ESSENTIAL
ENERGY SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the year ended December 31, 2017.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the years ended December 31, 2017 and 2016, the notes contained therein to which 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 7, 2018 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 7, 2018.

SELECTED INFORMATION

(in thousands of dollars, except percentages, per share amounts and hours)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016	2015
Revenue	**$ 43,262**	$ 33,043	**$ 175,908**	$ 97,527	$ 147,664
Gross margin	**4,522**	4,148	**31,924**	7,787	27,600
Gross margin %	**10%**	13%	**18%**	8%	19%
EBITDAS[1] from continuing operations[(i)]	**1,153**	(4,161)	**18,609**	(9,169)	14,696
Net loss from continuing operations[(i)(ii)]	**(3,843)**	(9,832)	**(3,024)**	(62,622)	(19,034)
Per share – basic and diluted	**(0.03)**	(0.07)	**(0.02)**	(0.48)	(0.15)
Net loss[(i)(ii)]	**(3,843)**	(25,411)	**(3,354)**	(90,629)	(22,485)
Per share – basic and diluted	**(0.03)**	(0.18)	**(0.02)**	(0.70)	(0.18)
Operating hours					
Coil tubing rigs	**11,215**	11,119	**48,425**	32,306	51,739
Pumpers	**14,581**	12,341	**60,857**	37,022	54,763

(in thousands of dollars, except fleet data)	As at December 31, **2017**	2016	2015
Total assets[(iii)]	**$ 219,448**	$ 209,270	$ 317,224
Long-term debt	**17,975**	11,250	25,543
Equipment fleet[(iv)]			
Coil tubing rigs	**30**	31	31
Pumpers	**26**	32	30

(i) The fourth quarter and year ended December 31, 2016 includes onerous lease contract expense of $4.8 million.
(ii) The year ended December 31, 2016 includes an impairment loss of $51.2 million, of which $5.4 million was recognized in the fourth quarter 2016. The year ended December 31, 2015 includes an impairment loss of $11.1 million.
(iii) Total assets as at December 31, 2015 include the service rig business which was sold in December 2016.
(iv) Fleet data represents the number of units at the end of the period.

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

INDUSTRY OVERVIEW

Canadian oilfield service activity improved in 2017 from the lows reached in 2016 as higher oil prices supported exploration and production ("E&P") companies' increased spending. In 2017, oil averaged approximately U.S. $52 per barrel (West Texas Intermediate ("WTI")) compared to approximately U.S. $43 per barrel (WTI) in 2016. Canadian natural gas prices, which reached 10 year lows in the first half of 2016, continued to be very volatile in 2017 due to pipeline outages and surplus supply. Well completions, a key indicator of industry activity in the western Canadian Sedimentary Basin ("WCSB") increased 87%[a] for the year, compared to the prior year.

HIGHLIGHTS

Fourth Quarter 2017

Revenue was $43.3 million, a 31% increase from the fourth quarter 2016, as both Essential Coil Well Service ("ECWS") and Tryton experienced stronger customer demand and ECWS benefitted from price increases implemented in the first quarter 2017. EBITDAS[1] increased $5.3 million compared to the fourth quarter 2016 due to higher revenue, partially offset by additional costs incurred in ECWS. Fourth quarter 2016 included an onerous lease contract expense and severance costs, which were not factors in the same period of 2017.

Highlights:

- ECWS revenue increased $4.4 million compared to the fourth quarter 2016. Higher revenue in the quarter was more than offset by costs associated with re-activating equipment, recruiting and training crews and unanticipated equipment repairs. Costs were incurred to recruit and train a larger workforce and ready equipment in anticipation of higher first quarter 2018 demand.
- Tryton revenue increased $5.6 million compared to the fourth quarter 2016 and generated a 20% gross margin. All service lines improved, with especially strong demand for conventional tools used to maintain producing wells and for abandonment work.
- On November 3, 2017, the Federal Court of Canada (the "Court") rendered a decision in Essential's favour with regard to a patent infringement litigation commenced by Packers Plus Energy Services Inc. ("Packers Plus" or "Packers"), ruling that the patent being asserted by them was not valid and that Essential did not infringe the patent (the "Decision"). Management was very pleased with the Decision which exonerates Essential of any wrongdoing regarding this litigation.

Year 2017

Revenue was $175.9 million, an 80% increase from 2016, due to stronger customer demand for both ECWS and Tryton and price increases for ECWS realized in the first quarter 2017. EBITDAS[1] was $18.6 million compared to negative $9.2 million in 2016, which included a one-time onerous lease contract expense and severance costs.

