FINANCIAL REPORT

For the year ended December 31, 2019

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 year ended December 31, 2019.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the year ended December 31, 2019 and 2018, the notes contained therein to which the readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 4, 2020 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 4, 2020.

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

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018	2017
Revenue	**$ 27,323**	$ 41,186	**$ 141,133**	$ 189,894	$ 175,908
Gross margin[(i)]	**3,016**	5,261	**26,055**	32,681	31,924
Gross margin %	**11%**	13%	**18%**	17%	18%
EBITDAS[(1)(i)(ii)]	**1,729**	1,690	**16,975**	19,719	18,609
Net loss[(i)(iii)]	**$ (3,161)**	$ (13,654)	**$ (1,556)**	$ (8,778)	$ (3,354)
Per share – basic and diluted	**$ (0.02)**	$ (0.10)	**$ (0.01)**	$ (0.06)	$ (0.02)
Operating hours					
Coil tubing rigs	**7,110**	8,262	**38,752**	46,979	48,425
Pumpers	**9,894**	12,146	**48,773**	63,058	60,857
			As at December 31, **2019**	2018	2017
Working capital			**$ 47,151**	$ 60,848	$ 50,171
Total assets			**191,395**	201,270	219,448
Long-term debt			**$ 6,563**	$ 21,388	$ 17,975

(i) Effective January 1, 2019, Essential adopted the IFRS 16 – Leases standard ("IFRS 16"). Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased gross margin, EBITDAS[(1)] and net loss for the three months ended December 31, 2019 by $0.9 million, $1.2 million and $0.1 million, respectively, compared to the prior year period. For the year ended December 31, 2019, gross margin, EBITDAS[(1)] and net loss increased by $3.7 million, $5.1 million and $0.7 million, respectively, compared to the prior year period. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".

(ii) EBITDAS for the year ended December 31, 2017 represents EBITDAS from continuing operations and excludes negative $0.5 million EBITDAS from discontinued operations.

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

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

INDUSTRY OVERVIEW

Canadian oilfield service activity in 2019 was significantly lower than in 2018. Political, regulatory and market access issues did not improve during the year and resulted in reduced capital spending by Canadian exploration and production ("E&P") companies. Well completions, a key indicator of industry activity in the Western Canadian Sedimentary Basin ("WCSB") declined 18%[a] compared to the three months ended December 31, 2018 and 22%[a] compared to the year ended December 31, 2018.

HIGHLIGHTS

Fourth quarter 2019

Revenue for the three months ended December 31, 2019 was $27.3 million, a 34% decrease from the fourth quarter 2018, due to lower industry activity and competitive pricing. EBITDAS[1] was $1.7 million, consistent with the same prior year period.

Key highlights included:

- Essential Coil Well Service ("ECWS") gross margin as a percentage of revenue remained consistent with the fourth quarter 2018, despite a 22% decrease in revenue. ECWS gross margin in the fourth quarter of 2019 was adversely impacted by repairs and maintenance and crew retention costs incurred during a slower activity quarter in advance of an anticipated busier first quarter 2020.
- Tryton revenue was $13.0 million, 43% lower than the fourth quarter 2018 due to slower industry activity and competitive pricing. Tryton's Multi-Stage Fracturing System® ("MSFS®") tool sales experienced a more significant decline, as key customers reduced spending on well completion activities or opted to use lower-cost completion techniques.
- The Supreme Court of Canada (the "Supreme Court") ruled that it would not grant leave to hear an appeal by Packers Plus Energy Services Inc. ("Packers Plus") of the Federal Court's judgment in a patent infringement action against Essential and awarded costs in favour of Essential. There can be no appeal of the Supreme Court's ruling and, except for Essential collecting the cost recovery awards, this litigation is now complete.

Year 2019

Revenue for the year ended December 31, 2019 was $141.1 million, a 26% decrease from 2018, due to industry-wide activity declines. EBITDAS[1] was $17.0 million, 14% lower than the prior year, as cost reductions implemented earlier in the year limited margin erosion.

Key highlights included:

- ECWS gross margin improved to 20%, compared to 15% in the prior year despite lower revenue, primarily a result of cost management. With the decline in industry activity, revenue decreased 21% year-over-year. Management was pleased with the demand for ECWS equipment designed for long-reach, deep horizontal wells compared to the prior year, despite a difficult industry environment.
- Tryton revenue was $62.2 million, 31% lower than 2018 as industry activity deteriorated and pricing was competitive. Tryton's MSFS® operations experienced a sharp decrease in revenue as customers reduced their completion programs.

