Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2017

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Allan Mowbray"

ALLAN MOWBRAY
Vice President, Finance and
Chief Financial Officer

March 7, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Essential Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Essential Energy Services Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Calgary, Canada

March 7, 2018

Chartered Professional Accountants

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)	As at December 31, **2017**	2016
Assets		
Current		
Cash	**$ 46**	$ 143
Trade and other accounts receivable *(note 6)*	**35,919**	29,300
Inventories *(note 7)*	**35,683**	27,077
Income taxes receivable *(note 15)*	**1,129**	8,119
Prepayments and deposits	**2,106**	1,774
	74,883	66,413
Non-current		
Property and equipment *(note 8)*	**139,734**	137,039
Intangible assets *(note 9)*	**1,387**	2,132
Goodwill *(note 10)*	**3,444**	3,686
	144,565	142,857
Total assets	**$ 219,448**	$ 209,270
Liabilities		
Current		
Trade and other accounts payable *(note 11)*	**$ 22,504**	$ 19,312
Share-based compensation *(note 22)*	**1,498**	689
Current portion of onerous lease contract *(note 13)*	**710**	612
	24,712	20,613
Non-current		
Long-term onerous lease contract *(note 13)*	**3,432**	4,142
Share-based compensation *(note 22)*	**4,397**	2,179
Long-term debt *(note 14)*	**17,975**	11,250
Deferred tax liabilities *(note 15)*	**8,129**	7,519
	33,933	25,090
Total liabilities	**58,645**	45,703
Commitments and contingencies *(note 24)*		
Equity		
Share capital *(note 16)*	**272,732**	272,732
Deficit	**(117,956)**	(114,602)
Other reserves *(note 17)*	**6,027**	5,437
Total equity	**160,803**	163,567
Total liabilities and equity	**$ 219,448**	$ 209,270

See accompanying notes to the consolidated financial statements.

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

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

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

(in thousands of dollars, except per share amounts)	For the years ended December 31, **2017**	2016
Revenue	**$ 175,908**	$ 97,527
Operating expenses *(notes 18 and 20)*	**143,984**	89,740
Gross margin	**31,924**	7,787
General and administrative expenses *(notes 19 and 20)*	**13,315**	12,202
Onerous lease contract expense *(note 13)*	**-**	4,754
Depreciation and amortization *(notes 8 and 9)*	**15,774**	17,110
Share-based compensation *(note 22)*	**4,201**	2,758
Impairment loss *(notes 8 and 9)*	**-**	51,241
Other expenses *(note 21)*	**708**	2,510
Operating loss from continuing operations	**(2,074)**	(82,788)
Finance costs	**1,233**	1,263
Loss before income taxes from continuing operations	**(3,307)**	(84,051)
Current income tax recovery	**(960)**	(6,780)
Deferred income tax expense (recovery)	**677**	(14,649)
Income tax recovery *(note 15)*	**(283)**	(21,429)
Net loss from continuing operations	**(3,024)**	(62,622)
Loss from discontinued operations, net of tax *(note 5)*	**(330)**	(15,012)
Loss on sale of discontinued operations, net of tax *(note 5)*	**-**	(12,995)
Net loss from discontinued operations	**(330)**	(28,007)
Net loss	**(3,354)**	(90,629)
Unrealized foreign exchange gain (loss) from continuing operations *(note 17)*	**133**	(40)
Unrealized foreign exchange loss from discontinued operations *(notes 5 and 17)*	**-**	(39)
Other comprehensive income (loss)	**133**	(79)
Comprehensive loss	**$ (3,221)**	$ (90,708)
Net loss per share from continuing operations *(note 23)*		
Basic and diluted	**$ (0.02)**	$ (0.48)
Net loss per share *(note 23)*		
Basic and diluted	**$ (0.02)**	$ (0.70)
Comprehensive loss per share *(note 23)*		
Basic and diluted	**$ (0.02)**	$ (0.70)

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the years ended December 31,	
(in thousands of dollars)	**2017**	2016
Equity:		
Share capital		
Balance, January 1	**$ 272,732**	$ 262,977
Shares issued on equity raise, net of tax *(note 16)*	**-**	9,755
Balance, December 31	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (114,602)**	$ (23,595)
Net loss	**(3,354)**	(90,629)
Dividends *(note 12)*	**-**	(378)
Balance, December 31	**$ (117,956)**	$ (114,602)
Other reserves		
Balance, January 1	**$ 5,437**	$ 5,176
Other comprehensive income (loss) *(note 17)*	**133**	(79)
Equity-settled share-based compensation *(note 17)*	**457**	340
Balance, December 31	**$ 6,027**	$ 5,437
Total equity	**$ 160,803**	$ 163,567

