovery	**(3,191)**	(893)
Increase (decrease) resulting from:		
Unrecognized deferred tax assets	**33**	151
Changes in tax rates	**-**	71
Items not deductible for tax	**34**	173
Share-based compensation	**65**	123
Impact of U.S. federal tax rate reduction	**-**	1,763
Valuation for tax assets not recognized in previous years	**-**	(1,763)
Other	**18**	92
Total income tax recovery	**$ (3,041)**	$ (283)

On December 22, 2017, United States tax reform was enacted into law. The most significant impact to the Company was the reduction of the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. The rate decrease reduced unrecognized tax assets by $1.8 million.

The deferred tax liabilities consist of temporary differences between the carrying values for accounting versus tax values, as follows:

	As at December 31, 2018	2017
Property and equipment	**$ (9,541)**	$ (14,480)
Intangible assets	**-**	2,483
Onerous lease contract expense	**1,035**	1,118
Net operating losses	**3,622**	1,871
Share issuance costs	**91**	136
Other	**(232)**	743
Deferred tax liabilities	**$ (5,025)**	$ (8,129)

At December 31, 2018, Essential has unrecognized tax assets that related to $9.1 million (2017 - $8.4 million) of gross non-capital losses in the United States, which will expire in 2033 to 2038.

13. 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 December 31, 2018, December 31, 2017 and January 1, 2017	**141,857**	**$ 272,732**

14. 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	**239**	**-**	**239**
Unrealized foreign exchange loss from continuing operations	**-**	**(82)**	**(82)**
As at December 31, 2018	**$ 5,787**	**$ 397**	**$ 6,184**

15. OPERATING EXPENSES

	For the years ended December 31, 2018	2017
Materials and related costs	**$ 63,391**	$ 55,828
Employee costs *(note 17)*	**53,166**	50,808
Fuel	**9,311**	7,472
Repairs and maintenance	**9,264**	9,005
Travel	**7,153**	7,209
Subcontracting	**6,294**	5,266
Occupancy costs	**5,571**	5,359
Other	**3,063**	3,037
Operating expenses	**$ 157,213**	$ 143,984

16. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, 2018	2017
Employee costs *(note 17)*	**$ 6,880**	$ 7,049
Professional fees	**1,885**	2,836
Occupancy costs	**1,098**	1,055
Other	**2,649**	2,375
General and administrative expenses	**$ 12,512**	$ 13,315

17. EMPLOYEE COSTS

	For the years ended December 31, 2018	2017
Wages and salaries	**$ 56,189**	$ 54,603
Share-based compensation *(note 19)*	**(1,311)**	4,201
Other benefits	**3,857**	3,254
	$ 58,735	$ 62,058
Employee costs are included in:		
Operating expenses *(note 15)*	**$ 53,166**	$ 50,808
General and administrative expenses *(note 16)*	**6,880**	7,049
Share-based compensation *(note 19)*	**(1,311)**	4,201
	$ 58,735	$ 62,058

18. OTHER (INCOME) EXPENSE

	For the years ended December 31,	
	2018	2017
Gain on disposal of assets	**$ (145)**	$ (176)
Realized foreign exchange loss	**51**	68
Unrealized foreign exchange (gain) loss	**(1,185)**	834
Other gain	**(127)**	(18)
Other (income) expense	**$ (1,406)**	$ 708

19. SHARE-BASED COMPENSATION

The Company offers the following share-based compensation plans: Share Option Plan, RSU Plan and DSU Plan.

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

	For the years ended December 31,	
	2018	2017
Share options	**$ 239**	$ 457
Restricted share units	**447**	1,432
Deferred share units	**(1,997)**	2,312
Share-based compensation (recovery) expense	**$ (1,311)**	$ 4,201

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 December 31, 2018 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 December 31, 2018, the maximum number of share options allowed for issuance was 12,767,114 (2017 – 12,767,114).