(a) Source: Daily Oil Bulletin on February 27, 2020.

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

Essential remains financially well positioned with long-term debt outstanding of $6.6 million and funded debt[1] to bank EBITDA[1] of 0.5x at December 31, 2019. Long-term debt net of cash was $5.7 million on December 31, 2019, a decrease of $15.3 million from December 31, 2018. This was a significant accomplishment in a difficult industry environment. Throughout 2019, the Company maintained its focus on customer demand, cost management and modest capital spending. Working capital[1] was $47.2 million on December 31, 2019, exceeding long-term debt by $40.6 million. On March 4, 2020 Essential had $8.8 million of long-term debt outstanding.

CHANGE IN ACCOUNTING POLICY – IFRS 16 – LEASES

On January 1, 2019, Essential adopted the IFRS 16 – Leases standard ("IFRS 16"). Comparative information, including non-GAAP measures, has not been restated and therefore may not be comparable. Where the impact was material, the amounts have been quantified for comparative analysis purposes in the respective sections of this document. The implications for the year ended December 31, 2019 were:

- On January 1, 2019, Essential recognized a right-of-use asset of $14.1 million, and a lease liability of $18.4 million for its office and shop premises. Leases are capitalized at the commencement of each lease at the present value of the future lease payments;
- Lease payments, which were previously expensed as either an operating or general and administrative expense, are no longer expensed. There is now a depreciation charge for the right-of-use asset on a straight-line basis over the lease term; and
- As lease payments are made, the lease liability is reduced by the discounted value of each lease payment, with the difference between the amount of the lease payment and the discounted value of the lease payment recognized as a finance cost over the term of the lease.

This change in accounting policy increased gross margin and EBITDAS[1] for the three months ended December 31, 2019 by $0.9 million and $1.2 million, respectively, and decreased net loss by $0.1 million compared to the prior year period. Depreciation expense and finance costs related to the right-of-use asset and lease liability increased by $0.9 million and $0.2 million, respectively, compared to the prior year.

For the year ended December 31, 2019, gross margin and EBITDAS[1] increased by $3.7 million and $5.1 million, respectively, compared to the prior year period. Net loss decreased by $0.5 million compared to the prior year period. Depreciation expense and finance costs related to the right-of-use asset and lease liability increased by $3.4 million and $1.0 million, respectively, compared to the prior year.

OVERVIEW OF ESSENTIAL

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

Essential Coil Well Service

Coil Tubing Rigs – Essential operates one of the largest coil tubing fleets in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity using 2 ⅜ inch coil of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.

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

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

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

Tryton

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

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

Patent Litigation

Litigation Complete - On December 19, 2019, the Supreme Court ruled that it would not grant leave to hear an appeal by Packers Plus of the Federal Court's judgment in a patent infringement action against Essential and awarded costs in favour of Essential. There can be no appeal of the Supreme Court's ruling and, except for Essential collecting the cost recovery awards discussed below, this litigation is now complete. Since this litigation commenced in 2013, Essential has maintained that Packers Plus' claims were without merit.

The following provides a brief summary of the litigation with Packers Plus.

Appeal Decision – On April 25, 2019, the Federal Court of Appeal (the "Appeal Court") released its decision (the "Appeal Decision"), dismissing the appeal filed by Packers Plus in January 2018 (the "Appeal") with costs in favour of Essential and the other defendants. In its reasons, the Appeal Court upheld the portion of the Trial Decision, as described below, that was released on December 6, 2017, that the asserted patent was invalid for obviousness and, as a result, it was not necessary for the Appeal Court to consider the other two findings of the Federal Court of Canada (the "Trial Court") of invalidity due to prior disclosure and non-infringement.

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

Cost Recovery – As noted above, in each of the Trial Decision, the Appeal Decision and the decision of the Supreme Court to not grant leave to hear the Packers Plus appeal, Essential was awarded costs related to this litigation.

Since October 2013, Essential has incurred approximately $5 million in external legal fees and disbursements while defending the litigation. In calculating the cost awards, the courts will separately consider costs incurred by Essential related to the following aspects of this litigation:

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

Essential will only recover a portion of the actual legal fees and disbursements that it incurred rather than obtaining full cost recovery.

On January 17, 2020, the Trial Court awarded Essential $1.7 million in cost recovery related to Trial Costs, which is approximately 40% of the costs incurred for that portion of the litigation. The amount of the Trial Cost award was accrued in the December 31, 2019 financial statements as a recovery of general and administrative costs. $1.7 million was paid by Packers Plus on March 2, 2020.