Highlights:

- ECWS operating hours increased 58% from the prior year. Customer demand, particularly in the Montney region of the WCSB, was focused on the completion of long-reach horizontal wells. ECWS revenue per hour increased due to higher prices realized in the first quarter 2017, which helped offset rising operating costs, including labour and maintenance costs, throughout the year.
- Tryton revenue increased in all service lines compared to the prior year, with particularly strong demand for the Multi-Stage Fracturing System® ("MSFS®") as key customers expanded their horizontal well completion programs. Revenue per job was higher for MSFS® tools as customers increased the number of stages per horizontal well.

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

- Essential's capital expenditures were $20.2 million, comprised of $11.4 million of growth capital and $8.8 million of maintenance capital. A substantial portion of the growth capital was targeted at equipment to service long-reach horizontal wells, including fabrication of two quintuplex fluid pumpers expected to be delivered in the second quarter 2018, pumping support equipment and the cost to recertify and upgrade the Generation III coil tubing rigs and pumping equipment acquired in 2016.

Essential was financially well positioned at December 31, 2017 with debt outstanding of $18.0 million, an increase of $6.7 million from December 31, 2016. The increase was due to capital expenditures and increased working capital, primarily accounts receivable and inventory, as activity improved. Funded debt(1) to bank EBITDA(1) was 0.96x at the end of 2017. On March 7, 2018, Essential had $26.3 million of debt outstanding.

CORPORATE INFORMATION

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares trade on the Toronto Stock Exchange ("TSX") under the symbol ESN.

Additional information regarding Essential, including the Financial Statements and the Annual Information Form for the year ended December 31, 2017, as well as the 2016 Annual MD&A, the Financial Statements and the Annual Information Form for the year ended December 31, 2016, can be found under Essential's profile on SEDAR at www.sedar.com.

OVERVIEW OF ESSENTIAL

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

Essential Coil Well Service

Coil Tubing Rigs – Essential operates the largest coil tubing fleet in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity of up to 7,900 meters using 2 ⅜ inch coil. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.

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

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

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

Tryton

Essential's Tryton segment provides production and completion tools and rentals for horizontal and vertical wells. Operations for this segment are well-placed geographically across the WCSB and in the U.S.

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

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously.
- Conventional Tools – Includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and abandonment operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers, specialty equipment for steam-assisted gravity drainage wells, and various other tools and handling equipment.

Patent Litigation

On October 23, 2013, Packers Plus filed a Statement of Claim in the Court against Essential alleging that certain products and methods associated with the Tryton MSFS® 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.

The trial was completed in March 2017. There were two parts to the trial:

- Validity – The validity portion of the trial focused on whether or not the asserted patent claims were valid. Given the fact that Packers Plus asserted infringement of the same patent against Essential and three other defendants, Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc., and all of the defendants filed counterclaims seeking a declaration that the asserted patent claims were invalid, the Court directed that the counterclaims be consolidated into a single trial (the "Joint Validity Trial"). During the Joint Validity Trial the four defendants asserted their common position that the asserted patent claims were invalid.
- Infringement – The infringement portion of the trial focused on whether or not Essential infringed the Packers Plus patent. The infringement portions of the Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc. trials were not consolidated with the infringement portion of the Essential case since each infringement action, by its nature, deals with tools, designs and business activities specific to each company.

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 Court awarded costs in favor of Essential. Over the past four years, Essential incurred significant defence costs with respect to this litigation. Essential initiated the process with the Court to recover a portion of its legal costs.

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

1. On the matter of invalidity based on prior disclosure by Packers Plus more than one year before it filed its patent application, the trial judge held: "The evidence simply does not support Packers' position on prior disclosure."

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

On January 5, 2018, Packers Plus filed an appeal of the trial judge's rulings on validity and infringement (the "Appeal"). The filing of an appeal from a trial judgment is very common and does not diminish the significance of the Decision.