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	For the years ended December 31, **2017**	2016
Operating activities:		
Net loss from continuing operations	**$ (3,024)**	$ (62,622)
Non-cash adjustments to reconcile net loss for the period to operating cash flow:		
Onerous lease contract expense *(note 13)*	**-**	4,754
Depreciation and amortization	**15,774**	17,110
Deferred income tax expense (recovery) *(note 15)*	**677**	(14,649)
Share-based compensation *(note 22)*	**457**	340
Provision for impairment of trade accounts receivable *(note 6)*	**450**	682
Finance costs	**1,208**	1,263
Impairment loss *(notes 8 and 9)*	**-**	51,241
(Gain) loss on disposal and write-down of assets *(note 21)*	**(176)**	2,151
Operating cash flow before changes in non-cash operating working capital	**15,366**	270
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(7,714)**	(3,531)
Inventories	**(8,672)**	(118)
Income taxes receivable	**5,845**	(3,256)
Prepayments and deposits	**(339)**	443
Trade and other accounts payable	**3,589**	4,230
Onerous lease contract	**(621)**	-
Share-based compensation	**3,027**	1,930
Net cash provided by (used in) operating activities from continuing operations	**10,481**	(32)
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 8 and 9)*	**(20,219)**	(10,627)
Non-cash investing working capital in trade and other accounts payable	**1,568**	(772)
Proceeds on disposal of equipment	**2,660**	3,569
Net cash used in investing activities from continuing operations	**(15,991)**	(7,830)
Financing activities:		
Increase (decrease) in long-term debt	**6,650**	(14,293)
Issuance of shares *(note 16)*	**-**	9,575
Dividends paid *(note 12)*	**-**	(756)
Net finance costs paid	**(1,124)**	(1,263)
Net cash provided by (used in) financing activities from continuing operations	**5,526**	(6,737)
Foreign exchange gain (loss) on cash held in a foreign currency	**10**	(28)
Net increase (decrease) in cash	**26**	(14,627)
Net (decrease) increase in cash, discontinued operations *(note 5)*	**(123)**	13,728
Cash, beginning of period	**143**	1,042
Cash, end of period	**$ 46**	$ 143
Supplemental cash flow information		
Cash taxes received	**$ (8,006)**	$ (3,668)
Cash interest and standby fees paid	**$ 1,099**	$ 1,065

See accompanying notes to the consolidated financial statements.

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the years ended December 31, 2017 and 2016 were approved by the Board of Directors of Essential ("Board of Directors") on March 7, 2018.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) STATEMENT OF COMPLIANCE

The Financial Statements for the year ended December 31, 2017, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) BASIS OF PRESENTATION

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

c) PRINCIPLES OF CONSOLIDATION

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

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

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

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

d) FOREIGN CURRENCY TRANSLATION

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

i. assets and liabilities for the consolidated statement of financial position are translated at the closing rate at the date of the consolidated statement of financial position;

ii. income and expenses for the consolidated statements of net loss and comprehensive loss are translated at exchange rates at the dates of the transactions; and

iii. any resulting exchange differences are recognized in other comprehensive loss.

e) BUSINESS COMBINATIONS

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

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

f) DISCONTINUED OPERATIONS

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

g) REVENUE RECOGNITION

Revenue is recognized in the period service is rendered. Revenue for downhole tools is recognized when title passes to the customer and the customer assumes risks and rewards of ownership. Revenue is only recognized when it is probable that economic benefits will flow to Essential. Revenue is measured at the fair value of the consideration received, excluding sales taxes.

h) INCOME TAXES

Current income taxes

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

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

Deferred income taxes

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

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

i) SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan

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

Restricted Share Unit Plan

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. The RSU Plan is for certain employees and executives of the Company. RSUs granted prior to December 9, 2015 represent the right to receive a cash payment or its equivalent in fully paid common shares of Essential (“Common Shares”) at the time of vesting, at the option of the Board of Directors. RSUs granted after December 9, 2015 represent the right to receive a cash payment at the time of vesting. As determined by the Board of Directors, RSUs may vest evenly over a specified period, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding 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.