Cost recovery submissions related to the other three aspects of Essential's litigation costs are in progress. The timing of the release of the cost awards related to the other three aspects is unknown.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Revenue	**$ 27,323**	$ 41,186	**$ 141,133**	$ 189,894
Operating expenses[(i)]	**24,307**	35,925	**115,078**	157,213
Gross margin[(i)]	**3,016**	5,261	**26,055**	32,681
General and administrative expenses[(i)]	**1,287**	3,121	**9,080**	12,512
Onerous lease contract expense	**-**	450	**-**	450
EBITDAS[(1)(i)]	**1,729**	1,690	**16,975**	19,719
Depreciation and amortization[(i)]	**3,928**	3,741	**15,996**	15,075
Share-based compensation expense (recovery)	**1,336**	(1,552)	**2,362**	(1,311)
Other expense (income)	**235**	(530)	**728**	(1,406)
Finance costs[(i)]	**406**	288	**1,761**	1,259
Write-down of assets	**-**	17,921	**-**	17,921
Loss before income tax[(i)]	**(4,176)**	(18,178)	**(3,872)**	(11,819)
Current income tax (recovery) expense	**(2)**	-	**65**	63
Deferred income tax recovery	**(1,013)**	(4,524)	**(2,381)**	(3,104)
Income tax recovery	**(1,015)**	(4,524)	**(2,316)**	(3,041)
Net loss[(i)]	**$ (3,161)**	$ (13,654)	**$ (1,556)**	$ (8,778)
Net loss per share				
Basic and diluted	**$ (0.02)**	$ (0.10)	**$ (0.01)**	$ (0.06)

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

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended December 31, 2019	2018	For the years ended December 31, 2019	2018
Revenue	**$ 14,278**	$ 18,334	**$ 78,962**	$ 99,513
Operating expenses(i)	**13,068**	16,858	**62,957**	84,501
Gross margin	**$ 1,210**	$ 1,476	**$ 16,005**	$ 15,012
Gross margin %	**8%**	8%	**20%**	15%
Operating hours				
Coil tubing rigs	**7,110**	8,262	**38,752**	46,979
Pumpers	**9,894**	12,146	**48,773**	63,058
Active equipment fleet(ii)				
Coil tubing rigs	**16**	16	**16**	16
Fluid pumpers	**12**	18	**12**	18
Nitrogen pumpers	**6**	8	**6**	8
Total equipment fleet(ii)				
Coil tubing rigs	**29**	29	**29**	29
Fluid pumpers	**19**	19	**19**	19
Nitrogen pumpers	**8**	8	**8**	8

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased ECWS gross margin for the three and twelve months ended December 31, 2019 by $0.5 million and $2.1 million, respectively, compared to the prior year. For further information see the section titled “Change in Accounting Policy – IFRS 16 – Leases”.

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

ECWS fourth quarter revenue was $14.3 million, a 22% decrease compared to the same prior year period due to an industry-wide decline in activity and competitive pricing. Operating hours decreased 17%, consistent with the decrease in industry well completions. Although total hours were down, operating hours for the coil tubing rigs designed to work on long-reach, deep horizontal wells were consistent with the same prior year period. Activity slowed as the quarter progressed and customers completed their capital programs. Revenue per hour declined due to the mix of work.

ECWS gross margin in the fourth quarter of 2019 was adversely impacted by repairs and maintenance and crew retention costs incurred during a slower activity quarter in advance of an anticipated busier first quarter 2020.

Management was pleased with gross margin during the year ended December 31, 2019 despite the decline in industry activity. 2019 ECWS revenue was $79.0 million or 21% lower than 2018, consistent with the decrease in industry well completions. Gross margin, however, improved year-over-year to 20% of revenue. Effective cost management, including wage reductions and a stronger focus on variable operating costs resulted in higher gross margin, despite the revenue decline. Demand for ECWS equipment designed for long-reach, deep horizontal wells was comparable to the prior year, despite a difficult industry environment with a 22% year-over-year decline in well completions.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Revenue	**$ 13,045**	$ 22,852	**$ 62,171**	$ 90,381
Operating expenses(i)	**10,967**	18,831	**50,689**	71,095
Gross margin	**$ 2,078**	$ 4,021	**$ 11,482**	$ 19,286
Gross margin %	**16%**	18%	**18%**	21%
Tryton revenue – % of revenue				
Tryton MSFS®	**17%**	43%	**28%**	45%
Conventional Tools & Rentals	**83%**	57%	**72%**	55%

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased Tryton gross margin for the three and twelve months ended December 31, 2019 by $0.4 million and $1.6 million, respectively, compared to the prior year. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".