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Number of Options (000's)		**Weighted Average Exercise Price**	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of year	**6,398**	**$**	**1.11**	6,950	$	1.42
Issued	**-**		**-**	1,315		0.83
Expired	**(577)**		**2.29**	(1,577)		2.10
Forfeited	**-**		**-**	(290)		1.96
Outstanding, end of year	**5,821**	**$**	**0.99**	6,398	$	1.11
Exercisable, end of year	**4,264**	**$**	**1.09**	2,932	$	1.95

The fair value of the share options issued during the year was nil as no options were issued in 2018 (2017 – $0.32 – $0.35). Fair value is estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2018	2017
Risk-free interest rate	**n/a**	0.9 – 1.0%
Expected volatility	**n/a**	48.8 – 50.1%
Expected term	**n/a**	3.9 – 4.7 years
Expected forfeiture rate	**n/a**	8.2 – 16.1%
Dividend yield	**n/a**	nil

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)**
As at December 31, 2018					
$0.55 – $1.00	**3,726**	**2.50**	**$**	**0.66**	**2,169**
$1.01 – $2.00	**1,630**	**1.36**	**$**	**1.19**	**1,630**
$2.01 – $2.90	**465**	**0.02**	**$**	**2.90**	**465**
	5,821	**1.98**	**$**	**0.99**	**4,264**
As at December 31, 2017					
$0.55 – $1.00	3,726	3.49	$	0.66	804
$1.01 – $2.00	1,630	2.35	$	1.19	1,086
$2.01 – $2.90	1,042	0.56	$	2.56	1,042
	6,398	2.73	$	1.11	2,932

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. Essential's liability as at December 31, 2018 was $1.0 million (December 31, 2017 – $2.1 million) of which $0.7 million is due within one year (December 31, 2017 – $1.5 million).

The following table summarizes information with respect to RSUs outstanding:

	For the year ended December 31,	
Number of RSUs (000's)	**2018**	2017
Outstanding, beginning of year	**4,833**	3,826
Issued	**2,824**	2,700
Vested	**(2,471)**	(937)
Forfeited	**(256)**	(756)
Outstanding, end of year	**4,930**	4,833

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 December 31, 2018 was $1.8 million (December 31, 2017 – $3.8 million) of which nil is due within one year (December 31, 2017 – nil).

The following table summarizes information with respect to DSUs outstanding:

	For the year ended December 31,	
Number of DSUs (000's)	**2018**	2017
Outstanding, beginning of year	**5,509**	3,270
Issued	**722**	2,239
Outstanding, end of year	**6,231**	5,509

20. EARNINGS PER SHARE

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

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

	For the year ended December 31,	
(000's)	**2018**	2017
Basic and diluted	**141,857**	141,857

21. COMMITMENTS AND CONTINGENCIES

Operating leases

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

		Amount
2019	$	6,167
2020		5,694
2021		4,804
2022		4,670
2023		2,309
Thereafter		1,424
As at December 31, 2018	$	25,068

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

On February 6, 2019, the Federal Court of Appeal (the "Appeal Court") heard the Appeal but has not released its ruling on the Appeal. The timing of the release of the decision of the Appeal Court is unknown.

22. RELATED PARTY TRANSACTIONS

a) Transactions with key management personnel

The Company provides salaries, cash and non-cash benefits to the Board of Directors and Named Executive Officers. Named Executive Officers participate in the Company's Share Option Plan, RSU and DSU Plan. The Board of Directors participate in Essential's DSU Plan.

Key management personnel compensation is comprised of the following:

	For the years ended December 31,	
	2018	2017
Salaries and other benefits	**$ 3,350**	$ 3,323
Share-based compensation (equity and cash settled)	**1,220**	2,786
	$ 4,570	$ 6,109

b) Key management personnel transactions

Essential has entered into lease agreements for shop premises with certain private corporations that are controlled by one of the Vice Presidents of the Company. The terms and conditions of these agreements are based on market rates for similar leases and are no more favourable than those available, or which might reasonably be expected to be available, in similar transactions on an arm's length basis.

