



**FINANCIAL REPORT**

**For the year ended December 31, 2022**

## 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, 2022.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the years ended December 31, 2022 and 2021, 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 3, 2023 and was approved and authorized for issuance by the Board of Directors (the "Board") of the Company on March 3, 2023.

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

## SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended		For the years ended		
	December 31,		December 31,		
	2022	2021	2022	2021	2020
Revenue	\$ 40,345	\$ 35,104	\$ 150,097	\$ 121,208	\$ 96,173
Gross margin	7,759	5,105	28,090	23,228	20,418
Gross margin %	19%	15%	19%	19%	21%
EBITDAS <sup>(1)</sup>	5,103	2,423	18,056	15,181	13,530
EBITDAS % <sup>(1)</sup>	13%	7%	12%	13%	14%
Net loss	(1,483)	(4,469)	(1,755)	(11,397)	(16,810)
Per share - basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.08)	\$ (0.12)
Operating hours					
Coiled tubing rigs	8,864	7,630	34,509	31,489	28,468
Pumpers	11,190	10,228	44,228	42,305	35,977
			As at December 31,		
			2022	2021	2020
Working capital <sup>(1)</sup>		\$ 44,734	\$ 45,290	\$ 47,502	
Cash		2,063	6,462	6,082	
Long-term debt		950	-	53	

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

## INDUSTRY OVERVIEW

The price of West Texas Intermediate (“WTI”) averaged US\$83 per barrel in the fourth quarter of 2022, compared to an average of US\$77 per barrel in the fourth quarter of 2021. Canadian natural gas prices (“AECO”) averaged \$4.94 per gigajoule during the fourth quarter of 2022, compared to an average of \$4.47 per gigajoule during the comparative prior year quarter.

Fourth quarter 2022 industry drilling and well completion activity in the Western Canadian Sedimentary Basin (“WCSB”) was ahead<sup>(a)</sup> of the same prior year quarter as higher commodity prices resulted in increased exploration and production (“E&P”) company spending. Inflation rates in Canada during 2022 were the highest since the early 1990s<sup>(b)</sup> which has increased overall cost structures.

As is typical in the fourth quarter, oilfield service industry activity was negatively impacted by seasonal slowdown, customer budget exhaustion and extreme cold weather in December.

## HIGHLIGHTS

Revenue for the three months ended December 31, 2022 was \$40.3 million, 15% higher than the same prior year quarter due to improved industry conditions. Management is pleased to report fourth quarter EBITDAS<sup>(1)</sup> of \$5.1 million, \$2.7 million higher than the same prior year quarter.

Key operating highlights included:

- Essential Coil Well Service (“ECWS”) fourth quarter 2022 revenue was \$22.9 million, 51% higher than the same prior year quarter due to improved customer pricing and increased activity. ECWS recorded gross margin of \$4.9 million, \$2.8 million higher than the same prior year quarter.
- Tryton fourth quarter 2022 revenue was \$17.4 million, 13% lower than the same prior year quarter due to lower Multi-Stage Fracturing System (“MSFS<sup>®</sup>”) activity, partially offset by increased conventional tool activity. During the quarter, Tryton was able to pass-through some cost recovery with improved pricing. This, combined with a beneficial mix of work, resulted in fourth quarter 2022 gross margin relatively in line with the same prior year quarter despite lower revenue.

For the year ended December 31, 2022, Essential reported revenue of \$150.1 million, 24% higher than the prior year as a result of higher activity and improved customer pricing. 2022 EBITDAS<sup>(1)</sup> was \$18.1 million, \$2.9 million higher than the prior year. Higher activity and improved pricing in the latter half of the year was partially offset by higher operating costs due to inflation and lower funding from Government Subsidy Programs<sup>(c)</sup>. For the year ended December 31, 2021, Essential received \$4.4 million funding from Government Subsidy Programs. These programs were completed by the end of 2021.

During the year ended December 31, 2022, Essential acquired and cancelled 8,490,216 Shares, under its Normal Course Issuer Bid (“NCIB”) with a weighted average price of \$0.40 per share for a total cost of \$3.4 million. The number of Shares purchased during the year was 6% of the total issued and outstanding Shares at January 1, 2022. These purchases were pursuant to the NCIB implemented in December 2021.

On December 21, 2022, Essential announced the renewal of its NCIB for the 12-month period commencing December 23, 2022 and ending December 22, 2023, or until such earlier time as the NCIB is completed or terminated at the option of Essential. Under the terms of the renewed NCIB, Essential may purchase up to 12,965,027 Shares, representing 10% of the public float.

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(a) Source: Daily Oil Bulletin March 2, 2023.

(b) Source: Bank of Canada – Consumer Price Index.

(c) Government subsidy programs include the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy and the Employee Retention Tax Credit program and Paycheque Protection Program in the U.S. (collectively, “Government Subsidy Programs”).

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

## Cash and Working Capital

At December 31, 2022, Essential continued to be in a strong financial position with positive cash, net of long-term debt<sup>(1)</sup>, of \$1.1 million and working capital<sup>(1)</sup> of \$44.7 million. On March 3, 2023, Essential had \$1.5 million of long-term debt, net of cash<sup>(1)</sup>. During periods of high activity, accounts receivable tends to build, resulting in a lower cash balance.

## **OVERVIEW OF ESSENTIAL**

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

### Essential Coil Well Service

Coiled Tubing Rigs – Essential operates one of the largest coiled tubing well service fleets in Canada. Coiled tubing rigs provide completion, stimulation and work-over services on long-reach horizontal wells. Essential's coiled tubing rigs are typically equipped to work with coiled tubing ranging from 2 3/8 inches to 2 7/8 inches in diameter. The rigs have a depth capacity, using 2 3/8 inch coil, of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coiled tubing fleet is comprised of Generation II, III and IV coiled tubing rigs, which are differentiated by their capability to service wells with varying depths and well pressures. The varied rig size, reel capacity and coil diameter of Essential's coiled tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program. Essential operates masthead and conventional coiled tubing rigs.

Coiled tubing rigs are typically hired by an E&P company to be involved in the completion of a horizontal well in the following areas:

- Pre-Fracturing – Coiled tubing is used to complete pre-fracturing confirmation runs and/or place the tools used to isolate a portion of the wellbore during third-party oilfield service fracture stimulation.
- Fracturing – Dependent on the design of the customer's fracturing program, coiled tubing can be used in conjunction with a third-party fracturing company and possibly other service providers 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, coiled tubing is used to complete post-fracturing confirmation runs, clean-outs and mill-outs/drill-outs of ball & seat systems. Coiled 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 – Coiled 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 coiled tubing fleet. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coiled tubing of fluids once the coiled tubing work has been completed.

### Tryton

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

- Conventional Tools – Conventional downhole tools are used in production, abandonment and wellsite restoration activities. Tryton offers a wide range of products, including downhole packers, tubing anchors, bridge plugs, sub-surface safety valves, cement retainers and related accessories.

- 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 varies 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.
  - Composite/Dissolvable Bridge Plugs – Tryton’s Bridge Plugs, typically used in “plug-and-perf” completion programs, provides customers the ability to fracture an unlimited number of stages in the horizontal leg. These plugs are relatively quick to mill-out post-fracturing.
- Rentals – Tryton Rentals offers oilfield service equipment, including specialty drill pipe and other tools and handling equipment.

## RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended		For the years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Revenue	\$ 40,345	\$ 35,104	\$ 150,097	\$ 121,208
Operating expenses	32,586	29,999	122,007	97,980
Gross margin	7,759	5,105	28,090	23,228
General and administrative expenses	2,656	2,682	10,034	8,047
EBITDAS <sup>(1)</sup>	5,103	2,423	18,056	15,181
Depreciation and amortization	4,179	4,268	16,793	17,874
Share-based compensation expense	1,915	2,307	4,203	7,653
Other expense (income)	208	(61)	(2,134)	(31)
Finance costs	252	370	917	1,071
Loss before taxes	(1,451)	(4,461)	(1,723)	(11,386)
Income tax expense	32	8	32	11
Net loss	\$ (1,483)	\$ (4,469)	\$ (1,755)	\$ (11,397)
Net loss per share				
Basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ (0.08)

**SEGMENT RESULTS – ESSENTIAL COIL WELL SERVICE**

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended		For the years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Revenue	\$ 22,915	\$ 15,134	\$ 81,439	\$ 59,253
Operating expenses	17,973	13,020	65,605	48,221
Gross margin	\$ 4,942	\$ 2,114	\$ 15,834	\$ 11,032
Gross margin %	22%	14%	19%	19%
<b><u>Operating hours</u></b>				
Coiled tubing rigs	8,864	7,630	34,509	31,489
Pumpers	11,190	10,228	44,228	42,305
<b><u>Active equipment fleet</u><sup>(i)</sup></b>				
Coiled tubing rigs <sup>(ii)</sup>	12	12	12	12
Fluid pumpers	11	10	11	10
Nitrogen pumpers	4	4	4	4
<b><u>Total equipment fleet</u><sup>(i) (iii)</sup></b>				
Coiled tubing rigs	19	25	19	25
Fluid pumpers	11	13	11	13
Nitrogen pumpers	5	6	5	6

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.