Tryton fourth quarter 2019 revenue decreased 43% compared to the same quarter 2018, due to slower industry activity and competitive pricing. Tryton MSFS® experienced a more significant decrease in revenue compared to the same prior year quarter as key customers reduced spending on well completion activities or opted to use lower-cost completion techniques, including Tryton's composite bridge plugs. Conventional tools revenue in Canada and in the U.S. also declined, although less significantly, as customers reduced spending in the fourth quarter 2019 on well maintenance and decommissioning work.

Gross margin in the fourth quarter 2019 decreased to 16% of revenue compared to 18% in the fourth quarter 2018. Gross margin declined due to the decrease in revenue and fixed costs comprising a greater percentage of revenue.

Year-over-year, Tryton 2019 revenue was below the prior year due to declines in both the downhole tools and rentals businesses in Canada as a result of slower industry activity and competitive pricing. Tryton's MSFS® operations experienced a sharp decrease in revenue as customers reduced their completion programs, while U.S. revenue was higher than 2018. Gross margin for Tryton was below the prior year as fixed costs represented a greater portion of a lower revenue base.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
General and administrative expenses	**$ 2,887**	$ 3,121	**$ 10,680**	$ 12,512
Patent litigation – cost recovery	**(1,600)**	-	**(1,600)**	-
General and administrative expenses	**$ 1,287**	$ 3,121	**$ 9,080**	$ 12,512

General and administrative expenses ("G&A") are comprised of wages, professional fees and other corporate and operational administrative costs. G&A for the three and twelve months ended December 31, 2019 decreased compared to the same prior year periods due to employee wage reductions, lower headcount and the impact of IFRS 16.

In connection with the patent litigation, on January 17, 2020, the Trial Court released its decision and awarded Essential $1.7 million for Trial Costs. Essential recognized $1.6 million in the fourth quarter 2019 and the remainder will be recorded in the first quarter 2020. For further information, see the section titled "Patent Litigation".

Depreciation and Amortization

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Depreciation and amortization expense	**$ 3,928**	$ 3,741	**$ 15,996**	$ 15,075

Depreciation and amortization expense for the three and twelve months ended December 31, 2019 increased compared to the same periods in 2018. The Company recorded additional depreciation expense related to the right-of-use asset recognized under IFRS 16, partially offset by lower depreciation as a result of a reduction in net book value of the Company's equipment following the write-down recognized in the fourth quarter 2018.

Share-based Compensation

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Share-based compensation expense (recovery)	**$ 1,336**	$ (1,552)	**$ 2,362**	$ (1,311)

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

For the three and twelve months ended December 31, 2019, share-based compensation expense increased as Essential's share price increased during these periods. In comparison, the Company's share price declined during the same prior year periods and resulted in a recovery.

Write-down of Assets

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Write-down of assets	**$ -**	$ 17,921	**$ -**	$ 17,921

In the fourth quarter 2018, uncertainty related to political, regulatory and market access issues in the Canadian oil and natural gas industry significantly increased and negatively impacted the operating and financial outlook for Canadian E&P and oilfield service companies, including Essential. As a result, Essential reduced its future demand and cash flow expectations for, and the recoverable amount of, certain coil tubing rigs, fluid and nitrogen pumpers.

OTHER EXPENSE (INCOME)

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
(Gain) loss on disposal of assets	**$ (70)**	$ 122	**$ (135)**	$ (145)
Realized foreign exchange loss	**-**	13	**15**	51
Unrealized foreign exchange loss (gain)	**305**	(756)	**745**	(1,185)
Other expense (income)	**-**	91	**103**	(127)
Other expense (income)	**$ 235**	$ (530)	**$ 728**	$ (1,406)

Gain on disposal of assets during the fourth quarter 2019 related to assets that were sold as they were no longer used in operations. The strengthening of the Canadian dollar in relation to the U.S. dollar during the three months and year ended December 31, 2019 resulted in an unrealized foreign exchange loss.

FINANCE COSTS

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Finance costs	**$ 406**	$ 288	**$ 1,761**	$ 1,259

Finance costs for the three and twelve months ended December 31, 2019 increased compared to the same prior year periods due to lease liabilities recognized under IFRS 16, partially offset by lower interest paid on the Company's revolving credit facility (the "Credit Facility") as a result of lower average long-term debt outstanding in 2019.