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

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

Based on the findings made by the trial judge and the strength of the written judgment in support of the Decision, Essential believes the Appeal is without merit. Subject to timing set by the Court to hear the Appeal and the release of its decision, the Appeal process could take up to two years.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Revenue	**$ 43,262**	$ 33,043	**$ 175,908**	$ 97,527
Operating expenses	**38,740**	28,895	**143,984**	89,740
Gross margin	**4,522**	4,148	**31,924**	7,787
General and administrative expenses	**3,369**	3,555	**13,315**	12,202
Onerous lease contract expense	**-**	4,754	**-**	4,754
EBITDAS[1] from continuing operations	**1,153**	(4,161)	**18,609**	(9,169)
Depreciation and amortization	**3,957**	3,747	**15,774**	17,110
Share-based compensation	**1,432**	1,238	**4,201**	2,758
Impairment loss	**-**	5,403	**-**	51,241
Other (income) expense	**(34)**	406	**708**	2,510
Finance costs	**278**	323	**1,233**	1,263
Loss before income tax from continuing operations	**(4,480)**	(15,278)	**(3,307)**	(84,051)
Current income tax recovery	**(752)**	(801)	**(960)**	(6,780)
Deferred income tax expense (recovery)	**115**	(4,645)	**677**	(14,649)
Income tax recovery	**(637)**	(5,446)	**(283)**	(21,429)
Net loss from continuing operations	**$ (3,843)**	$ (9,832)	**$ (3,024)**	$ (62,622)
Net loss from discontinued operations	**-**	(15,579)	**(330)**	(28,007)
Net loss	**$ (3,843)**	$ (25,411)	**$ (3,354)**	$ (90,629)
Net loss from continuing operations per share Basic and diluted	**$ (0.03)**	$ (0.07)	**$ (0.02)**	$ (0.48)
Net loss per share Basic and diluted	**$ (0.03)**	$ (0.18)	**$ (0.02)**	$ (0.70)

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Revenue	**$ 22,002**	$ 17,564	**$ 93,896**	$ 53,638
Operating expenses	**21,072**	16,107	**79,314**	49,976
Gross margin	**$ 930**	$ 1,457	**$ 14,582**	$ 3,662
Gross margin %	**4%**	8%	**16%**	7%
Operating hours				
Coil tubing rigs	**11,215**	11,119	**48,425**	32,306
Pumpers	**14,581**	12,341	**60,857**	37,022
Equipment fleet(i)				
Coil tubing rigs(iii)	**30**	31	**30**	31
Fluid pumpers(ii)	**18**	21	**18**	21
Nitrogen pumpers(iii)	**8**	11	**8**	11

(i) Fleet data represents the number of units at the end of the period.
(ii) Essential retired three single fluid pumpers in 2017, one in the second quarter and two in the third quarter.
(iii) During the fourth quarter 2017, Essential retired one Generation I coil tubing rig and three nitrogen pumpers.

ECWS revenue for the fourth quarter 2017 was $22.0 million, a 25% increase compared to the fourth quarter 2016, but considerably less than management's expectations. Fourth quarter 2017 activity slowed as the quarter progressed as customers completed their 2017 capital programs. Long-reach horizontal well completions in the Montney region of the WCSB provided a market for the Generation III coil tubing rig and pumper packages. ECWS also saw increased demand for nitrogen pumpers. Compared to the same prior year period, lower revenue from the Generation II coil tubing rigs, single and twin fluid pumpers was offset by higher revenue from the Generation III coil tubing rigs and quintuplex fluid pumpers, as customer well specifications were at times beyond the capabilities of Generation II coil tubing rigs and twin fluid pumpers.

Pricing remained stable following price increases in the first quarter 2017, as there was sufficient equipment available to meet industry demand. Compared to the same prior year period, revenue per hour for ECWS was higher in the fourth quarter 2017.

Fourth quarter 2017 gross margin as a percentage of revenue was 4%, compared to 8% for the same prior year period. Higher revenue in the quarter was more than offset by costs associated with re-activating equipment, recruiting and training crews and unanticipated equipment repairs. At the end of the third quarter 2017, decisions were made to continue to recruit and train crews and to re-activate more equipment in preparation for an anticipated busy first quarter 2018. Training initiatives included using an extra employee on crews. Although highly effective for training, this significantly increased labour, travel and other related expenses. The activity slow-down in the fourth quarter, combined with higher incremental costs from larger crew sizes and maintaining non-chargeable personnel, disrupted financial performance and eroded margin. In addition, unanticipated equipment repairs due to component failures resulted in down-time, inefficient crew management and non-chargeable travel time, also eroding margin.

ECWS revenue in 2017 was $93.9 million, a 75% increase compared to the prior year due to higher industry activity and price increases realized in the first quarter 2017. ECWS activity increased 58% from the prior year, with the Generation III coil tubing rigs and pumpers experiencing significant year-over-year improvement in operating hours. Customer demand was focused on the completion of long-reach horizontal wells. Gross margin as a percentage of revenue in 2017 was 16%, a significant improvement over the prior year due to increased revenue and fixed costs representing a smaller portion of revenue.