(ii) Active equipment fleet was reduced in the first quarter of 2023 for one Generation I coiled tubing rig that was removed from service.

(iii) Total equipment fleet was reduced in the third quarter of 2022 for Generation II coiled tubing rigs and lower capacity fluid pumpers which are no longer expected to be reactivated.

Fourth quarter 2022 ECWS revenue was \$22.9 million, 51% higher than the same prior year quarter as a result of significantly improved revenue per operating hour combined with higher activity. Revenue per operating hour improved in the quarter as a result of customer price increases and the nature of work performed during the quarter.

Gross margin for the fourth quarter of 2022 was \$4.9 million, \$2.8 million higher than the same prior year quarter due to improved customer pricing and higher activity. Cost inflation resulted in higher operating costs in the current quarter related to wages, fuel and inventory. Gross margin percentage was 22%, a significant improvement compared to 14% in the same prior year quarter.

For the year ended December 31, 2022, ECWS revenue was \$81.4 million, 37% higher than the year ended December 31, 2021 due to higher revenue per operating hour and increased activity. Revenue per operating hour was higher due to customer price increases and the nature of work performed in the year. Gross margin was \$15.8 million, \$4.8 million higher than 2021 due to increased activity and improved revenue per operating hour, partially offset by higher operating costs as a result of inflation and no funding from Government Subsidy Programs. For the year ended December 31, 2022, ECWS received no funding from Government Subsidy Programs compared to \$2.2 million in the prior year. Gross margin percentage was 19%, consistent with the prior year.

## SEGMENT RESULTS – TRYTON

(in thousands of dollars, except percentages)	For the three months ended		For the years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Revenue	\$ 17,430	\$ 19,970	\$ 68,658	\$ 61,955
Operating expenses	14,356	16,703	55,304	49,202
Gross margin	\$ 3,074	\$ 3,267	\$ 13,354	\$ 12,753
Gross margin %	18%	16%	19%	21%
Tryton revenue - % of revenue				
Conventional Tools & Rentals	75%	55%	75%	65%
Tryton MSFS®	25%	45%	25%	35%

Fourth quarter 2022 Tryton revenue was \$17.4 million, a 13% decrease compared to the same prior year quarter due to a decrease in MSFS® activity, partially offset by increased conventional tool activity in the U.S. and Canada. MSFS® activity was below the same prior year quarter due to lower customer activity. Implications of customer spending patterns are noticeable within quarters given the small customer base for MSFS® tools. Conventional tool revenue was stronger than the same prior year quarter due to improved industry conditions which resulted in increased customer spending on production-related and wellsite restoration activities.

Fourth quarter gross margin was \$3.1 million, relatively in line with the same prior year quarter despite the revenue decline. Gross margin percentage for the year was 18%, ahead of 16% in the same prior year period. During the quarter, Tryton was able to pass-through some cost recovery with improved pricing. As well, a beneficial mix of work with higher conventional tool activity helped to preserve gross margin.

For the year ended December 31, 2022, Tryton revenue was \$68.7 million, 11% higher than the prior year due to increased conventional tool activity in the U.S. and Canada. Gross margin was \$13.4 million, an increase of \$0.6 million compared to December 31, 2021, due to increased conventional tool activity, offset by increased operating costs as a result of inflation and \$1.5 million lower funding from Government Subsidy Programs. Gross margin percentage was 19%, compared to 21% in the prior year.

## GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
General and administrative expenses	\$ 2,656	\$ 2,682	\$ 10,034	\$ 8,490
Patent litigation - cost recovery	-	-	-	(443)
General and administrative expenses	\$ 2,656	\$ 2,682	\$ 10,034	\$ 8,047

General and administrative expenses (“G&A”) consist of wages, professional fees and other administrative costs. G&A for the three months ended December 31, 2022 was consistent with the same prior year period.

For the twelve months ended December 31, 2022, G&A increased when compared to the prior year mainly due to the reinstatement of certain employee compensation programs that were temporarily suspended, or reduced, during the COVID-19 pandemic and no funding from Government Subsidy Programs realized in the current year (2021 – \$0.5 million).

For the year ended December 31, 2021, the Federal Court of Canada awarded Essential \$0.4 million for post-trial cost recovery in connection with the Packers Plus Energy Services Inc. patent litigation.

#### **DEPRECIATION AND AMORTIZATION**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Depreciation and amortization expense	\$ 4,179	\$ 4,268	\$ 16,793	\$ 17,874

Depreciation expense for the three and twelve months ended December 31, 2022 was lower than the same prior year periods as a result of certain fixed assets becoming fully depreciated during the year.

#### **SHARE-BASED COMPENSATION**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Share-based compensation expense	\$ 1,915	\$ 2,307	\$ 4,203	\$ 7,653

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

For the three months ended December 31, 2022 and 2021, Essential recorded share-based compensation expense mainly due to an increase in the Share price in each period.

For the years ended December 31, 2022 and 2021, share-based compensation expense decreased compared to the applicable prior years mainly due to a decrease in the number of share-based units outstanding during the year. In addition, there was a nominal decrease in Share price during the current year, compared to an increase in Share price in the prior year.

#### **OTHER EXPENSE (INCOME)**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Loss (gain) on disposal of assets	\$ 37	\$ (164)	\$ (1,298)	\$ (88)
Realized foreign exchange loss (gain)	13	(5)	13	(4)
Unrealized foreign exchange loss (gain)	167	59	(880)	54
Other (income) expense	(9)	49	31	7
Other expense (income)	\$ 208	\$ (61)	\$ (2,134)	\$ (31)

For each of the three and twelve months ended December 31, 2022 and 2021, loss (gain) on disposal of assets related to the sale of surplus equipment no longer used in operations.

During the three months ended December 31, 2022 and 2021, the strengthening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange loss.

During the twelve months ended December 31, 2022, the weakening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange gain. In comparison, during the twelve months ended December 31, 2021, the strengthening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange loss.

#### **FINANCE COSTS**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Finance costs	\$ 252	\$ 370	\$ 917	\$ 1,071

Finance costs consist of interest expense related to lease liabilities and interest and other long-term debt costs associated with the Company's Credit Facility (as described below).

For the three and twelve months ended December 31, 2022, finance costs slightly decreased compared to the same prior year periods primarily due to lower outstanding lease liabilities and other long-term debt costs.

#### **INCOME TAXES**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Income tax expense	\$ 32	\$ 8	\$ 32	\$ 11

For the three and twelve months ended December 31, 2022, income tax expense was consistent with the same prior year periods.

As at December 31, 2022 and 2021, Essential was in an unrecognized deferred income tax asset position. An assessment was performed, which determined that Essential did not meet the criteria to recognize a deferred tax asset.

#### **FINANCIAL RESOURCES AND LIQUIDITY**

##### **NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Funds flow <sup>(1)</sup>	\$ 2,955	\$ 8	\$ 14,632	\$ 6,945
Changes in non-cash working capital <sup>(1)</sup>	8,329	(646)	(4,389)	4,878
Net cash provided by (used in) operating activities	\$ 11,284	\$ (638)	\$ 10,243	\$ 11,823

## WORKING CAPITAL

	As at December 31, 2022	As at December 31, 2021
<hr/> (in thousands of dollars, except ratios)		
Current assets	\$ 66,029	\$ 68,740
Current liabilities	(21,295)	(23,450)
Working capital <sup>(1)</sup>	\$ 44,734	\$ 45,290
Working capital ratio <sup>(1)</sup>	3.1:1	2.9:1

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

Management analyzes working capital and working capital ratio as part of the Company's overall capital management strategy to ensure adequate sources of capital are available to maintain operational activities, carry out the planned capital program and have sufficient cash sources to sustain the business.

## CREDIT FACILITY

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility is comprised of a \$25.0 million revolving term loan facility. The Credit Facility matures on November 30, 2024, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not extended, any balance would be immediately due and payable on the maturity date.

The Credit Facility contains certain financial covenants with the covenant thresholds detailed in the table below. It also contains a number of positive and negative customary 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; among other requirements and restrictions.

As at December 31, 2022 there was \$1.0 million outstanding of the \$25.0 million available under the Credit Facility. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities.