INCOME TAXES

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Current income tax (recovery) expense	**$ (2)**	$ -	**$ 65**	$ 63
Deferred income tax recovery	**(1,013)**	(4,524)	**(2,381)**	(3,104)
Income tax recovery	**$ (1,015)**	$ (4,524)	**$ (2,316)**	$ (3,041)

Essential's statutory income tax rate was 26.6% for 2019, lower than 27% in the prior year. For the year ended December 31, 2019, deferred income tax recovery decreased compared to 2018 due to the reversal of temporary differences in the prior year arising from the asset write-down recorded on ECWS equipment on December 31, 2018. This was partially offset by an increase in deferred income tax recovery as a result of legislation that was enacted during the second quarter 2019 to decrease the Alberta provincial corporate income tax rate from 12% to 8% by 2022. This rate decrease resulted in the revaluation of the deferred income tax liability during the second quarter.

FINANCIAL RESOURCES AND LIQUIDITY

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

(in thousands of dollars, except per share amounts)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Net cash provided by operating activities	**$ 8,316**	$ 5,279	**$ 27,702**	$ 9,338
Decreases (increases) in non-cash working capital[1]	**8,150**	883	**13,509**	(13,679)
Operating cash flow before changes in non-cash operating working capital[1]	**$ 166**	$ 4,396	**$ 14,193**	$ 23,017
Per share – basic and diluted	**$ 0.00**	$ 0.03	**$ 0.10**	$ 0.16

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at December 31, 2019**	As at December 31, 2018
Current assets	**$ 63,794**	$ 78,614
Current liabilities	**(16,643)**	(17,766)
Working capital[1]	**$ 47,151**	$ 60,848
Working capital ratio	**3.8:1**	4.4:1

Working capital[1] is comprised primarily of accounts receivable and inventory, net of accounts payable. Working capital[1] typically grows through the first and third quarters of the year when industry activity is stronger. Essential uses its Credit Facility to meet the variable nature of its working capital[1] requirements for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt tends to increase and, in periods of lower activity, debt tends to decline.

CREDIT FACILITY

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

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

- certain financial covenants, with the covenant thresholds detailed in the table below; and
- an equity cure provision whereby the proceeds from an equity offering may be applied to the calculation of bank EBITDA[1] in the funded debt[1] to bank EBITDA[1] covenant and the fixed charge coverage ratio[1] covenant. An equity cure cannot be used more than two times over the term of the Credit Facility and cannot be used in consecutive quarters.

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. As at December 31, 2019, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

	Covenant Threshold	As at December 31, 2019
Funded debt[1] to capitalization[1]	≤ 50%	**4%**
Funded debt[1] to bank EBITDA[1]	≤ 3.50x	**0.5x**
Fixed charge coverage ratio[1]	≥ 1.25x	**16.5x**
Distributions[i] cannot exceed distributable cash flow[1]		**N/A**

(i) Distributions include dividends and share buybacks.

As at December 31, 2019, Essential had consolidated funded debt[1] of $5.9 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 4, 2020, Essential had $8.8 million of long-term debt.

EQUIPMENT EXPENDITURES

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
ECWS	**$ 1,818**	$ 3,418	**$ 4,587**	$ 12,288
Tryton	**591**	1,174	**3,160**	3,029
Corporate	**14**	15	**152**	353
Total equipment expenditures	**2,423**	4,607	**7,899**	15,670
Less proceeds on disposal of equipment	**(307)**	(1,993)	**(2,710)**	(5,083)
Net equipment expenditures[1]	**$ 2,116**	$ 2,614	**$ 5,189**	$ 10,587

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

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Growth capital[1]	**$ 99**	$ 1,892	**$ 897**	$ 6,103
Maintenance capital[1]	**2,324**	2,715	**7,002**	9,567
Total equipment expenditures	**$ 2,423**	$ 4,607	**$ 7,899**	$ 15,670

During the year ended December 31, 2019, equipment expenditures included costs to retrofit a second Generation IV coil tubing rig, costs to finish upgrading a Generation IV coil tubing reel trailer and the purchase of Tryton rental pipe. This second retrofitted coil tubing rig was in-service in late 2019 and successfully completed its first job in January 2020. When paired with a Generation II coil tubing rig, ECWS has a third coil tubing rig offering Generation IV capability, as the upgraded coil tubing reel trailer can achieve the same depth capacity as a Generation IV coil tubing rig.

Essential's 2020 capital budget is $5 million, with spending focused on maintenance capital. Essential believes the budget is at an appropriate level to maintain the current fleet in good working order and is expected to be funded with cash from operations.