SEGMENT RESULTS - *TRYTON*

(in thousands of dollars, except percentages)		Three months ended December 31, **2017**		2016		Years ended December 31, **2017**		2016
Revenue	**$**	**21,260**	$	15,655	**$**	**82,012**	$	44,383
Operating expenses		**17,074**		12,731		**62,555**		37,905
Gross margin	**$**	**4,186**	$	2,924	**$**	**19,457**	$	6,478
Gross margin %		**20%**		19%		**24%**		15%
Tryton revenue – % of revenue								
Tryton MSFS®		**44%**		53%		**49%**		43%
Conventional Tools & Rentals		**56%**		47%		**51%**		57%

Tryton fourth quarter 2017 revenue was $21.3 million, a 36% increase from the fourth quarter 2016. Both Canadian and U.S. operations benefitted from higher activity and a broader customer base. Canadian downhole tools revenue increased due to higher demand for conventional tools used in maintenance of producing wells and abandonment work, as well as higher MSFS® activity. Tryton U.S. revenue continued its quarter-over-quarter improvement, particularly in Texas, with stronger customer demand as activity continued to improve.

Tryton gross margin as a percentage of revenue was 20% for the three months ended December 31, 2017, similar to 19% realized in the same prior year period.

2017 Tryton revenue increased 85% compared to the prior year as a result of higher activity, particularly MSFS® tool revenue which improved 113%. This improvement was due to increased activity and revenue per job, as customers completing long-reach horizontal wells increased the number of stages per well. 2017 gross margin was 24% of revenue, a significant year-over-year improvement due to Tryton's variable cost structure and the absorption of fixed costs by higher revenue.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)		Three months ended December 31, **2017**		2016		Years ended December 31, **2017**		2016
General and administrative expenses	**$**	**3,369**	$	3,555	**$**	**13,315**	$	12,202

General and administrative expenses ("G&A") are comprised of wages, professional fees, office rent and other corporate and operational administrative costs. G&A for the year ended December 31, 2017 increased compared to 2016 due to reinstatement of employee compensation programs that were suspended during the industry downturn and higher legal fees related to the Packers Plus lawsuit.

ONEROUS LEASE CONTRACT

(in thousands of dollars)		Three months ended December 31, **2017**		2016		Years ended December 31, **2017**		2016
Onerous lease contract expense	**$**	**-**	$	4,754	**$**	**-**	$	4,754

When the contractual obligations of a lease exceed the benefits expected to be received under it, International Financial Reporting Standards ("IFRS") require the present value of the minimum future contractual lease payments be recorded as an expense in the reporting period. In 2016, Essential recognized an onerous lease expense related to Calgary office space that was no longer used following staff reductions and the sale of the service rig business.

Depreciation and Amortization

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Depreciation and amortization expense	**$ 3,957**	$ 3,747	**$ 15,774**	$ 17,110

Depreciation and amortization for the year ended December 31, 2017 was lower than the same period in 2016 due to a one-time depreciation charge related to a change in estimate that reduced certain assets' expected lives and an impairment loss recognized on ECWS equipment and intangible assets, both in the first quarter 2016.

Share-Based Compensation

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Share-based compensation expense	**$ 1,432**	$ 1,238	**$ 4,201**	$ 2,758

For the year ended December 31, 2017, share-based compensation was higher than the same prior year period due to the issuance of Deferred Share Units and Restricted Share Units during the first quarter 2017.

Other (Income) Expense

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Loss (gain) on disposal and write-down of assets	**$ 8**	$ 663	**$ (176)**	$ 2,151
Realized foreign exchange loss (gain)	**44**	10	**68**	(4)
Unrealized foreign exchange (gain) loss	**(82)**	(287)	**834**	346
Other (income) expense	**(4)**	20	**(18)**	17
Other (income) expense	**$ (34)**	$ 406	**$ 708**	$ 2,510

The strengthening of the Canadian dollar in relation to the U.S. dollar during the year ended December 31, 2017 resulted in foreign exchange losses. The loss on disposal and write-down of assets in the prior year included disposal of equipment that was retired and no longer used in operations.