## Financial Covenants

As at December 31, 2022, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	As at December 31, 2022
<hr/> (in millions of dollars, except percentages)		
Funded debt to capitalization	≤ 50%	N/A
Funded debt to Bank EBITDA	≤ 3.50x	N/A
Fixed charge coverage ratio	≥ 1.25x	42.47x

Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash. It does not include the lease liabilities. Capitalization is generally defined in Essential's Credit Facility as the aggregate of its funded debt and equity. Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, excluding severance costs ("Permitted Adjustments") and the impact of lease accounting under IFRS 16. Fixed charge coverage ratio is generally defined in Essential's Credit Facility as the ratio of Bank EBITDA less cash tax expense to the cash interest expense. Financial covenants are calculated in accordance with Essential's Credit Facility agreement which can be found on SEDAR.

#### **PURCHASE OF PROPERTY AND EQUIPMENT**

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, <b>2022</b>	2021	December 31, <b>2022</b>	2021
ECWS	\$ 1,637	\$ 1,375	\$ 6,897	\$ 5,620
Tryton	798	836	2,694	1,888
Corporate	-	10	154	72
Purchase of property and equipment	\$ 2,435	\$ 2,221	\$ 9,745	\$ 7,580
Less: proceeds on disposal of equipment	(334)	(259)	(3,310)	(1,351)
Net equipment expenditures <sup>(1)</sup>	\$ 2,101	\$ 1,962	\$ 6,435	\$ 6,229

Essential classifies its purchase of property and equipment as growth capital and maintenance capital:

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, <b>2022</b>	2021	December 31, <b>2022</b>	2021
Growth capital <sup>(1)</sup>	\$ -	\$ 970	\$ 3,020	\$ 3,807
Maintenance capital <sup>(1)</sup>	2,435	1,251	6,725	3,773
Purchase of property and equipment	\$ 2,435	\$ 2,221	\$ 9,745	\$ 7,580

For the year ended December 31, 2022, Essential's growth capital<sup>(1)</sup> spending of \$3.0 million was for the purchase and technical upgrade of two 1,000 horsepower quintuplex fluid pumpers in ECWS. During the fourth quarter, technical upgrades were completed and both fluid pumpers were put into service.

For the three and twelve months ended December 31, 2022, Essential incurred maintenance capital spending related to the ECWS active fleet and to replace pickup trucks in both ECWS and Tryton.

#### **2023 CAPITAL BUDGET**

Essential's 2023 capital budget of \$8 million is for the purchase of property and equipment and relates entirely to maintenance capital<sup>(1)</sup>, including pickup truck replacement. Essential will continue to monitor fleet activity and industry opportunities and adjust its spending as appropriate. The 2023 capital budget is expected to be funded with cash, operational cashflow and, if needed, the Credit Facility.

#### **SHARE CAPITAL**

As at March 3, 2023, there were 132,690,097 Shares and 449,000 share options ("Share Options") outstanding. All of the 449,000 Share Options outstanding were exercisable and "in-the-money".

## COMMITMENTS

Essential has lease commitments for office and shop premises with contractual undiscounted lease payments as follows:

	As at December 31, 2022	As at December 31, 2021
(in thousands of dollars)		
Less than one year	\$ 4,682	\$ 5,446
One to five years	5,991	7,136
	<b>\$ 10,673</b>	<b>\$ 12,582</b>

## RELATED PARTY TRANSACTIONS

As at December 31, 2021, Essential had lease agreements for shop premises with certain private corporations that were controlled by one of the Vice Presidents of the Company. The terms and conditions of these agreements were based on market rates for similar leases and were 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, 2021, Essential incurred lease payments related to these shop premises of \$0.7 million. In January 2022, this Vice President of the Company ceased to be considered a related party.

## NORMAL COURSE ISSUER BID

On December 21, 2022, the Company announced the renewal of its NCIB for the 12-month period commencing December 23, 2022, and ending December 22, 2023, or until such earlier time the NCIB is completed or terminated at the option of Essential. Under the NCIB, Essential may purchase up to 12,965,027 of its issued and outstanding Shares, representing 10% of the public float, on the open market through the facilities of the TSX and/or other alternative trading systems. The actual number of Shares that will be purchased will be determined by Essential, subject to the maximum daily purchase limitation of 20,542 Shares, which is 25% of the six-month average daily trading volume of Shares on the TSX at November 30, 2022. Essential may make one block purchase per calendar week which exceeds the daily purchase limitation. Any Shares purchased under the NCIB will be cancelled. The price which Essential will pay for any Shares purchased will be the prevailing market price of such Shares at the time of purchase. Shareholders may obtain a copy of the "Notice of Intention to make a Normal Course Issuer Bid" that was filed by the Company with the TSX, free of charge, by contacting the Company.

On December 17, 2021, the Company announced a NCIB for the 12-month period commencing December 21, 2021 and ending December 20, 2022 (the "2021-2022 NCIB").

For the three months ended December 31, 2022, 5,021,700 Shares were acquired and cancelled under the 2021-2022 NCIB with a weighted average price of \$0.40 per Share for a total cost of \$2.0 million.

For the twelve months ended December 31, 2022, 8,490,216 Shares were acquired and cancelled under the 2021-2022 NCIB with a weighted average price of \$0.40 per Share for a total cost of \$3.4 million.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, interim or other reports are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2022, 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, 2022.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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 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 are 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 whistleblower 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, 2022 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 estimates used for the impairment provisions for trade receivables, net realizable value of inventory, depreciation and amortization, share-based compensation, provisions, lease liabilities 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.

### **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 a long-lived asset or group of assets, including goodwill and intangible assets, may be impaired based on internal and external factors, including EBITDAS expectations, expected industry activity levels, commodity price development and market capitalization. Long-lived assets include property and equipment, intangible assets and right-of-use assets. 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 cash-generating unit ("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.

### **Leases**

At inception, a contract is assessed to determine whether it is, or contains, a lease. A lease conveys the right to control the use of the leased item for a period of time in exchange for payment. Leases are capitalized at the commencement of the lease at the present value of the future lease payments. Obligations recorded under leases are reduced by the lease payments made, net of imputed interest. Leased assets are depreciated using the straight-line method over the lease term. Essential has applied judgment to determine the lease term of some lease contracts in which it is a lessee that include renewal options and discount rates.

### **Share-based Compensation**

Share-based compensation is provided in respect of the Restricted Share Unit ("RSU") and Deferred Share Unit ("DSU") plans. The Share Option Plan was discontinued by the Board effective March 9, 2022. As a result, new Share Options cannot be granted.

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.

### **RISKS AND UNCERTAINTIES**

Certain information contained in this MD&A includes market and industry data that has been obtained from or is based upon estimates derived from third party sources, including industry publications, reports and websites. Although the data is believed to be reliable, Essential has not independently verified such information and cannot provide any assurance of its accuracy, currency, reliability or completeness.

For a discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form ("AIF") for the year ended December 31, 2022, which is available on SEDAR ([www.sedar.com](http://www.sedar.com)). Investors should carefully consider the risks and uncertainties described in Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

### **Environmental and Climate Change Risks**

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of Canadian and U.S. federal, provincial, state and local legislation. Such legislation provides restrictions and prohibitions on the release or emission of various substances used or produced in association with certain oil and natural gas industry operations.

With respect to Environmental, Social and Governance ("ESG") and climate reporting, the International Sustainability Standards Board has proposed an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. These developments could impact Essential's accounting estimates and judgments including, but not limited to, assessment of useful lives, impairment of other long-lived assets and valuation of inventory. Essential will continue to monitor these developments as they affect the financial statements and MD&A.

## OUTLOOK

It is generally expected that the oilfield service sector will see a modest increase in activity in 2023 compared to 2022. Early signs show increased drilling activity to date in Canada compared to the prior year. Commodity prices have been relatively stable for WTI so far in 2023, but the recent decrease in natural gas prices is concerning. Despite some commodity price volatility, E&P company spending on drilling and completions activity in 2023 is expected to modestly improve. For the longer-term outlook, there is positive optimism coming from the recent announcement of the Blueberry River First Nations Implementation Agreement and progress on the LNG Canada project.

For 2023, the Canadian oilfield service sector is expected to continue to be affected by labor shortages, cost inflation and supply chain issues. As well, the economic implications of recession risk remain uncertain. However, oilfield service company activity may be somewhat resilient to recessionary concerns given ongoing reservoir declines and Canadian E&P strategic objectives. A low ratio of E&P cash flow allocated to capital spending expected for 2023 reflects the capital discipline already built into E&P capital budgets and may limit the influence that commodity price volatility and recessionary concerns could have on E&P capital spending plans.

ECWS has one of the industry's largest active and deep coiled tubing fleets. ECWS's active fleet includes 11 coiled tubing rigs and 11 quintuplex 1,000 horsepower fluid pumpers. The fluid pumpers support ECWS's deep-capacity Generation III and Generation IV coiled tubing rigs. ECWS is not crewing the entire active fleet. As E&P customers continue to require greater pumping fluid capacity and pressure capability, ECWS's fleet is well positioned to meet customer demand. ECWS introduced service pricing increases to customers during the second quarter of 2022. These higher prices, combined with increased activity, are expected to benefit gross margin in 2023.