SHARE CAPITAL

As at March 4, 2020, there were 141,856,813 common shares and 4,183,583 share options ("Share Options") outstanding. Of the 4,183,583 Share Options, 3,884,247 were exercisable of which nil were "in-the-money".

COMMITMENTS

Leases

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

(in thousands of dollars)		Amount
Less than one year	$	4,754
One to five years		11,475
More than five years		2,409
As at December 31, 2019	$	18,638

RELATED PARTY TRANSACTIONS

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

For the year ended December 31, 2019, Essential incurred lease and leasehold improvement payments related to these shop premises of $1.5 million (2018 - $0.6 million). Included in accrued payables at December 31, 2019 is leasehold improvement payments of $nil (December 31, 2018 - $0.4 million). Future annual lease payments related to these shop premises are as follows:

(in thousands of dollars)		Amount
2020	$	779
2021		779
2022		672
2023		317
2024		160
Thereafter		213
As at December 31, 2019	$	2,920

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, interim or other reports are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2019, 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, 2019.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Through management's assessment of the design and effectiveness of ICFR, no material weaknesses were found. The broad scope of senior management's oversight and strong entity level controls are expected to compensate for any non-material control weaknesses. In addition, non-material control weaknesses identified are mitigated by the active involvement of senior management in all the affairs of the Company; open lines of communication within the Company and its divisions; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management; and the existence of a Company 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, 2019 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Critical Accounting Estimates

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

Provision for Impairment of Trade Receivables

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

Net Realizable Value of Inventory

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

Depreciation and Amortization

Equipment is depreciated based upon estimated useful lives and residual values. For intangible assets, amortization policies are intended to amortize assets over their expected lives or contracted terms. The Company reviews its historical experience with similar assets to ensure that depreciation and amortization rates are appropriate. Actual

useful lives of assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity.

Impairment of Long-Lived Assets

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

Leases

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

Share-based Compensation

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

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

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

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

Provisions

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

Deferred Income Tax Liabilities and Assets

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

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 ("AIF") for the year ended December 31, 2019, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's AIF. 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

2020 is setting up to be another challenging year for Canadian oilfield services. The oil and natural gas industry continues to struggle with egress issues due to "made in Canada" regulatory and political challenges. Access to capital for E&P companies continues to be limited, requiring Essential's customers to spend within cash flow. Generally, this negatively impacts E&P capital spending and oilfield service activity. The Petroleum Services Association of Canada, as announced on January 30, 2020, estimates 4,800 wells will be drilled in 2020. This is 13% below the number of wells drilled in 2019. As a point of reference, this is 63% below the number of wells drilled in 2014, prior to the downturn.

At Essential, for the first two months of 2020, activity has been steady but was disrupted by a prolonged cold stretch in January. In general, activity has been tracking below the first quarter of 2019. The cold stretch also increased costs for down-time inefficiencies and repairs. Activity for the remainder of the quarter will be predicated on when spring break-up begins.

For the rest of 2020, Essential will continue to focus on managing costs as the Company responds to changing demand from customers during an uncertain year.

From a longer-term perspective, there are some potential positives for the industry including construction of the Trans Mountain Pipeline, incremental Enbridge takeaway capacity, potential construction of the Keystone XL pipeline and progression of an LNG industry in Canada.

Essential's focus on debt reduction has been successful as long-term debt, net of cash, decreased by $15 million in 2019. This was the result of cost management and modest capital spending. Capital spending for 2020 is anticipated to be $5 million. While debt fluctuates throughout the year as working capital needs change, management believes ending the year with a low level of debt is an important attribute given the prolonged ongoing industry downturn. Long-term debt at March 4, 2020 was $8.8 million.