Deferred Share Unit Plan

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. DSUs are for executives and non-employee directors of the Company. 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 share-based compensation expense over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense.

j) FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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:

a. fair value through net loss (including held-for-trading),
b. loans and receivables,
c. held-to-maturity, or
d. available-for-sale.

Financial assets at fair value through net loss

Cash is classified as “held-for-trading”. Financial assets recognized at fair value through net loss include financial assets designated as held-for-trading and financial assets designated upon initial recognition at fair value through net loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Financial assets recognized at fair value through net loss are carried in the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statements of net loss and comprehensive loss.

Loans and receivables

Trade and other accounts receivable are classified as “loans and receivables”. After their initial fair value measurement, they 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:

a. fair value through net loss (including held-for-trading), or
b. other financial liabilities.

Financial liabilities at fair value through net loss

Financial liabilities recognized at fair value through net loss include those designated as held-for-trading and as fair value through net loss upon initial recognition. As at December 31, 2017, Essential had no held-for-trading financial liabilities.

Other financial liabilities

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

k) PROPERTY AND EQUIPMENT

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

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

Depreciation rates are as follows:

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

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of net loss and comprehensive loss in the period the asset is derecognized.

l) LEASES

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

Finance leases

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

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

Operating leases

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

m) INTANGIBLE ASSETS

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

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

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

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

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

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

n) INVENTORIES

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

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

Tryton tools	weighted average cost basis
Coil tubing and supplies	specific cost basis

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

o) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

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

p) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

q) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of identifiable net asset acquired, less any accumulated impairment losses after initial recognition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Any goodwill impairment will be recognized as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

r) PROVISIONS

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

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

3. CHANGES IN ACCOUNTING POLICIES

a) NEW ACCOUNTING STANDARDS

Disclosure Initiative

Effective January 1, 2017, Essential adopted the amendments to International Accounting Standards (“IAS”) 7, *Disclosure Initiative,* which requires disclosures that enable users of financial statements to evaluate the changes in liabilities arising from financing activities, which includes changes arising from cash flows and non-cash changes. Additional disclosures for changes in liabilities arising from financing activities have been included in financial statement note 14. As allowed by IAS 7, comparative information has not been presented. The adoption of this disclosure did not have a material impact.

b) ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Share-Based Payments

Amendments to IFRS 2 *Share-Based Payments* clarify how to classify and measure certain types of share-based compensation. The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. Essential will adopt the IFRS 2 amendments on January 1, 2018 and does not expect it to have a material impact.

Financial Instruments

IFRS 9 *Financial Instruments* addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. Essential will adopt IFRS 9 on January 1, 2018 and does not expect it to have a material impact.

Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers ("IFRS 15") establishes a single revenue recognition and measurement framework to determine the timing and measurement of revenue from contracts with customers. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Essential is required to and will adopt IFRS 15 on January 1, 2018. The Company has reviewed its various revenue streams and completed a detailed analysis of each operating segment. It has determined that the application of IFRS 15 will not have a material impact.

Leases

IFRS 16 *Leases* requires all leases to be recognized in the consolidated statement of financial position as right-of-use assets and related lease liabilities. IFRS 16 changes the definition of a lease and outlines new requirements for recognition and measurement for the asset and liability. The standard is effective for annual periods beginning on or after January 1, 2019. Essential is currently assessing the impact of this new standard.

4. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

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

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

5. DISCONTINUED OPERATIONS

On December 16, 2016 Essential sold its service rig business for total consideration of $28.2 million.

The results of the service rig business are as follows:

	For years ended December 31, 2017	2016
Revenue	**$ -**	$ 15,950
Expenses, impairment loss and loss on sale of discontinued operations	**451**	54,083
Loss before income tax	**(451)**	(38,133)
Income tax recovery	**(121)**	(10,126)
Net loss from discontinued operations, net of tax	**(330)**	(28,007)
Unrealized foreign exchange loss from discontinued operations	**-**	(39)
Comprehensive loss from discontinued operations	**$ (330)**	$ (28,046)
Net loss from discontinued operations per share, basic and diluted	**$ (0.00)**	$ (0.22)

	For years ended December 31, 2017	2016
Net cash flows used in discontinued operations:		
Net cash (used in) provided by operating activities	**$ (123)**	$ 1,775
Net cash provided by investing activities	**-**	11,953
Net cash flows (used in) provided by discontinued operations	**$ (123)**	$ 13,728

6. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31, 2017	2016
Trade receivables, net of provision	**$ 35,855**	$ 29,228
Other receivables	**64**	72
	$ 35,919	$ 29,300