Tryton conventional tool activity in both Canada and the U.S. improved in 2022 mainly due to increased customer spending on production-related activities as E&P companies continued to seek cash flow growth. Growth of production-related E&P capital spending and continuation of wellsite restoration activity is expected in 2023. Tryton expects to continue pursuing inflation driven cost recovery through pricing.

Essential is well-positioned to participate in improving oilfield services activity. Essential's strengths include its well-trained workforce, industry leading coiled tubing fleet, value-adding downhole tool technologies and sound financial footing. Essential will continue to focus on obtaining appropriate pricing for its services including the pursuit of cost inflation pass-through. Essential is committed to meeting the demands of its key customers, efficient and safe operations, a continued focus on ESG and maintaining its strong financial position. On March 3, 2023, Essential had long-term debt, net of cash<sup>(1)</sup> of \$1.5 million. As the industry is anticipated to experience modest growth, Essential's ongoing financial stability is a strategic advantage.

## SUMMARY OF QUARTERLY DATA

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

Industry downturns and recovery periods tend to disrupt typical historic oilfield services seasonal and quarterly patterns in western Canada as E&P companies prioritize cash flow spending decisions in addition to weather and access issues.

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

(in thousands of dollars, except per share amounts, percentages and hours)	<b>Dec 31, 2022</b>	Sept 30, 2022	June 30, 2022	Mar 31, 2022	<b>Dec 31, 2021</b>	Sept 30, 2021	June 30, 2021	Mar 31, 2021
ECWS	<b>22,915</b>	23,508	15,337	19,679	<b>15,134</b>	14,908	13,355	15,856
Tryton	<b>17,430</b>	19,861	13,305	18,062	<b>19,970</b>	18,605	9,086	14,294
Total revenue	<b>40,345</b>	43,369	28,642	37,741	<b>35,104</b>	33,513	22,441	30,150
Gross margin	<b>7,759</b>	10,090	4,220	6,021	<b>5,105</b>	6,094	5,291	6,738
Gross margin %	<b>19%</b>	23%	15%	16%	<b>15%</b>	18%	24%	22%
EBITDAS <sup>(1)</sup>	<b>5,103</b>	7,418	1,920	3,615	<b>2,423</b>	4,441	3,429	4,888
Bank EBITDA	<b>3,773</b>	6,107	548	2,218	<b>1,128</b>	3,255	2,217	3,836
Net (loss) income	<b>(1,483)</b>	5,225	(1,576)	(3,921)	<b>(4,469)</b>	684	(5,019)	(2,593)
Per share - basic and diluted	<b>(0.01)</b>	0.04	(0.01)	(0.03)	<b>(0.03)</b>	0.00	(0.04)	(0.02)
Total assets	<b>150,526</b>	158,456	147,741	158,003	<b>159,086</b>	162,794	157,616	161,283
Cash	<b>2,063</b>	620	2,107	3,675	<b>6,462</b>	10,885	11,627	6,251
Long-term debt	<b>950</b>	5,300	-	2,600	-	-	301	53
Operating hours								
Coiled tubing rigs	<b>8,864</b>	9,424	6,205	10,016	<b>7,630</b>	7,816	7,414	8,629
Pumpers	<b>11,190</b>	11,580	8,444	13,014	<b>10,228</b>	10,827	9,647	11,603
Tryton - % of revenue								
Conventional Tools & Rentals	<b>75%</b>	74%	82%	73%	<b>55%</b>	61%	90%	66%
Tryton MSFS®	<b>25%</b>	26%	18%	27%	<b>45%</b>	39%	10%	34%

## 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”, “anticipates”, “believes”, “strategy”, “intends”, “estimates”, “continues”, “future”, “outlook”, “ongoing” and similar expressions, or are events or conditions that “will”, “would”, “may”, “likely”, “could”, “can”, “typically”, “traditionally” or “tends to” occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities; the carrying values of Essential’s assets and liabilities; Essential’s capital spending budget, expectations of how it will be funded and continued monitoring; the NCIB; critical accounting estimates and the impact thereof; risks and uncertainties; ICFR; oil and natural gas prices, oil and natural gas industry outlook, regulation of the oil and natural gas industry, industry drilling and completion activity and outlook and oilfield services sector activity and outlook; E&P capital spending; recession risk and implications; the Company’s capital management strategy and financial position; Essential’s pricing, including timing of and benefit from increases and continued focus on appropriate pricing; Essential’s commitments, strategic position, strengths, focus, outlook, activity levels and margins; the impact of inflation; supply chain implications; active and inactive equipment, market share and crew counts; demand for Essential’s services; labor markets; and Essential’s financial stability as a strategic advantage.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Essential including, without limitation: the potential impact of the COVID-19 pandemic on Essential; supply chain disruptions; oil and natural gas industry exploration and development and the geographic region of such activity; that Essential will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Essential’s capital and operating requirements as needed; and certain cost assumptions.

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

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

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

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

## <sup>(1)</sup>Non-IFRS and Other Financial Measures

Throughout this MD&A, certain terms that are not specifically defined under IFRS are considered non-IFRS and other financial measures as defined in National Instrument 52-112 – *Non-GAAP and Other Financial Measures Disclosure*. These non-IFRS and other financial measures are used to analyze Essential’s operations. These measures are identified and presented, where appropriate, together with reconciliations to the most directly comparable IFRS measure. These measures are intended to supplement Essential’s results provided in accordance with IFRS. In addition to the primary measures of net loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential’s results. Each of these measures provides the reader with additional insight into Essential’s ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net loss and net loss per share as calculated in accordance with IFRS.

**Funds flow** – Funds flow is not a standardized financial measure under IFRS and might not be comparable to similar financial measures disclosed by other companies. Management believes that in addition to net cash provided by operating activities, the most directly comparable IFRS measure, funds flow is a useful measure to enhance investors’ understanding of Essential’s cash flow and ability to fund principal debt repayments and capital programs. Funds flow is generally defined as net cash provided by operating activities before changes in non-cash operating working capital. Funds flow is presented on the Consolidated Statements of Cash Flows. A reconciliation of funds flow is provided in the Consolidated Statements of Cash Flows in Essential’s consolidated financial statements.

**EBITDAS and EBITDAS %** – EBITDAS and EBITDAS % are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other companies. Management believes that in addition to net loss, the most directly comparable IFRS measure, EBITDAS is a useful measure to enhance investors’ understanding of Essential’s results from its principal business activities prior to consideration of how those activities are financed, how the results are taxed and how the results are impacted by non-cash charges. EBITDAS is generally defined as earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, 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. EBITDAS % is a non-IFRS ratio and is calculated as EBITDAS divided by total revenue. It is used as a supplemental financial measure by management to evaluate cost efficiency.

The following table reconciles Bank EBITDA and EBITDAS to net loss:

(in thousands of dollars)	For the three months ended		For the years ended	
	December 31, 2022	2021	December 31, 2022	2021
Bank EBITDA	\$ 3,773	\$ 1,128	\$ 12,646	\$ 10,436
Impact of lease accounting under IFRS	(1,332)	(1,295)	(5,461)	(4,895)
Permitted Adjustments	2	-	51	150
EBITDAS	\$ 5,103	\$ 2,423	\$ 18,056	\$ 15,181
Share-based compensation expense	1,915	2,307	4,203	7,653
Other expense (income)	208	(61)	(2,134)	(31)
Depreciation and amortization	4,179	4,268	16,793	17,874
Finance costs	252	370	917	1,071
Loss before taxes	\$ (1,451)	\$ (4,461)	\$ (1,723)	\$ (11,386)
Income tax expense	32	8	32	11
Net loss	\$ (1,483)	\$ (4,469)	\$ (1,755)	\$ (11,397)

The following table calculates EBITDAS %:

(in thousands of dollars, except percentages)	For the three months ended		For the years ended	
	December 31,		December 31,	
	2022	2021	2022	2021
EBITDAS	\$ 5,103	\$ 2,423	\$ 18,056	\$ 15,181
Revenue	\$ 40,345	\$ 35,104	\$ 150,097	\$ 121,208
EBITDAS %	13%	7%	12%	13%

Growth capital – Growth capital is capital spending which is intended to result in incremental revenue. The determination of what constitutes growth capital involves judgement by management. A reconciliation of growth capital to the Consolidated Statements of Cash Flows is provided in the Purchase of Property and Equipment table in the Financial Resources and Liquidity section of this MD&A.

Maintenance capital – Maintenance capital is capital spending that is incurred in order to refurbish, replace or extend the life of existing equipment. The determination of what constitutes maintenance capital involves judgement by management. A reconciliation of maintenance capital to the Consolidated Statements of Cash Flows is provided in the Purchase of Property and Equipment table in the Financial Resources and Liquidity section of this MD&A.