SUMMARY OF QUARTERLY DATA

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

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

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

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**Dec 31, 2019**	Sept 30, 2019	June 30, 2019	Mar 31, 2019	**Dec 31, 2018**	Sept 30, 2018	June 30, 2018	Mar 31, 2018
Essential Coil Well Service	**14,278**	22,609	16,006	26,069	**18,334**	27,831	20,774	32,574
Tryton	**13,045**	16,669	11,080	21,377	**22,852**	22,805	17,164	27,560
Total revenue	**27,323**	39,278	27,086	47,446	**41,186**	50,636	37,938	60,134
Gross margin[i]	**3,016**	8,873	3,607	10,559	**5,261**	10,112	4,838	12,470
Gross margin %	**11%**	23%	13%	22%	**13%**	20%	13%	21%
EBITDAS[1][i][ii]	**1,729**	6,294	1,408	7,544	**1,690**	7,047	1,837	9,145
Bank EBITDA[1]	**498**	4,943	135	6,378	**2,170**	7,264	1,871	9,150
Net (loss) income[i][ii][iii]	**(3,161)**	1,555	(1,357)	1,407	**(13,654)**	2,228	(2,405)	5,053
Per share – basic and diluted	**(0.02)**	0.01	(0.01)	0.01	**(0.10)**	0.02	(0.02)	0.04
Total assets	**191,395**	202,503	195,532	207,704	**201,270**	229,358	221,935	241,472
Long-term debt	**6,563**	10,782	7,451	12,827	**21,388**	23,667	19,087	31,943
Operating hours								
Coil tubing rigs	**7,110**	11,098	7,126	13,418	**8,262**	13,236	9,311	16,170
Pumpers	**9,894**	13,449	9,348	16,082	**12,146**	17,237	13,236	20,439
Tryton - % of revenue								
Tryton MSFS®	**17%**	29%	14%	40%	**43%**	41%	47%	47%
Conventional Tools & Rentals	**83%**	71%	86%	60%	**57%**	59%	53%	53%

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

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

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

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "future", "forecasts", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "likely", "could", "should", "can", "typically", "traditionally" or "tends to" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: Essential's cost recovery in connection with the Packers Plus litigation; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; Essential's capital budget, the appropriateness of the amount and expectations of how it will be funded; oil and natural gas industry and oilfield services sector activity and outlook; the Company's capital management strategy and financial position; and Essential's outlook, activity levels, operational focus and cost management focus.

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

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

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

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

[1] Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net loss and net loss per share as calculated in accordance with IFRS.

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, including the equity cure, excluding onerous lease contract expense and severance costs ("Permitted Adjustments") and excluding the impact of IFRS 16, for the most recent trailing twelve months.

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

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

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

The following table reconciles Bank EBITDA, EBITDAS and EBITDA, to the IFRS measure, net loss:

(in thousands of dollars)	For the three months ended December 31, **2019**	2018	For the years ended December 31, **2019**	2018
Bank EBITDA	**$ 498**	$ 2,170	**$ 11,954**	$ 20,455
Impact of IFRS 16	**(1,231)**	-	**(5,110)**	-
Permitted adjustments	**-**	480	**89**	736
EBITDAS[i]	**$ 1,729**	$ 1,690	**$ 16,975**	$ 19,719
Share-based compensation expense (recovery)	**1,336**	(1,552)	**2,362**	(1,311)
Other expense (income)	**235**	(530)	**728**	(1,406)
EBITDA[i]	**$ 158**	$ 3,772	**$ 13,885**	$ 22,436
Depreciation and amortization	**3,928**	3,741	**15,996**	15,075
Write down of assets	**-**	17,921	**-**	17,921
Finance costs	**406**	288	**1,761**	1,259
Loss before income tax[i]	**$ (4,176)**	$ (18,178)	**$ (3,872)**	$ (11,819)
Total income tax recovery	**(1,015)**	(4,524)	**(2,316)**	(3,041)
Net loss[i]	**$ (3,161)**	$ (13,654)	**$ (1,556)**	$ (8,778)

(i) Effective January 1, 2019, Essential adopted IFRS 16. Comparative information has not been restated and therefore may not be comparable. This change in accounting policy increased EBITDAS, EBITDA, loss before income tax and net loss for the three months ended December 31, 2019 by $1.2 million, $1.2 million, $0.1 million and $0.1 million, respectively, compared to the prior year. For the year ended December 31, 2019, EBITDAS, EBITDA, loss before income tax and net loss increased by $5.1 million, $5.1 million, $0.7 million and $0.5 million respectively, compared to the prior year. For further information see the section titled "Change in Accounting Policy – IFRS 16 – Leases".

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

(in thousands of dollars, except ratios)		Trailing 12 months ended December 31, 2019
Bank EBITDA	$	**11,954**
Less current income tax expense		**(65)**
	$	**11,889**
Finance costs[(i)]	$	**720**
Fixed charge coverage ratio		**16.5x**

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

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash. It does not include the lease liability related to IFRS 16.

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

Maintenance capital – Equipment additions that are incurred in order to refurbish, replace or extend the life of previously acquired equipment.

Net equipment expenditures[(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 managing Essential's property and equipment.

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

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

Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Jeff B. Newman"

JEFF B. NEWMAN
Chief Financial Officer

March 4, 2020

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

Opinion

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

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

Emphasis of Matter – Prospective Change in Accounting Policy

We draw attention to Note 3 to the financial statements which indicates that the Company has changed its accounting policy for leases and has applied that change prospectively.