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

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

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

	As at December 31, **2017**	2016
Canadian dollar	**$ 34,373**	$ 28,619
U.S. dollar	**1,482**	609
	$ 35,855	$ 29,228

The aging analysis of trade receivables is as follows:

	As at December 31, **2017**	2016
< 31 days	**$ 13,468**	$ 13,866
31-60 days	**11,630**	10,289
61-90 days	**8,551**	3,888
>90 days	**2,206**	1,185
	$ 35,855	$ 29,228

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

	For years ended December 31, **2017**	2016
Balance, beginning of period	**$ 532**	$ 925
Provision for receivables impairment	**450**	682
Receivables written off against the provision	**(311)**	(1,075)
Balance, end of period	**$ 671**	$ 532

7. INVENTORIES

	As at December 31, **2017**	2016
Tryton tools	**$ 24,192**	$ 18,028
Coil tubing and supplies	**11,491**	9,049
	$ 35,683	$ 27,077

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2017 was $49.8 million (2016 – $25.2 million).

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

8. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, 2017	2016
Coil rigs, pumpers and equipment	**$ 93,951**	$ 90,077
Other oilfield equipment	**28,951**	29,043
Vehicles	**15,742**	15,545
Office and computer equipment	**525**	739
Land	**-**	482
Other	**565**	1,153
	$ 139,734	$ 137,039

Cost As at December 31, 2017	**Balance, beginning of year**	**Additions**	**Transfer**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 151,414**	**$ 11,573**	**$ -**	**$ (2,038)**	**$ -**	**$ 160,949**
Other oilfield equipment	**53,685**	**5,031**	**-**	**(1,160)**	**(94)**	**57,462**
Vehicles	**29,196**	**3,380**	**-**	**(326)**	**(51)**	**32,199**
Office and computer equipment	**3,674**	**5**	**-**	**-**	**83**	**3,762**
Land	**482**	**-**	**-**	**(482)**	**-**	**-**
Other	**4,721**	**25**	**-**	**(932)**	**(3)**	**3,811**
	$ 243,172	**$ 20,014**	**$ -**	**$ (4,938)**	**$ (65)**	**$ 258,183**
Cost As at December 31, 2016						
Coil rigs, pumpers and equipment	$ 147,484	$ 15,776	$ -	$ (11,846)	$ -	$ 151,414
Service rigs and equipment	88,566	255	-	(88,831)	10	-
Other oilfield equipment	49,639	5,311	4,001	(5,245)	(21)	53,685
Vehicles	31,149	5,194	-	(7,004)	(143)	29,196
Office and computer equipment	4,426	47	-	(747)	(52)	3,674
Land	482	-	-	-	-	482
Other	4,787	-	-	(65)	(1)	4,721
	$ 326,533	$ 26,583	$ 4,001	$ (113,738)	$ (207)	$ 243,172

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

Accumulated Depreciation As at December 31, 2017	**Balance, beginning of year**	**Depreciation**	**Disposals & write-down of assets**	**Impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 61,337**	**$ 6,584**	**$ (923)**	**$ -**	**$ -**	**$ 66,998**
Other oilfield equipment	**24,642**	**4,266**	**(389)**	**-**	**(8)**	**28,511**
Vehicles	**13,651**	**3,321**	**(489)**	**-**	**(26)**	**16,457**
Office and computer equipment	**2,935**	**306**	**-**	**-**	**(4)**	**3,237**
Other	**3,568**	**398**	**(718)**	**-**	**(2)**	**3,246**
	$ 106,133	**$ 14,875**	**$ (2,519)**	**$ -**	**$ (40)**	**$ 118,449**
Accumulated Depreciation As at December 31, 2016						
Coil rigs, pumpers and equipment	$ 34,589	$ 6,968	$ (7,849)	$ 27,629	$ -	$ 61,337
Service rigs and equipment	29,635	2,401	(46,730)	14,707	(13)	-
Other oilfield equipment	20,845	4,276	(3,486)	2,852	155	24,642
Vehicles	9,989	3,630	(4,130)	4,362	(200)	13,651
Office and computer equipment	3,006	516	(587)	-	-	2,935
Other	2,990	502	(65)	143	(2)	3,568
	$ 101,054	$ 18,293	$ (62,847)	$ 49,693	$ (60)	$ 106,133

Included in coil rigs, pumpers and equipment, is $6.5 million (2016 – $0.7 million) of assets under construction which will not be depreciated until put into use.