Net equipment expenditures – This measure is calculated as the purchase of property and equipment less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to managing Essential's property and equipment. A reconciliation of net equipment expenditures to the Consolidated Statements of Cash Flows is provided in the Purchase of Property and Equipment table in the Financial Resources and Liquidity section of this MD&A.

Working capital – Working capital is calculated as current assets less current liabilities. A reconciliation of working capital to the Consolidated Statements of Financial Position is provided in the Working Capital table in the Financial Resources and Liquidity section of this MD&A.

Working capital ratio – Working capital ratio is calculated as current assets divided by current liabilities. A reconciliation of working capital ratio to the Consolidated Statements of Financial Position is provided in the Working Capital table in the Financial Resources and Liquidity section of this MD&A.

Changes in non-cash working capital – Changes in non-cash working capital is calculated on the Consolidated Statements of Cash Flows.

Cash, net of long-term debt – Long-term debt, net of cash is calculated as cash, as reported in the Consolidated Statements of Financial Position, less long-term debt, as reported in the Consolidated Statements of Financial Position.

Long-term debt, net of cash – Long-term debt, net of cash is calculated as long-term debt, as reported in the Consolidated Statements of Financial Position, less cash, as reported in the Consolidated Statements of Financial Position.

## **Consolidated Financial Statements**

Essential Energy Services Ltd.

December 31, 2022

## MANAGEMENT’S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, 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”) as issued by the International Accounting Standards Board (“IASB”), 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 pages.

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”*

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GARNET K. AMUNDSON  
President and  
Chief Executive Officer

*Signed “Jeff B. Newman”*

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JEFF B. NEWMAN  
Chief Financial Officer

March 3, 2023

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

## **Opinion**

We have audited the consolidated financial statements of Essential Energy Services Ltd (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- 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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## **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 "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's 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 ethical 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.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

### **Assessment of indicators of impairment of the Essential Coil Well Service, Tryton Tools and Rentals cash generating units ("Company's CGUs")**

#### **Description of the matter**

We draw attention to Note 2(O), Note 3 and Note 6 to the financial statements. The Company assesses at each reporting date whether there is an indication that a long-lived asset or group of assets, identified as a CGU, may be impaired. The assessment of the existence of impairment indicators is based on internal and external factors, including revenue and earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal,

foreign exchange gains or losses and share based compensation expense (“EBITDAS”) expectations, expected industry activity levels, commodity price development and market capitalization, and requires the Company to apply significant judgment. As at December 31, 2022, the Company determined no indicators of impairment exist for the Essential Coil Well Service, Tryton Tools and Rentals CGUs.

#### **Why the matter is a key audit matter**

We identified the assessment of indicators of impairment of the Company’s CGUs as a key audit matter. Significant auditor judgement was required in evaluating the internal and external factors included in the Company’s indicators of impairment analysis.

#### **How the matter was addressed in the audit**

The primary procedures we performed to address this key audit matter included the following:

We evaluated the Company’s assessment of impairment indicators by:

- comparing internal and external factors, including expected industry activity levels and commodity price development analyzed by the Company to relevant external market data or the Company’s internal source documents
- comparing the Company’s budgeted 2023 revenues and EBITDAS to actual 2022 revenues and EBITDAS and considering the impact of changes in conditions and events affecting the Company’s CGUs
- evaluating the changes in market capitalization over the year and its impact on the Company’s impairment indicator analysis.

#### **Other Information**

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

- the information included in Management’s Discussion and Analysis 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 for the year ended December 31, 2022”.

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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor’s 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 auditor’s report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor’s report thereon, included in a document likely to be entitled “Financial Report for the year ended December 31, 2022” is expected to be made available to us after the date of this auditor’s 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 (IFRS) as issued by the International Accounting Standards Board (IASB), 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.

### ***Auditor's 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 auditor's 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 auditor's 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 auditor's 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 represent 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 group 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Reinier Deurwaarder.

*Signed "KPMG LLP"*

Chartered Professional Accountants

Calgary, Canada

March 3, 2023

**ESSENTIAL ENERGY SERVICES LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<i>(in thousands of dollars)</i>	As at December 31, 2022	As at December 31, 2021
<b>Assets</b>		
Current		
Cash	\$ 2,063	\$ 6,462
Trade and other accounts receivable <i>(note 4)</i>	27,085	29,341
Inventory <i>(note 5)</i>	34,617	31,111
Prepayments and deposits	2,264	1,826
	<b>66,029</b>	<b>68,740</b>
Non-current		
Property and equipment <i>(note 6)</i>	76,180	81,532
Right-of-use lease assets <i>(note 10)</i>	8,317	8,814
	<b>84,497</b>	<b>90,346</b>
Total assets	<b>\$ 150,526</b>	<b>\$ 159,086</b>
<b>Liabilities</b>		
Current		
Trade and other accounts payable <i>(note 7)</i>	\$ 14,307	\$ 14,399
Share-based compensation <i>(note 17)</i>	2,721	4,115
Income taxes payable <i>(note 9)</i>	30	23
Current portion of lease liabilities <i>(note 10)</i>	4,237	4,913
	<b>21,295</b>	<b>23,450</b>
Non-current		
Share-based compensation <i>(note 17)</i>	5,357	6,188
Long-term debt <i>(note 8)</i>	950	-
Long-term lease liabilities <i>(note 10)</i>	5,542	6,622
	<b>11,849</b>	<b>12,810</b>
Total liabilities	<b>33,144</b>	<b>36,260</b>
<b>Equity</b>		
Share capital <i>(note 11)</i>	256,409	272,732
Deficit	(158,362)	(156,607)
Other reserves <i>(note 12)</i>	19,335	6,701
Total equity	<b>117,382</b>	<b>122,826</b>
Total liabilities and equity	<b>\$ 150,526</b>	<b>\$ 159,086</b>

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**

<i>(in thousands of dollars, except per share amounts)</i>	For the years ended	
	December 31,	
	<b>2022</b>	2021
Revenue <i>(note 23)</i>	\$ <b>150,097</b>	\$ 121,208
Operating expenses <i>(notes 2 and 13)</i>	<b>122,007</b>	97,980
Gross margin	<b>28,090</b>	23,228
General and administrative expenses <i>(notes 2 and 14)</i>	<b>10,034</b>	8,047
Depreciation and amortization <i>(notes 6 and 10)</i>	<b>16,793</b>	17,874
Share-based compensation expense <i>(note 17)</i>	<b>4,203</b>	7,653
Other income <i>(note 16)</i>	<b>(2,134)</b>	(31)
Operating loss	<b>(806)</b>	(10,315)
Finance costs	<b>917</b>	1,071
Loss before taxes	<b>(1,723)</b>	(11,386)
Income tax expense <i>(note 9)</i>	<b>32</b>	11
Net loss	<b>(1,755)</b>	(11,397)
Unrealized foreign exchange (loss) gain <i>(note 12)</i>	<b>(242)</b>	35
Comprehensive loss	\$ <b>(1,997)</b>	\$ (11,362)
Net loss per share <i>(note 18)</i>		
Basic and diluted	\$ <b>(0.01)</b>	\$ (0.08)
Comprehensive loss per share <i>(note 18)</i>		
Basic and diluted	\$ <b>(0.01)</b>	\$ (0.08)

*See accompanying notes to the consolidated financial statements.*

**ESSENTIAL ENERGY SERVICES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

<i>(in thousands of dollars)</i>	For the years ended	
	December 31, <b>2022</b>	2021
<b>Equity:</b>		
<u>Share Capital</u>		
Balance, January 1	\$ 272,732	\$ 272,732
Shares repurchased and cancelled under normal course issuer bid <i>(note 11)</i>	<b>(16,323)</b>	-
Balance, December 31	<b>\$ 256,409</b>	\$ 272,732
<u>Deficit</u>		
Balance, January 1	\$ (156,607)	\$ (145,210)
Net loss	<b>(1,755)</b>	(11,397)
Balance, December 31	<b>\$ (158,362)</b>	\$ (156,607)
<u>Other reserves</u>		
Balance, January 1	\$ 6,701	\$ 6,656
Other comprehensive (loss) gain <i>(note 12)</i>	<b>(242)</b>	35
Share-based compensation <i>(note 17)</i>	-	10
Shares repurchased and cancelled under normal course issuer bid <i>(notes 11 and 12)</i>	<b>12,876</b>	-
Balance, December 31	<b>\$ 19,335</b>	\$ 6,701
<b>Total equity</b>	<b>\$ 117,382</b>	\$ 122,826