Impairment Loss

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Impairment loss	**$ -**	$ 5,403	**$ -**	$ 51,241

IFRS requires the Company to assess the carrying value of assets in the cash generating units when there are impairment indicators. During the fourth quarter 2016, Essential recognized an impairment related to the partially completed Generation IV coil tubing rigs of $5.4 million, reducing the carrying values and previously paid deposits to their estimated net realizable values. During the first quarter 2016, the Company recognized an impairment charge of $45.8 million: $28.5 million on ECWS equipment and $17.3 million on intangible assets.

FINANCE COSTS

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Finance costs	**$ 278**	$ 323	**$ 1,233**	$ 1,263

For the year ended December 31, 2017, finance costs were consistent with the same period in 2016. The higher interest rate on the Company's revolving credit facility in 2017 was offset by lower average long-term debt outstanding compared to the same prior year period.

INCOME TAXES

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Current income tax recovery	**$ (752)**	$ (801)	**$ (960)**	$ (6,780)
Deferred income tax expense (recovery)	**115**	(4,645)	**677**	(14,649)
Income tax recovery	**$ (637)**	$ (5,446)	**$ (283)**	$ (21,429)

For the three and twelve months ended December 31, 2017, the current income tax recovery related to 2017 losses that will be applied to recover income taxes paid in previous years. The income tax recovery for the three months and year ended December 31, 2016 related to the tax recoveries on operating losses and the tax effect of the impairment loss recorded in the first and fourth quarters of the prior year.

DISCONTINUED OPERATIONS

In December 2016, Essential sold its service rig business for total consideration of $28.2 million. For the year ended December 31, 2017, expenses from discontinued operations primarily related to incremental reclamation costs on leased properties occupied by Essential until the end of the first quarter 2017.

Net loss from discontinued operations was as follows:

(in thousands of dollars)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Revenue	**$ -**	$ 4,135	**$ -**	$ 15,950
Expenses, impairment loss and loss on sale of discontinued operations	**-**	23,394	**451**	54,083
Loss before income tax	**-**	(19,259)	**(451)**	(38,133)
Income tax recovery	**-**	(3,680)	**(121)**	(10,126)
Net loss from discontinued operations	**$ -**	$ (15,579)	**$ (330)**	$ (28,007)

FINANCIAL RESOURCES AND LIQUIDITY

OPERATING CASH FLOW BEFORE CHANGES IN NON-CASH OPERATING WORKING CAPITAL

(in thousands of dollars, except per share amounts)	Three months ended December 31, **2017**	2016	Years ended December 31, **2017**	2016
Net cash provided by (used in) operating activities	**$ 7,581**	$ 572	**$ 10,481**	$ (32)
Less changes in non-cash working capital[1]	**6,829**	(26)	**(4,885)**	(302)
Operating cash flow before changes in non-cash operating working capital[1]	**$ 752**	$ 598	**$ 15,366**	$ 270
Per share – basic and diluted	**$ 0.01**	$ -	**$ 0.11**	$ -

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at December 31, 2017**	As at December 31, 2016
Current assets	**$ 74,883**	$ 66,413
Current liabilities	**(24,712)**	(20,613)
Working capital[1]	**$ 50,171**	$ 45,800
Working capital ratio	**3.0:1**	3.2:1

Working capital is comprised primarily of accounts receivable and inventory. Working capital typically grows through the first, third and fourth quarters of the year when industry activity is stronger. Essential uses its revolving credit facility (“Credit Facility”) to meet the variable nature of its working capital needs for the cost of carrying inventory and customer accounts receivable. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt initially tends to increase and in periods of lower activity, debt initially declines.

CREDIT FACILITY

Essential’s Credit Facility 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 was renewed on June 15, 2016 and matures on May 31, 2019. It is renewable at the lender’s consent and is secured by a general security agreement over the Company’s assets. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At December 31, 2017, the maximum of $40 million under the Credit Facility was available to Essential.

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

- financial covenants:

Quarter Ending	Funded Debt[1] to Capitalization	Funded Debt[1] to Bank EBITDA[1](i)	Fixed Charge Coverage Ratio[1](i)
December 31, 2017	≤ 50%	≤ 4.25x	≥ 1.25x
March 31, 2018	≤ 50%	≤ 3.50x	≥ 1.25x
June 30, 2018	≤ 50%	≤ 3.50x	≥ 1.25x
September 30, 2018	≤ 50%	≤ 3.25x	≥ 1.25x
December 31, 2018	≤ 50%	≤ 3.00x	≥ 1.25x
March 31, 2019	≤ 50%	≤ 3.00x	≥ 1.25x

(i) Calculated on a trailing 12 month basis.