In 2016, an impairment loss of $51.2 million was recorded, of which $33.9 related to coil rigs, pumpers and equipment and $17.3 million related to intangible assets in the Essential Coil Well Service ("ECWS") CGU.

9. INTANGIBLE ASSETS

Carrying Amount	As at December 31, **2017**	2016
Customer relationships	**$ 420**	$ 851
Computer software	**856**	1,074
Non-compete agreement	**111**	207
	$ 1,387	$ 2,132

In 2016, an impairment loss of $51.2 million was recorded, of which $17.3 million related to intangible assets and $33.9 million related to coil rigs, pumpers and equipment.

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

Cost **As at December 31, 2017**	**Balance, beginning of year**	**Additions**	**De-recognition**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 38,564**	**$ -**	**$ (36,152)**	**$ (106)**	**$ 2,306**
Computer software	**5,527**	**205**	**-**	**-**	**5,732**
Non-compete agreement	**443**	**-**	**-**	**(29)**	**$ 414**
	$ 44,534	**$ 205**	**$ (36,152)**	**$ (135)**	**$ 8,452**
Cost As at December 31, 2016					
Customer relationships	$ 38,612	$ -	$ -	$ (48)	$ 38,564
Computer software	5,465	62	-	-	5,527
Non-compete agreement	458	-	-	(15)	$ 443
	$ 44,535	$ 62	$ -	$ (63)	$ 44,534

Accumulated Amortization **As at December 31, 2017**	**Balance, beginning of year**	**Amortization**	**De-recognition & impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 37,713**	**$ 392**	**$ (36,152)**	**$ (67)**	**$ 1,886**
Computer software	**4,453**	**423**	**-**	**-**	**4,876**
Non-compete agreement	**236**	**84**	**-**	**(17)**	**303**
	$ 42,402	**$ 899**	**$ (36,152)**	**$ (84)**	**$ 7,065**
Accumulated Amortization As at December 31, 2016					
Customer relationships	$ 19,084	$ 1,280	$ 17,362	$ (13)	$ 37,713
Computer software	3,952	501	-	-	4,453
Non-compete agreement	152	87	-	(3)	236
	$ 23,188	$ 1,868	$ 17,362	$ (16)	$ 42,402

10. GOODWILL

	For the years ended December 31, **2017**	2016
Beginning of the year	**$ 3,686**	$ 3,799
Effect of movement in exchange rates	**(242)**	(113)
End of the year	**$ 3,444**	$ 3,686

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

In assessing whether goodwill has been impaired, the carrying amount, including goodwill, of each CGU containing goodwill is compared to its recoverable amount. The recoverable amounts of Essential's Tryton tools CGU was based on value in use, determined using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.5% per annum (2016 – 2.5%) and discounted at a rate of 15.2% (2016 – 15.4%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends.

For the year ended December 31, 2017, the carrying amount of the Tryton tools CGU was determined to be lower than its recoverable amount of $74.5 million and no impairment loss was recognized. Management has identified that an 18.5 percentage point increase in the discount rate would result in an impairment loss to be recognized in the Tryton tools CGU.

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

11. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31, **2017**	2016
Trade accounts payable	**$ 11,608**	$ 9,139
Accrued payables	**4,795**	4,632
Accrued payroll	**5,170**	3,983
Other	**931**	1,558
	$ 22,504	$ 19,312

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

	As at December 31, **2017**	2016
Canadian dollar	**$ 10,481**	$ 8,728
U.S. dollar	**1,127**	411
	$ 11,608	$ 9,139

12. DIVIDENDS PAYABLE

During the prior period, Essential declared dividends to shareholders in accordance with the following schedule:

Record date	**Payment date**	**Total dividend**	**Amount per share**
2016			
March 31, 2016	April 15, 2016	$ 378	$ 0.003

In May 2016, the Board of Directors suspended the dividend.

13. ONEROUS LEASE CONTRACT

	As at December 31, **2017**	2016
Beginning of the year	**$ 4,754**	$ -
Liability recognized during the period	**-**	4,754
Liability released in the period	**(621)**	-
Accretion expense	**9**	-
End of period	**$ 4,142**	$ 4,754
Current portion of onerous lease contract liability	**710**	612
Long-term portion of onerous lease liability	**$ 3,432**	$ 4,142

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

In 2016, Essential recognized an onerous lease contract liability related to its Calgary office space that was no longer used following staff reductions and the sale of the service rig business. The lease will expire in 2023. The Company recognized the present value of the minimum future contractual payments as an onerous lease contract.