*See accompanying notes to the consolidated financial statements.*

**ESSENTIAL ENERGY SERVICES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the years ended	
	December 31,	
<i>(in thousands of dollars)</i>	<b>2022</b>	2021
<b>Operating Activities:</b>		
Net loss	\$ (1,755)	\$ (11,397)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization <i>(notes 6 and 10)</i>	16,793	17,874
Share-based compensation <i>(note 17)</i>	-	10
Recovery of provision of trade accounts receivable <i>(note 4)</i>	(25)	(525)
Finance costs	917	1,071
Gain on disposal of assets <i>(note 16)</i>	(1,298)	(88)
Funds flow	14,632	6,945
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	1,994	(6,747)
Inventory	(3,588)	960
Income taxes payable (recovery)	7	(2)
Prepayments and deposits	(438)	(201)
Trade and other accounts payable	(139)	5,377
Share-based compensation	(2,225)	5,491
Changes in non-cash operating working capital	(4,389)	4,878
Net cash provided by operating activities	10,243	11,823
<b>Investing Activities:</b>		
Purchase of property and equipment <i>(note 6)</i>	(9,745)	(7,580)
Non-cash investing working capital in trade and other accounts payable	45	120
Proceeds on disposal of equipment	3,310	1,351
Net cash used in investing activities	(6,390)	(6,109)
<b>Financing Activities:</b>		
Increase (decrease) in long-term debt <i>(note 8)</i>	950	(53)
Shares repurchased and cancelled under normal course issuer bid <i>(note 11)</i>	(3,447)	-
Finance costs paid	(298)	(377)
Payments of lease liabilities <i>(note 10)</i>	(5,461)	(4,895)
Net cash used in financing activities	(8,256)	(5,325)
Foreign exchange gain (loss) on cash held in a foreign currency	4	(9)
Net (decrease) increase in cash	(4,399)	380
Cash, beginning of year	6,462	6,082
Cash, end of year	\$ 2,063	\$ 6,462

See accompanying notes to the consolidated financial statements.

## **ESSENTIAL ENERGY SERVICES LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*As at and for the years ended December 31, 2022 and 2021*

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

#### **1. AUTHORIZATION OF FINANCIAL STATEMENTS**

##### **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, 2022 and 2021 were approved by the Board of Directors of Essential (“Board of Directors”) on March 3, 2023.

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 (“TSX”). The address of the registered office is 3400, 350 – 7 Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

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

##### **A) STATEMENT OF COMPLIANCE**

The Financial Statements for the year ended December 31, 2022, 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 where 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 information 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 statements of financial position;
- ii. income and expenses for the consolidated statements of net loss and comprehensive loss are translated using the exchange rates on the date of transactions; and
- iii. any resulting exchange differences are recognized in other comprehensive income.

## ESSENTIAL ENERGY SERVICES LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2022 and 2021

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

#### 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) 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 completion, production, and workover services with its fleet of coiled tubing rigs, fluid pumpers, nitrogen pumpers and ancillary equipment. Services and products may be provided separately or in bundled packages.

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

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

##### 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 standalone 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.

## ESSENTIAL ENERGY SERVICES LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2022 and 2021

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

#### G) GOVERNMENT GRANTS

For the year ended December 31, 2022, there were no amounts related to the Canadian Emergency Wage Subsidy program recorded in the consolidated statement of net loss and comprehensive loss. For the year ended December 31, 2021, government grants of \$2.7 million were included in the consolidated statement of net loss and comprehensive loss, of which \$2.4 million was recorded as a reduction to operating expenses and \$0.3 million was recorded as a reduction to general and administrative expenses.

For the year ended December 31, 2022, there were no amounts related to the Canadian Emergency Rent Subsidy program recorded in the consolidated statement of net loss and comprehensive loss. For the year ended December 31, 2021, government grants of \$0.9 million were included in the consolidated statement of net loss and comprehensive loss, of which \$0.7 million was recorded as a reduction to operating expenses and \$0.2 million was recorded as a reduction to general and administrative expenses.

For the year ended December 31, 2022, \$0.2 million (2021 - \$0.3 million) related to the U.S. Employment Retention Tax Credit program was included in the consolidated statements of net loss and comprehensive loss and recorded as a reduction to operating expenses.

For the year ended December 31, 2022, there were no amounts related to the Paycheck Protection Plan Loans ("PPP Loans") program recorded in the consolidated statement of net loss and comprehensive loss. For the year ended December 31, 2021, government grants of \$0.5 million were included in the consolidated statement of net loss and comprehensive loss and were recorded as a reduction to operating expense. The PPP Loans were used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they were incurred.

#### 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.

##### 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

## ESSENTIAL ENERGY SERVICES LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2022 and 2021

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

- 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 Restricted Share Unit (“RSU”) Plan and a Deferred Share Unit (“DSU”) Plan for which share-based compensation expenses are incurred. The Share Option Plan was discontinued by the Board of Directors effective March 9, 2022. As a result, as of March 9, 2022, new Share Options cannot be granted. 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.

##### 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 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. 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.

#### 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:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- 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
- Level 3 inputs are unobservable (supported by little or no market activity).

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*As at and for the years ended December 31, 2022 and 2021*

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to 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.

***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 accumulated impairment losses. 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
Coiled tubing rigs – certifications	24,000 hours	Hours of service
Coiled tubing rigs, pumpers and equipment	Up to 10 years	Straight-line
Other oilfield equipment	Up to 10 years	Straight-line
Vehicles	Up to 8 years	Straight-line
Office and computer equipment	Up to 10 years	Straight-line
Leasehold improvements	Varied	Over lease term

## **ESSENTIAL ENERGY SERVICES LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*As at and for the years ended December 31, 2022 and 2021*

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

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.

The estimated useful lives, residual values, and methods of depreciation for all asset classes are assessed as part of the Company's annual review of estimates. Adjustments, where applicable, are made on a prospective basis. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

#### **L) LEASES**

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

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

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

#### **M) INVENTORY**

Inventory is 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
Coiled tubing	specific cost basis
Supplies	first-in, first-out cost basis

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

#### **N) 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.

#### **O) IMPAIRMENT OF LONG-LIVED ASSETS**

At each reporting date, the Company assesses whether there is an indication that a long-lived asset or group of assets may be impaired based on internal and external factors, including revenue and earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, foreign exchange gains or losses and share based compensation expense ("EBITDAS") expectations, expected industry activity levels, commodity price development and market capitalization. Long-lived assets include property and equipment and right-of use assets. If any such indication exists, 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 CGUs are ECWS, Tryton Tools and Rentals. The recoverable amount is the higher of the CGUs 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

## **ESSENTIAL ENERGY SERVICES LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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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 CGUs 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 based on internal and external factors, including revenue and EBITDAS expectations, expected industry activity levels, oilfield service pricing, commodity price development and market capitalization. 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 CGUs 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 CGUs revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### **P) 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.

### **3. 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, impairment of long-lived assets, share-based compensation, provisions, lease liabilities and deferred income tax assets and liabilities. The identification of indications of impairment or reversal of previously recognized impairment losses requires management to apply significant judgement. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates, including those related to 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.

#### **CHANGING REGULATION**

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of Canadian and U.S. federal, provincial, state and local legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances used or produced in association with certain oil and natural gas industry operations.

With respect to Environmental, Social and Governance (“ESG”) and climate reporting, the International Sustainability Standards Board has proposed an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. These developments could impact Essential’s

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

accounting estimates and judgments including, but not limited to, assessment of useful lives, impairment of other long-lived assets and valuation of inventory. Essential will continue to monitor these developments as they affect the financial statements.

**4. TRADE AND OTHER ACCOUNTS RECEIVABLE**

	As at December 31,	
	2022	2021
Trade accounts receivable, net of provision	\$ 26,968	\$ 29,256
Other receivables	117	85
	\$ 27,085	\$ 29,341

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

Trade accounts receivable include accrued receivables which primarily relate to Essential's rights to consideration for work completed at the reporting date.

The aging analysis of trade accounts receivable is as follows:

	As at December 31,	
	2022	2021
0-30 days	\$ 12,383	\$ 12,719
31-60 days	9,927	9,191
61-90 days	3,052	5,429
> 90 days	1,606	1,917
	\$ 26,968	\$ 29,256

Essential considers a trade accounts receivable balance past due when it exceeds normal customer payment terms, which can range from 45 days to greater than 90 days. The provision for impairment of trade accounts receivable is included in the amounts over 90 days and has been included in operating expenses in the consolidated 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,	
	2022	2021
Balance, beginning of year	\$ 503	\$ 1,706
Recovery of provision of trade accounts receivable	(25)	(525)
Receivables written off against the provision	(63)	(678)
Balance, end of year	\$ 415	\$ 503

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***5. INVENTORY**

	As at December 31,	
	2022	2021
Tryton tools	\$ 23,195	\$ 20,091
Coiled tubing and supplies	11,422	11,020
	\$ 34,617	\$ 31,111

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2022 was \$46.0 million (2021 – \$39.3 million), which includes \$0.9 million related to valuation adjustments in the year (2021 - \$0.8 million).