- an equity cure provision where proceeds from equity offerings may be applied to the calculation of Bank EBITDA[1] in the funded debt[1] to Bank EBITDA[1] covenant and the fixed charge coverage[1] covenant;
- a monthly borrowing base is required when funded debt[1] to Bank EBITDA[1] (excluding the equity cure, if applicable) is greater than 2.00x; and
- restrictions on dividends and acquisitions when funded debt[1] to Bank EBITDA[1] (excluding the equity cure, if applicable) is greater than 3.00x.

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. As at December 31, 2017, all financial debt covenants and banking requirements under the Credit Facility were up-to-date.

	Covenant Threshold	**As at December 31, 2017**
Funded debt[1] to capitalization	≤ 50%	**10%**
Funded debt[1] to Bank EBITDA[1]	≤ 4.25x	**0.96x**
Fixed charge coverage ratio[1]	≥ 1.25x	**16.0x**

As at December 31, 2017, Essential had a consolidated funded debt[1] balance of $18.1 million, consisting of long-term debt plus deferred financing fees, net of cash. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On March 7, 2018, Essential had $26.3 million of debt outstanding.

EQUIPMENT EXPENDITURES

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Essential Coil Well Service	**$ 4,448**	$ 353	**$ 15,880**	$ 7,788
Tryton	**1,808**	1,393	**3,991**	2,769
Corporate	**34**	37	**348**	70
Total equipment expenditures	**6,290**	1,783	**20,219**	10,627
Less proceeds on disposal of property and equipment	**(891)**	(1,550)	**(2,660)**	(3,569)
Net equipment expenditures[1]	**$ 5,399**	$ 233	**$ 17,559**	$ 7,058

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

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Growth capital[1]	**$ 4,521**	$ 1,386	**$ 11,382**	$ 7,761
Maintenance capital[1]	**1,769**	397	**8,837**	2,866
Total equipment expenditures	**$ 6,290**	$ 1,783	**$ 20,219**	$ 10,627

2017 growth capital spending related to the fabrication of two new quintuplex fluid pumpers expected to be delivered in the second quarter 2018, pumping support equipment, costs to recertify and upgrade the coil tubing rigs and pumping equipment acquired in 2016 and rental drill pipe. The fluid pumpers support Essential's deep coil tubing fleet working on long-reach horizontal wells where greater pumping capacity is required due to the depths and pressures of these wells.

Essential's 2018 capital budget is $13 million, comprised of $5 million of growth capital and $8 million of maintenance capital. Growth capital consists of costs to retrofit one Generation IV coil tubing rig, the addition of one nitrogen pumper, coil support equipment and $1.5 million of carryover capital to complete the two quintuplex fluid pumpers started in 2017.

SHARE CAPITAL

As at March 7, 2018, there were 141,856,813 common shares and 6,021,249 share options outstanding. Of the 6,021,249 share options, 3,605,410 were exercisable of which 1,297,080 were "in-the-money".

COMMITMENTS

Operating leases

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

(in thousands of dollars)		Amount
2018	$	5,823
2019		5,788
2020		5,184
2021		4,356
2022		4,265
Thereafter		3,119
As at December 31, 2017	$	28,535

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual filings 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, 2017, 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, 2017.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

transparent; the thorough review of the Company's financial statements by management; and the existence of a Company whistle-blower policy.

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2017 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 necessarily involves the use of estimates and approximations based on information available as at the reporting date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the provisions for impairment of trade receivables, net realizable value of inventory, depreciation and amortization, intangible assets, impairment of long-lived assets, share-based compensation, onerous lease contract liability, and deferred income tax assets and liabilities. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represent the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

Provision for Impairment of Trade Receivables

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon 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. Given the cyclical nature of the oil and 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.

Intangible Assets

Intangible assets consist of customer relationships, a non-compete agreement, and computer software. 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.

Impairment of Long-Lived Assets

At each reporting date Essential assesses whether there is an indication that an asset or group of assets, including goodwill and intangible assets, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a 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 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, forecasts and industry considerations affecting the Company and the CGU.

Share-based Compensation

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

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

The Board is authorized to grant RSUs to participants under the RSU Plan. RSUs granted prior to December 9, 2015 represent the right to receive a cash payment or its equivalent in fully paid shares at the time of vesting, at the option of the Company. RSUs granted after December 9, 2015 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.

Onerous Lease Contract

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 contract, reduced by estimated recoveries.