14. LONG-TERM DEBT

	As at December 31, 2017	2016
Term loan	**$ 18,100**	$ 11,450
Deferred financing costs	**(125)**	(200)
Non-current portion of long-term debt	**$ 17,975**	$ 11,250

Essential's credit facility with its banking syndicate was renewed on June 15, 2016 and is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available at the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2019, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date. At December 31, 2017, the maximum of $40 million under the Credit Facility was available to Essential.

As at December 31, 2017, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

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

	Long term debt
Balance as at December 31, 2016	$ 11,250
Cash changes:	
Increase in long-term debt	**6,650**
Non cash changes:	
Amortization of deferred financing costs	**75**
Balance as at December 31, 2017	**$ 17,975**

15. INCOME TAXES

	For the years ended December 31, 2017	2016
Current income tax recovery	**$ (960)**	$ (6,780)
Deferred income tax (recovery) expense	**677**	(14,649)
Total income tax recovery	**$ (283)**	$ (21,429)

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

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

	For the years ended December 31, 2017	2016
Loss before income taxes	**$ (3,307)**	$ (84,051)
Statutory tax rate	**27.0%**	26.9%
Expected income tax recovery	**(893)**	(22,610)
Increase (decrease) resulting from:		
Unrecognized deferred tax assets	**151**	693
Changes in tax rates	**71**	407
Items not deductible for tax	**173**	154
Share-based compensation	**123**	92
Impact of foreign tax rates	**(41)**	(175)
Impact of U.S. federal tax rate reduction	**1,763**	-
Valuation for tax assets not recognized in previous years	**(1,763)**	-
Other	**133**	10
Total income tax recovery	**$ (283)**	$ (21,429)

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

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

	As at December 31, 2017	2016
Property and equipment	**$ (14,480)**	$ (12,097)
Intangible assets	**2,483**	2,601
Onerous lease contract expense	**1,118**	1,273
Net operating losses (income)	**1,871**	657
Share issuance costs	**136**	180
Other	**743**	(133)
Deferred tax liabilities	**$ (8,129)**	$ (7,519)

Not included in deferred tax assets at December 31, 2017 are $8.4 million (2016 - $8.3 million) of gross non-capital losses in the United States, which will expire in 2033 to 2037.

16. SHARE CAPITAL

Authorized

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

(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, 2016	125,837	$	262,977
Shares issued on equity raise, net of tax	16,020		9,755
As at December 31, 2016 and 2017	**141,857**	**$**	**272,732**

On October 12, 2016, Essential closed an equity offering whereby 16,019,883 Common Shares were issued at a price of $0.65 per Common Share. Net proceeds, net of tax, were $9.8 million (gross proceeds of $10.4 million less share issuance costs of $0.8 million and deferred tax benefit of $0.2 million on the share issuance costs) were used to partially repay outstanding indebtedness.

17. OTHER RESERVES

		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)		Total
As at January 1, 2016	$	4,751	$	425	$	5,176
Share-based compensation		340		-		340
Unrealized foreign exchange loss from continuing operations		-		(40)		(40)
Unrealized foreign exchange loss from discontinued operations *(note 5)*		-		(39)		(39)
As at December 31, 2016	$	5,091	$	346	$	5,437
Share-based compensation		**457**		**-**		**457**
Unrealized foreign exchange gain from continuing operations		**-**		**133**		**133**
As at December 31, 2017	**$**	**5,548**	**$**	**479**	**$**	**6,027**

18. OPERATING EXPENSES

	For the years ended December 31,			
		2017		2016
Materials and related costs	**$**	**55,828**	$	31,231
Employee costs *(note 20)*		**50,808**		31,890
Repairs and maintenance		**9,005**		5,663
Fuel		**7,472**		4,244
Travel		**7,209**		4,445
Occupancy costs		**5,359**		5,086
Subcontracting		**5,266**		4,615
Other		**3,037**		2,566
	$	**143,984**	$	89,740

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

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, **2017**	2016
Employee costs *(note 20)*	**$ 7,049**	$ 6,156
Professional fees	**2,836**	2,114
Occupancy costs	**1,055**	1,708
Other	**2,375**	2,224
	$ 13,315	$ 12,202