**6. PROPERTY AND EQUIPMENT**

	As at December 31,	
Carrying Amount	2022	2021
Coiled tubing rigs, pumpers and equipment	\$ 50,023	\$ 53,468
Other oilfield equipment	15,015	17,046
Vehicles	10,374	9,957
Office and computer equipment	224	224
Other	544	837
	\$ 76,180	\$ 81,532

Cost 2022	Balance, beginning				Effects of movements in exchange rates		Balance, end of year
	of year	Additions	Transfers	Disposals			
Coiled tubing rigs, pumpers and equipment	\$ 147,766	\$ 4,753	\$ -	\$ (7,382)	\$ -	\$ -	\$ 145,137
Other oilfield equipment	59,031	1,883	82	(1,864)	22	-	59,154
Vehicles	30,530	2,929	-	(1,512)	71	-	32,018
Office and computer equipment	3,525	-	-	-	-	-	3,525
Other	10,383	180	-	-	3	-	10,566
	\$ 251,235	\$ 9,745	\$ 82	\$ (10,758)	\$ 96	\$ -	\$ 250,400

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*As at and for the years ended December 31, 2022 and 2021*

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Cost	Balance, beginning of year	Additions	Transfers	Disposals	Effects of movements in exchange rates	Balance, end of year
2021						
Coiled tubing rigs, pumpers and equipment	\$ 147,203	\$ 4,020	\$ -	\$ (3,457)	\$ -	\$ 147,766
Other oilfield equipment	57,761	1,985	87	(802)	-	59,031
Vehicles	29,668	1,334	-	(468)	(4)	30,530
Office and computer equipment	3,525	-	-	-	-	3,525
Other	10,142	241	-	-	-	10,383
	\$ 248,299	\$ 7,580	\$ 87	\$ (4,727)	\$ (4)	\$ 251,235

Accumulated Depreciation	Balance, beginning of year	Depreciation	Disposals	Effects of movements in exchange rates	Balance, end of year
2022					
Coiled tubing rigs, pumpers and equipment	\$ 94,298	\$ 6,943	\$ (6,127)	\$ -	\$ 95,114
Other oilfield equipment	41,985	3,609	(1,470)	15	44,139
Vehicles	20,573	2,183	(1,149)	37	21,644
Office and computer equipment	3,301	-	-	-	3,301
Other	9,546	473	-	3	10,022
	\$ 169,703	\$ 13,208	\$ (8,746)	\$ 55	\$ 174,220

Accumulated Depreciation	Balance, beginning of year	Depreciation	Disposals	Effects of movements in exchange rates	Balance, end of year
2021					
Coiled tubing rigs, pumpers and equipment	\$ 89,367	\$ 7,749	\$ (2,818)	\$ -	\$ 94,298
Other oilfield equipment	38,620	3,714	(349)	-	41,985
Vehicles	18,606	2,265	(297)	(1)	20,573
Office and computer equipment	3,193	108	-	-	3,301
Other	9,053	493	-	-	9,546
	\$ 158,839	\$ 14,329	\$ (3,464)	\$ (1)	\$ 169,703

Included in property and equipment is \$nil (December 31, 2021 - \$1.4 million) of assets under construction which will not be depreciated until put into service.

As at December 31, 2022 and 2021, management determined no indicators of impairment existed for each of the ECWS, Tryton Tools and Rentals CGUs.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***7. TRADE AND OTHER ACCOUNTS PAYABLE**

	As at	
	December 31,	
	2022	2021
Trade accounts payable	\$ 7,712	\$ 8,591
Accrued payables	3,774	3,390
Accrued payroll	2,508	1,967
Other	313	451
	\$ 14,307	\$ 14,399

**8. LONG-TERM DEBT**

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility is comprised of a \$25.0 million revolving term loan facility. As at December 31, 2022, there was \$1.0 million outstanding of the \$25.0 million that was available. The Credit Facility matures on November 30, 2024, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date.

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

	For the years ended	
	December 31,	
	2022	2021
Balance, beginning of year	\$ -	\$ 53
Cash changes:		
Increase (decrease) in long-term debt	950	(53)
Non-cash changes:		
Deferred financing costs for Credit Facility renewal	-	(132)
Amortization of deferred financing fees	-	132
Balance, end of year	\$ 950	\$ -

**9. INCOME TAXES**

	For the years ended	
	December 31,	
	2022	2021
Income tax expense	\$ 32	\$ 11

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

	For the years ended	
	December 31,	
	2022	2021
Loss before income taxes	\$ (1,723)	\$ (11,386)
Statutory tax rate	24.05%	23.95%
Expected income tax recovery	(414)	(2,727)
Increase (decrease) resulting from:		
Changes in tax rates	5	-
Other permanent differences	4	(57)
Taxes related to prior years	-	1,721
Share-based compensation	-	2
Change in assets not recognized	646	1,233
Other	(209)	(161)
Income tax expense	\$ 32	\$ 11

Deferred tax assets and liabilities consist of temporary differences between the carrying values for accounting versus tax values, as follows:

	As at	
	December 31,	
	2022	2021
Property and equipment	\$ (8,605)	\$ (8,532)
Net operating losses	6,963	6,426
Right-of-use lease asset and liability	341	640
Other	1,301	1,466
Deferred tax liabilities	\$ -	\$ -

The company has non-capital loss carryforwards in Canada of \$41.5 million (2021 - \$36.2 million), which expire between 2037 and 2042, and non-capital loss carryforwards in the United States of \$9.9 million (2021 - \$10.4 million), which will expire between 2033 and 2041. Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered. As at December 31, 2022, there were deductible temporary differences of \$25.6 million (2021 - \$23.0 million) that are not being recognized.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***10. LEASES**

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

**Right-of-use lease assets**

	For the years ended December 31,	
	2022	2021
Beginning of year	\$ 8,814	\$ 8,513
Additions	-	3,638
Modifications	3,037	210
Depreciation	(3,585)	(3,545)
Foreign exchange gain (loss)	51	(2)
End of year	\$ 8,317	\$ 8,814

**Lease liabilities**

	As at December 31,	
	2022	2021
Maturity analysis - contractual undiscounted cash flow		
Less than one year	\$ 4,682	\$ 5,446
One to five years	5,991	7,136
Total undiscounted lease liabilities, end of year	\$ 10,673	\$ 12,582
Discounted value of future lease payments		
Current portion of lease liabilities	\$ 4,237	\$ 4,913
Long-term portion of lease liabilities	5,542	6,622
Lease liabilities included in the statements of financial position	\$ 9,779	\$ 11,535

For the year ended December 31, 2022, Essential recognized \$0.6 million (2021 - \$0.7 million) of finance costs related to lease liabilities in its consolidated statements of net loss and comprehensive loss and \$5.5 million (2021 - \$4.9 million) of total cash outflow for leases in the consolidated statement of cash flows.

**11. SHARE CAPITAL****Authorized**

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

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

	Number of Common Shares (000's)		Amount
As at January 1, 2021 and December 31, 2021	141,857	\$	272,732
Shares repurchased and cancelled under normal course issuer bid	<b>(8,490)</b>		<b>(16,323)</b>
<b>As at December 31, 2022</b>	<b>133,367</b>	<b>\$</b>	<b>256,409</b>

On December 21, 2022, the Company announced renewal of its Normal Course Issuer Bid (“NCIB”) for the 12-month period commencing December 23, 2022, and ending December 22, 2023, or until such earlier time the NCIB is completed or terminated at the option of Essential. Under the NCIB, Essential may purchase up to 12,965,027 of its issued and outstanding Common Shares on the open market through the facilities of the TSX and/or other alternative trading systems. Any Common Shares purchased under the NCIB will be cancelled.

On December 17, 2021, the Company announced a NCIB for the 12-month period commencing December 21, 2021 and ending December 20, 2022 (the “2021-2022 NCIB”).

For the year ended December 31, 2022, 8,490,216 Common Shares were repurchased and cancelled under the 2021-2022 NCIB, for a total cost of \$3.4 million at a weighted average price of \$0.40 per share (2021 – no Common Shares were repurchased and cancelled). During the year ended December 31, 2022, the average carrying value of Common Shares repurchased and cancelled under the 2021-2022 NCIB was \$1.92 per Share (2021 – nil). Any amounts paid for these Common Shares, relative to their carrying amount, was recorded as a change in contributed surplus.