Deferred Income Tax Liabilities and Assets

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

FUTURE ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2018 and have not been applied in preparing the Consolidated Financial Statements for the year-ended December 31, 2017. The standards and interpretations are as follows and will be adopted on their respective effective dates: IFRS 2, “Share-Based Payments,” effective January 1, 2018; IFRS 9, “Financial Instruments,” effective January 1, 2018; IFRS 15, “Revenue from Contracts with Customers,” effective January 1, 2018; and IFRS 16, “Leases,” effective January 1, 2019. Essential is evaluating the potential impact these standards are expected to have on the Company and its financial statements.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Essential’s business and its operating results, please refer to the Company’s Annual Information Form for the year ended December 31, 2017, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential’s Annual Information Form. The risks and uncertainties in Essential’s Annual Information Form are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business.

OUTLOOK

Analyst and industry associations are generally forecasting industry activity and E&P spending in the WCSB in 2018 will be similar to 2017. Canadian oil and natural gas prices are generally forecast to continue to trade significantly below their U.S. benchmarks due to oversupply and export capacity constraints in the WCSB.

Until oil and natural gas market access is addressed, Canadian oil and natural gas activity is anticipated to remain constrained due to the inability to access world markets and achieve higher commodity pricing. These issues likely will not be resolved in the near term and are hindered by political and regulatory uncertainty in Canada, delaying resolution to allow projects to proceed. This is not helpful or constructive to the Canadian oilfield service outlook.

ECWS believes it has sufficient trained crews and activated equipment to meet anticipated customer demand through the first quarter 2018. To date, first quarter 2018 activity has been consistent with the same period in 2017 and on its peak day ECWS had 15 coil tubing rigs and 12 fluid pumpers working. Competitive pricing pressure remains a factor and prices are consistent with fourth quarter 2017. Demand for Generation III coil tubing rigs and quintuplex fluid pumpers is strong as customers complete longer reach horizontal wells, particularly in the Montney and Duvernay region of the WCSB.

Tryton continues to experience strong demand for its conventional and MSFS® tools, including demand for its new composite bridge plug and re-designed cemented-in Viking sleeve system. These tools, introduced in 2017, have been well received by customers looking for new tools and techniques to efficiently and cost-effectively complete longer reach horizontal wells and increase stage count per well. During the first quarter 2018, Tryton used its composite bridge plug, in conjunction with its MSFS® Ball & Seat tools, to complete two 90-stage MSFS® jobs in the Montney region and used its Viking sleeve system to complete a 53-stage job in a single tool run in the Cardium region. These tools demonstrate Tryton's ongoing commitment to develop innovative products and solutions to meet the needs of their customers.

The timing of spring breakup and operational performance in the month of March may impact activity in the first quarter in comparison to 2017, when favourable weather conditions extended industry activity to the end of March. Activity in the second half of 2018 will depend on E&P spending, and is difficult to forecast at this time.

Essential's 2018 capital budget is $13 million, comprised of $5 million of growth capital and $8 million of maintenance capital. Growth capital is targeted to address customer requirements for longer reach horizontal wells retrofitting one Generation IV coil tubing rig, adding a nitrogen pumper and completing two quintuplex fluid pumpers.

With long-term debt at March 7, 2018 of $26.3 million, Essential believes it is financially well-positioned to meet its working capital and capital spending requirements. The increase in debt from December 31, 2017 reflects increased accounts receivables for services provided in the first quarter 2018.

SUMMARY OF QUARTERLY DATA

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

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

The following table provides the Company's quarterly information for the past eight quarters. The sale of the service rig business in December 2016 was reported as a discontinued operation with prior periods restated to this same basis of accounting and disclosure.