20. EMPLOYEE COSTS

	For the years ended December 31, **2017**	2016
Wages and salaries	**$ 54,603**	$ 35,356
Share-based compensation *(note 22)*	**4,038**	2,114
Other benefits	**3,254**	2,690
	$ 61,895	$ 40,160
Employee costs are included in:		
Operating expenses *(note 18)*	**$ 50,808**	$ 31,890
General and administrative expenses *(note 19)*	**7,049**	6,156
Share-based compensation *(note 22)*	**4,038**	2,114
	$ 61,895	$ 40,160

21. OTHER EXPENSES

	For the years ended December 31, **2017**	2016
(Gain) loss on disposal and write-down of assets	**$ (176)**	$ 2,151
Realized foreign exchange loss (gain)	**68**	(4)
Unrealized foreign exchange loss	**834**	346
Other (income) loss	**(18)**	17
	$ 708	$ 2,510

22. SHARE-BASED COMPENSATION

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

The maximum number of share options issuable under the Share Option Plan and RSUs issued prior to December 9, 2015 under the RSU Plan, together may not exceed 9% of the Company's outstanding Common Shares. RSUs granted after December 9, 2015 represent the right to receive a cash payment only, at the time of vesting, and as such, are not included in the maximum number of share options or RSUs allowed for issuance. As at December 31, 2017, the maximum number of share options and RSUs allowed for issuance was 12,767,114 (2016 – 12,767,114).

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

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

	For the years ended December 31, 2017	2016
Equity-settled share options	**$ 457**	$ 340
Equity-settled restricted share units	**310**	220
Cash-settled restricted share units	**1,122**	882
Deferred share units	**2,312**	1,316
Total share-based compensation expense	**$ 4,201**	$ 2,758

a) Share Option Plan

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

	For the year ended December 31, 2017		For the year ended December 31, 2016	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**6,950**	**$ 1.42**	6,393	$ 1.91
Issued	**1,315**	**0.83**	2,841	0.57
Expired	**(1,577)**	**2.10**	(1,294)	2.12
Forfeited	**(290)**	**1.96**	(990)	1.24
Outstanding, end of period	**6,398**	**$ 1.11**	6,950	$ 1.42
Exercisable, end of period	**2,932**	**$ 1.95**	3,297	$ 2.05

The fair value of the share options issued during the period was between \$0.32 – \$0.35 per option (2016 – \$0.15 – \$0.24), estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2017	2016
Risk-free interest rate	**0.9 - 1.0%**	0.5 – 0.6%
Expected volatility	**48.8 – 50.1%**	43.9 – 48.9%
Expected term	**3.9 – 4.7 years**	3.6 – 4.5 years
Expected forfeiture rate	**8.2 - 16.1%**	6.6 – 15.8%
Dividend yield	**nil**	nil – 2.3%

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

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

The following table summarizes information with respect to the share options outstanding as at December 31, 2017 and 2016:

Exercise Prices	**Options Outstanding (000's)**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price (per option)**	**Number of Options Exercisable (000's)**
As at December 31, 2017				
\$0.55 – \$1.00	**3,726**	**3.49**	**\$ 0.66**	**804**
\$1.01 – \$2.00	**1,630**	**2.35**	**\$ 1.19**	**1,086**
\$2.01 – \$2.90	**1,042**	**0.56**	**\$ 2.56**	**1,042**
	6,398	**2.73**	**\$ 1.11**	**2,932**
As at December 31, 2016				
\$0.55 – \$1.00	2,411	4.20	\$ 0.57	-
\$1.01 – \$2.00	1,762	3.33	\$ 1.20	675
\$2.01 – \$2.90	2,777	0.74	\$ 2.30	2,622
	6,950	2.60	\$ 1.42	3,297

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. RSUs granted to a participant prior to December 9, 2015 represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. RSUs granted to participants after December 9, 2015 represent the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments; contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, when dividends are paid, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at December 31, 2017 is \$2.1 million (December 31, 2016 – \$1.4 million) of which \$1.5 million is due within one year (December 31, 2016 – \$0.7 million).

The following table summarizes information with respect to RSUs outstanding for the years ended December 31, 2017 and 2016:

Number of RSUs (000's)	For years ended December 31, **2017**	2016
Outstanding, beginning of period	**3,826**	2,875
Issued (including dividend equivalents)	**2,700**	2,771
Vested	**(937)**	(835)
Forfeited	**(756)**	(985)
Outstanding, end of period	**4,833**	3,826

On January 10, 2018, Essential issued 2,404,000 RSUs.