**12. OTHER RESERVES**

	Contributed Surplus	Accumulated Other Comprehensive Income		Total
As at January 1, 2021	\$ 5,892	\$ 764	\$	6,656
Share-based compensation	10	-		10
Unrealized foreign exchange gain	-	35		35
As at December 31, 2021	\$ 5,902	\$ 799	\$	6,701
Shares repurchased and cancelled under NCIB <i>(note 11)</i>	<b>12,876</b>	-		<b>12,876</b>
Unrealized foreign exchange loss	-	<b>(242)</b>		<b>(242)</b>
<b>As at December 31, 2022</b>	<b>\$ 18,778</b>	<b>\$ 557</b>	<b>\$</b>	<b>19,335</b>

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***13. OPERATING EXPENSES**

	For the years ended	
	December 31,	
	2022	2021
Materials and related costs	\$ 47,283	\$ 40,305
Employee costs (notes 2 and 15)	42,229	31,758
Fuel	8,357	5,097
Repairs and maintenance	8,068	9,244
Subcontracting	6,353	4,408
Travel	4,153	2,944
Occupancy costs (note 2)	1,992	1,114
Other	3,572	3,110
Operating expenses	\$ 122,007	\$ 97,980

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

	For the years ended	
	December 31,	
	2022	2021
Employee costs (notes 2 and 15)	\$ 6,279	\$ 5,097
Professional fees	1,262	1,399
Patent litigation - cost recovery	-	(443)
Other	2,493	1,994
General and administrative expenses	\$ 10,034	\$ 8,047

**15. EMPLOYEE COSTS**

	For the years ended	
	December 31,	
	2022	2021
Wages and salaries (note 2)	\$ 45,645	\$ 34,847
Share-based compensation (note 17)	4,203	7,653
Other benefits	2,863	2,008
	\$ 52,711	\$ 44,508
Employee costs are included in:		
Operating expenses (note 13)	\$ 42,229	\$ 31,758
General and administrative expenses (note 14)	6,279	5,097
Share-based compensation (note 17)	4,203	7,653
	\$ 52,711	\$ 44,508

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***16. OTHER INCOME**

	For the years ended December 31,	
	2022	2021
Gain on disposal of assets	\$ (1,298)	\$ (88)
Realized foreign exchange loss (gain)	13	(4)
Unrealized foreign exchange (gain) loss	(880)	54
Other loss	31	7
Other income	\$ (2,134)	\$ (31)

**17. SHARE-BASED COMPENSATION**

The Company offers the following share-based compensation plans: RSU Plan and DSU Plan. The Share Option Plan was discontinued by the Board of Directors effective March 9, 2022.

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

	For the years ended December 31,	
	2022	2021
Share Options	\$ -	\$ 10
Restricted share units	4,194	5,302
Deferred share units	9	2,341
Share-based compensation expense	\$ 4,203	\$ 7,653

**a) Restricted Share Units**

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. Grants generally vest in three equal instalments but can be issued with unique time vesting and/or performance vesting features. The performance-based units vest when certain conditions are met. Essential's liability as at December 31, 2022, was \$3.3 million (December 31, 2021 – \$5.1 million) of which \$2.4 million is due within one year (December 31, 2021 – \$4.1 million).

The following table summarizes information with respect to RSUs outstanding:

	For the years ended December 31,	
	2022	2021
Number of RSUs (000's)		
Outstanding, beginning of year	17,162	14,483
Issued	9,360	11,263
Vested	(14,314)	(7,999)
Forfeited	(47)	(585)
Outstanding, end of year	12,161	17,162

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***b) 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, 2022, was \$4.8 million (December 31, 2021 – \$5.2 million) of which \$0.3 million is due within one year (December 31, 2021 – \$nil).

The following table summarizes information with respect to DSUs outstanding:

Number of DSUs (000's)	For the years ended	
	December 31,	
	2022	2021
Outstanding, beginning of year	13,517	11,464
Issued	240	2,456
Redeemed	(1,114)	(81)
Forfeited	-	(322)
Outstanding, end of year	12,643	13,517

**c) Share Option Plan**

The Share Option Plan was discontinued by the Board of Directors effective March 9, 2022. As a result, as of March 9, 2022, new Share Options cannot be granted. However, Share Options that were previously granted will remain validly outstanding until the earlier of when they are exercised or their expiry in January 2024.

	For the year ended		For the year ended	
	December 31, 2022		December 31, 2021	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
	(000's)	Exercise Price	(000's)	Exercise Price
Outstanding, beginning of year	1,479	\$ 0.68	3,264	\$ 0.62
Expired	(1,030)	0.83	(1,785)	0.57
Outstanding, end of year	449	\$ 0.32	1,479	\$ 0.68
Exercisable, end of year	449	\$ 0.32	1,329	\$ 0.72

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***18. 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 Common 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 years ended	
	December 31,	
	2022	2021
Weighted average number of Shares (000's)		
Basic and diluted	<b>139,294</b>	141,857

**19. CONTINGENCIES**

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

**20. RELATED PARTY TRANSACTIONS****a) Transactions with key management personnel**

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

Key management personnel compensation is comprised of the following:

	For the years ended	
	December 31,	
	2022	2021
Salaries and other benefits	\$ 2,575	\$ 2,347
Share-based compensation (equity and cash settled)	1,701	1,986
	\$ 4,276	\$ 4,333

**b) Related party transactions**

As at December 31, 2021, Essential had lease agreements for shop premises with certain private corporations that were controlled by one of the Vice Presidents of the Company. The terms and conditions of these agreements were based on market rates for similar leases and were 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, 2021, Essential incurred lease payments related to these shop premises of \$0.7 million. In January 2022, this Vice President of the Company ceased to be considered a related party.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)***21. CAPITAL DISCLOSURES**

	As at December 31,	
	2022	2021
Long-term debt	\$ 950	\$ -
Equity	117,382	122,826
Total capitalization	\$ 118,332	\$ 122,826

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, share buy-backs or using existing debt facilities, subject to availability.

**22. 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 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.

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 fair value hierarchy.

**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, 2022, the Company earned revenue from 523 customers (2021 – 504 customers) with five of these customers representing 46% of revenue (2021 – 48% of revenue), with one customer representing approximately 22% of revenue (2021 – 27%). As at December 31, 2022, approximately 50% of the trade accounts receivable balance was due from five companies (2021 – 50%).

**Market risk**

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates, will affect the value of the Company's 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 less than a \$0.1 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2021 – \$0.1 million).

**ESSENTIAL ENERGY SERVICES LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*As at and for the years ended December 31, 2022 and 2021*

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

**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.

**23. SEGMENTED INFORMATION**

Essential has two operating segments, ECWS and Tryton, and a non-operating segment, corporate (“Corporate”).

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

**a) ECWS**

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

**b) Tryton**

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

**c) Corporate**

The Corporate segment is comprised of corporate costs and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. For the year ended December 31, 2022, the Corporate segment includes \$10.1 million (2021 - \$7.5 million) of corporate costs and certain operational costs, and \$3.8 million (2021 – \$9.1 million) of share-based compensation expense, depreciation and amortization, finance costs and foreign exchange loss/gain.

**ESSENTIAL ENERGY SERVICES LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***As at and for the years ended December 31, 2022 and 2021**(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)*

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

As at and for the years ended December 31, 2022	ECWS	Tryton	Corporate	Consolidated
Revenue	\$ 81,439	\$ 68,658	\$ -	\$ 150,097
Gross margin	\$ 15,834	\$ 13,354	\$ (1,098)	\$ 28,090
Income (loss) before taxes	\$ 4,656	\$ 7,563	\$ (13,942)	\$ (1,723)
Depreciation and amortization	\$ 11,203	\$ 4,691	\$ 899	\$ 16,793
Total assets	\$ 93,284	\$ 54,682	\$ 2,560	\$ 150,526
Total liabilities	\$ 16,384	\$ 11,092	\$ 5,668	\$ 33,144
Purchase of property and equipment	\$ 6,897	\$ 2,694	\$ 154	\$ 9,745
As at and for the years ended December 31, 2021	ECWS	Tryton	Corporate	Consolidated
Revenue	\$ 59,253	\$ 61,955	\$ -	\$ 121,208
Gross margin	\$ 11,032	\$ 12,753	\$ (557)	\$ 23,228
(Loss) income before taxes	\$ (1,601)	\$ 6,795	\$ (16,580)	\$ (11,386)
Depreciation and amortization	\$ 12,201	\$ 4,737	\$ 936	\$ 17,874
Total assets	\$ 97,534	\$ 58,762	\$ 2,790	\$ 159,086
Total liabilities	\$ 16,799	\$ 12,253	\$ 7,208	\$ 36,260
Purchase of property and equipment	\$ 5,620	\$ 1,888	\$ 72	\$ 7,580

## CORPORATE INFORMATION

### Directors

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

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

Felicia B. Bortolussi<sup>2</sup>

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

Sophia J. Langlois<sup>1, 2</sup>

Robert B. Michaleski<sup>1, 2, 3</sup>

1. Audit Committee

2. Compensation & Governance Committee

3. Health, Safety & Environment Committee

### Auditors

KPMG LLP

### Bankers

National Bank of Canada

ATB Financial

Canadian Western Bank

### Legal Counsel

Fasken Martineau DuMoulin LLP

### Transfer Agent

Computershare Trust Company of Canada

### Management

Garnet K. Amundson  
President and Chief Executive Officer

Jeff B. Newman  
Chief Financial Officer

Karen D. Perasalo  
Vice President, Finance and Corporate Secretary

### Stock Exchange Listing

TSX: ESN

### Calgary Office

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