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Dec 31, 2017**	Sept 30, 2017	June 30, 2017	Mar 31, 2017	**Dec 31, 2016**	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016
Essential Coil Well Service	**22,002**	28,606	14,569	28,719	**17,564**	13,896	6,422	15,756
Tryton	**21,260**	20,145	13,076	27,531	**15,655**	12,256	5,583	10,889
Inter-segment eliminations	-	-	-	-	**(176)**	(139)	(90)	(89)
Total revenue	**43,262**	48,751	27,645	56,250	**33,043**	26,013	11,915	26,556
Gross margin	**4,522**	11,524	1,484	14,394	**4,148**	3,899	(1,578)	1,318
Gross margin %	**10%**	24%	5%	26%	**13%**	15%	(13)%	5%
EBITDAS(1) from continuing operations(i)	**1,153**	8,541	(1,291)	10,206	**(4,161)**	1,418	(4,224)	(2,202)
Bank EBITDA(1)	**1,220**	8,624	(1,272)	10,224	**11,541**	1,418	(4,208)	(469)
Continuing operations								
Net (loss) income(i)(ii)	**(3,843)**	2,344	(5,005)	3,480	**(9,832)**	(3,253)	(7,159)	(42,378)
Per share – basic and diluted	**(0.03)**	0.02	(0.04)	0.02	**(0.07)**	(0.03)	(0.06)	(0.34)
Net (loss) income(i)(ii)	**(3,843)**	2,344	(5,005)	3,150	**(25,411)**	(3,814)	(7,486)	(53,918)
Per share – basic and diluted	**(0.03)**	0.02	(0.04)	0.02	**(0.18)**	(0.03)	(0.06)	(0.43)
Total assets	**219,448**	223,695	208,337	227,646	**209,270**	242,781	238,450	246,713
Long-term debt	**17,975**	20,606	13,337	18,169	**11,250**	31,781	26,894	27,053
Operating hours								
Coil tubing rigs	**11,215**	13,751	7,039	16,420	**11,119**	7,662	3,848	9,677
Pumpers	**14,581**	18,094	9,529	18,653	**12,341**	10,127	4,336	10,218
Total equipment fleet(iii)								
Coil tubing rigs(iv)	**30**	31	31	31	**31**	26	26	32
Fluid pumpers	**18**	18	20	21	**21**	18	18	18
Nitrogen pumpers(iv)	**8**	11	11	11	**11**	10	12	12
Tryton - % of revenue								
Tryton MSFS®	**44%**	48%	42%	59%	**53%**	45%	15%	40%
Conventional Tools & Rentals	**56%**	52%	58%	41%	**47%**	55%	85%	60%

(i) The quarter ended December 31, 2016 includes an onerous lease contract expense of $4.8 million.
(ii) The quarters ended December 31, 2016 and March 31, 2016 include an impairment loss of $5.4 million and $45.8 million, respectively.
(iii) Fleet data represents the number of units at the end of the period.
(iv) During the fourth quarter 2017, Essential retired one Generation I coil tubing rig and three nitrogen pumpers.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "projects", "forecasts", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the grounds upon which Packers Plus could have a successful claim for damages or other relief against Essential; Essential's belief that the Appeal is without merit; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the Company's capital budget, including certain growth and maintenance capital expenditures and in-service timing; the amount expected to be paid for Essential's "other commitments"; adoption of future accounting policies; E&P industry activity and market conditions; export capacity constraints in the WCSB; sufficiency of Essential's personnel and equipment; demand for Essential's equipment and services; Tryton's development of products and solutions for customer needs; and the Company's outlook and financial position.

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

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

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

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

[1]Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net income (loss) and net income (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 income (loss) and net income (loss) per share as calculated in accordance with IFRS.

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

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

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

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

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Bank EBITDA	**$ 1,220**	$ 11,541	**$ 18,796**	$ 8,282
Equity cure	**-**	10,400	**-**	10,400
Permitted Adjustments	**67**	5,302	**187**	7,051
EBITDAS from continuing operations	**$ 1,153**	$ (4,161)	**$ 18,609**	$ (9,169)
Share-based compensation	**1,432**	1,238	**4,201**	2,758
Other (income) expense	**(34)**	406	**708**	2,510
EBITDA from continuing operations	**$ (245)**	$ (5,805)	**$ 13,700**	$ (14,437)
Depreciation and amortization	**3,957**	3,747	**15,774**	17,110
Impairment loss	**-**	5,403	**-**	51,241
Finance costs	**278**	323	**1,233**	1,263
Loss before income tax from continuing operations	**$ (4,480)**	$ (15,278)	**$ (3,307)**	$ (84,051)
Total income tax recovery	**(637)**	(5,446)	**(283)**	(21,429)
Net loss from continuing operations	**$ (3,843)**	$ (9,832)	**$ (3,024)**	$ (62,622)

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

(in thousands of dollars, except ratios)	Trailing 12 months ended December 31, 2017
Bank EBITDA	**$ 18,796**
Less current income tax recovery	**(960)**
	$ 19,756
Finance costs	**$ 1,233**
Fixed charge coverage ratio	**16.0x**

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

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

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

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

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

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

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Management

Garnet K. Amundson
President and Chief Executive Officer

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

Auditors

Ernst & Young LLP

Stock Exchange Listing

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The Toronto-Dominion Bank

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Transfer Agent

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