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Under the terms of the plan, when dividends are paid, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at December 31, 2017 is $3.8 million (December 31, 2016 – $1.5 million) of which nil is due within one year (December 31, 2016 – nil).

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

The following table summarizes information with respect to DSUs outstanding:

	For the years ended December 31,	
Number of DSUs (000's)	**2017**	2016
Outstanding, beginning of period	**3,270**	398
Issued (including dividend equivalent)	**2,239**	3,287
Forfeited	**-**	(415)
Outstanding, end of period	**5,509**	3,270

On January 10, 2018, Essential issued 320,000 DSUs.

23. EARNINGS PER SHARE

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

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

	For the years ended December 31,	
(000's)	**2017**	2016
Basic and diluted	**141,857**	129,382

24. COMMITMENTS AND CONTINGENCIES

Operating leases

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

	Amount
2018	$ 5,823
2019	5,788
2020	5,184
2021	4,356
2022	4,265
Thereafter	3,119
	$ 28,535

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

Contingencies

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

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

Since filing its Statement of Defence and Counterclaim on November 22, 2013, Essential maintained that it did not infringe the patent and the Counterclaim pleaded further that the asserted patent claims were invalid because the methodology and equipment claimed in the patent were in use in the oil and natural gas industry prior to the patent's effective filing date of November 19, 2001 or represented nothing more than obvious variations over what was already known in the industry at the time. This position was supported by the existence of similar products, articles and other patents prior to the effective filing date of the patent.

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

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

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

25. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

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

Key management personnel compensation is comprised of the following:

	For the years ended December 31,	
	2017	2016
Salaries and other benefits	**$ 3,323**	$ 2,497
Share-based compensation (equity and cash settled)	**2,786**	2,848
	$ 6,109	$ 5,345

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

26. CAPITAL DISCLOSURE

The Company's capital structure consists of the following:

	As at December 31, 2017	2016
Long-term debt	**$ 17,975**	$ 11,250
Equity	**160,803**	163,567
Total capitalization	**$ 178,778**	$ 174,817

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

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Designation and valuation of financial instruments

The Company's financial instruments recognized on the consolidated statement of financial position consist of cash, trade and other accounts receivable, income taxes receivable, trade and other accounts payable, dividends 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	Held-for-trading
Trade and other accounts receivable	Loans and receivables
Income tax receivable	Loans and receivables
Trade and other accounts payable	Other financial liabilities
Long-term debt	Other financial liabilities

Fair values

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

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

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and natural gas industry and are subject to normal industry credit risks. These balances represent the Company's total credit exposure. During the year ended December 31, 2017, the Company earned revenues from more than 480 customers (2016 – more than 445 customers) with five of these customers representing 45% of revenue (2016 – 46% of revenue). As at December 31, 2017, approximately 40% of the trade accounts receivable balance was due from five companies (2016 – 41%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.2 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2016 – $0.2 million).

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Essential manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. 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.

28. SEASONALITY OF OPERATIONS

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

29. SEGMENTED INFORMATION

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

Essential has chosen to identify its reportable segments based on services offered. The basis of accounting for transactions between reportable segments is done at fair market value.

a) Essential Coil Well Service

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

b) Tryton

The Tryton segment provides downhole tools and rental services in Canada and the United States.

c) Corporate and Eliminations

The Corporate and Eliminations segment is comprised of: i) corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments; and ii) eliminations, which includes transactions between segments which are eliminated upon consolidation. Income (loss) before income taxes for the year ended December 31, 2017 for the Corporate and Eliminations segment substantially represents corporate office and certain operational costs of $14.3 million (2016 - $12.5 million), and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

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

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

As at and for the year ended December 31, 2016	ECWS	Tryton	Corporate & Eliminations	Consolidated
Revenue	$ 53,638	$ 44,383	$ (494)	$ 97,527
(Loss) income before income taxes from continuing operations	$ (62,832)	$ 1,184	$ (22,403)	$ (84,051)
Depreciation and amortization	$ 12,150	$ 3,834	$ 1,126	$ 17,110
Impairment loss	$ 51,241	$ -	$ -	$ 51,241
Total assets	$ 145,980	$ 61,157	$ 2,133	$ 209,270
Total liabilities	$ 16,623	$ 9,292	$ 19,788	$ 45,703
Property, equipment and intangible asset expenditures	$ 7,788	$ 2,769	$ 70	$ 10,627

30. COMPARATIVE FIGURES

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