For the year ended December 31, 2018, Essential incurred lease payments related to these shop premises of $0.6 million (2017 - $0.6 million). Included in accrued payables at December 31, 2018 is leasehold improvement payments of $0.4 million (December 31, 2017 - nil). Future annual lease payments related to these shop premises are as follows:

	Amount
2019	$ 739
2020	779
2021	779
2022	672
2023	317
Thereafter	360
As at December 31, 2018	$ 3,646

23. CAPITAL DISCLOSURE

	As at December 31,	
	2018	2017
Long-term debt	**$ 21,388**	$ 17,975
Equity	**152,182**	160,803
Total capitalization	**$ 173,570**	$ 178,778

Essential makes adjustments to its capital structure based on changes in economic conditions and the Company's planned requirements. Essential has the ability to adjust its capital structure by issuing new equity or debt, subject to availability, controlling the amount of dividends issued to shareholders and making adjustments to its capital expenditure program.

24. FINANCIAL INSTRUMENTS

Designation and valuation of financial instruments

The Company's financial instruments recognized on the consolidated statements of financial position consist of cash, trade and other accounts receivable, trade and other accounts payable and long-term debt.

The following is a summary of the classification the Company has elected to apply to each of its significant categories of financial instruments:

Cash	Fair value through net loss
Trade and other accounts receivable	Amortized cost
Trade and other accounts payable	Amortized cost
Long-term debt	Amortized cost

Fair values

The fair value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates. Essential considers these inputs as Level 2 in the input hierarchy.

The fair value of a financial instrument is the amount that would be agreed to in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. Fair value can be determined by reference to prices in active markets to which the Company has access. In the absence of active markets, the Company determines fair value based on market or by reference to other similar products.

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and natural gas industry and are subject to normal industry credit risks. These balances represent the Company's total credit exposure. During the year ended December 31, 2018, the Company earned revenues from 530 customers (2017 –480 customers) with five of these customers representing 41% of revenue (2017 – 45% of revenue). As at December 31, 2018, approximately 42% of the trade accounts receivable balance was due from five companies (2017 – 40%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.2 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2017 – $0.2 million).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Essential manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed credit facilities, and by maintaining access to capital markets. The Company believes that it has access to sufficient capital through internally generated cash flows and from undrawn committed credit facilities to meet current spending forecasts.

25. 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 year ended December 31, 2018 for the Corporate segment substantially represents corporate office and certain operational costs of $12.7 million (December 31, 2017 - $14.3 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 year ended December 31, 2018	**ECWS**	**Tryton**	**Corporate**	**Consolidated**
Revenue	**$ 99,513**	**$ 90,381**	**$ -**	**$ 189,894**
(Loss) income before income taxes from continuing operations	**$ (15,019)**	**$ 13,922**	**$ (10,722)**	**$ (11,819)**
Depreciation and amortization	**$ 10,238**	**$ 4,097**	**$ 740**	**$ 15,075**
Total assets	**$ 124,652**	**$ 75,291**	**$ 1,327**	**$ 201,270**
Total liabilities	**$ 14,320**	**$ 7,848**	**$ 26,920**	**$ 49,088**
Property, equipment and intangible asset expenditures	**$ 12,288**	**$ 3,029**	**$ 353**	**$ 15,670**

As at and for the year ended December 31, 2017	ECWS	Tryton	Corporate	Consolidated
Revenue	$ 93,896	$ 82,012	$ -	$ 175,908
(Loss) income before income taxes from continuing operations	$ 2,749	$ 14,699	$ (20,755)	$ (3,307)
Depreciation and amortization	$ 10,660	$ 4,239	$ 875	$ 15,774
Total assets	$ 146,282	$ 71,844	$ 1,322	$ 219,448
Total liabilities	$ 20,163	$ 10,577	$ 27,905	$ 58,645
Property, equipment and intangible asset expenditures	$ 15,880	$ 3,991	$ 348	$ 20,219

26. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

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

Stock Exchange Listing

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