Our opinion is not modified in respect to this matter.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document titled "2019 Financial Report".

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Financial Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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

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

Signed "KPMG LLP"

Chartered Professional Accountants
Calgary, Canada
March 4, 2020

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)		**As at December 31, 2019**		As at December 31, 2018
Assets				
Current				
Cash	**$**	**846**	$	410
Trade and other accounts receivable *(note 6)*		**24,543**		35,775
Inventory *(note 7)*		**36,616**		40,255
Prepayments and deposits		**1,789**		2,174
		63,794		78,614
Non-current				
Property and equipment *(note 8)*		**111,141**		118,249
Right-of-use lease asset *(note 5)*		**12,600**		-
Intangible assets		**295**		662
Goodwill *(note 9)*		**3,565**		3,745
		127,601		122,656
Total assets	**$**	**191,395**	$	201,270
Liabilities				
Current				
Trade and other accounts payable *(note 10)*	**$**	**11,513**	$	16,092
Share-based compensation *(note 19)*		**1,189**		657
Income taxes payable *(note 12)*		**32**		-
Current portion of lease liability *(note 5)*		**3,909**		-
Current portion of onerous lease contracts		**-**		1,017
		16,643		17,766
Non-current				
Share-based compensation *(note 19)*		**2,740**		2,093
Long-term debt *(note 11)*		**6,563**		21,388
Deferred tax liability *(note 12)*		**2,624**		5,025
Long-term lease liability *(note 5)*		**12,154**		-
Long-term onerous lease contracts		**-**		2,816
		24,081		31,322
Total liabilities		**40,724**		49,088
Contingencies *(note 21)*				
Equity				
Share capital *(note 13)*		**272,732**		272,732
Deficit		**(128,400)**		(126,734)
Other reserves *(note 14)*		**6,339**		6,184
Total equity		**150,671**		152,182
Total liabilities and equity	**$**	**191,395**	$	201,270

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, **2019**	2018
Revenue *(note 25)*	**$ 141,133**	$ 189,894
Operating expenses *(notes 15 and 17)*	**115,078**	157,213
Gross margin	**26,055**	32,681
General and administrative expenses *(notes 16 and 17)*	**9,080**	12,512
Depreciation and amortization *(notes 5 and 8)*	**15,996**	15,075
Share-based compensation expense (recovery) *(note 19)*	**2,362**	(1,311)
Other expense (income) *(note 18)*	**728**	(1,406)
Write down of assets	**-**	17,921
Onerous lease contract expense	**-**	450
Operating loss	**(2,111)**	(10,560)
Finance costs	**1,761**	1,259
Loss before taxes	**(3,872)**	(11,819)
Current income tax expense	**65**	63
Deferred income tax recovery	**(2,381)**	(3,104)
Income tax recovery *(note 12)*	**(2,316)**	(3,041)
Net loss	**(1,556)**	(8,778)
Unrealized foreign exchange gain (loss) *(note 14)*	**72**	(82)
Comprehensive loss	**$ (1,484)**	$ (8,860)
Net loss per share *(note 20)*		
Basic and diluted	**$ (0.01)**	$ (0.06)
Comprehensive loss per share *(note 20)*		
Basic and diluted	**$ (0.01)**	$ (0.06)

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of dollars)	For the years ended December 31, **2019**	2018
Equity:		
Share capital		
Balance, January 1 and December 31 *(note 13)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (126,734)**	$ (117,956)
Adjustment on adoption of IFRS 16 (net of tax) *(note 3)*	**(110)**	-
Net loss	**(1,556)**	(8,778)
Balance, December 31	**$ (128,400)**	$ (126,734)
Other reserves		
Balance, January 1	**$ 6,184**	$ 6,027
Other comprehensive gain (loss)	**72**	(82)
Share-based compensation *(note 19)*	**83**	239
Balance, December 31	**$ 6,339**	$ 6,184
Total equity	**$ 150,671**	$ 152,182

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, **2019**	2018
Operating activities:		
Net loss	**$ (1,556)**	$ (8,778)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization *(notes 5 and 8)*	**15,996**	15,075
Deferred income tax recovery *(note 12)*	**(2,381)**	(3,104)
Share-based compensation *(note 19)*	**83**	239
Provision for impairment of trade accounts receivable *(note 6)*	**500**	100
Finance costs	**1,761**	1,259
Onerous lease contract expense	**-**	450
Write-down of assets	**-**	17,921
Gain on disposal of assets & finance leases *(note 18)*	**(210)**	(145)
Operating cash flow before changes in non-cash operating working capital	**14,193**	23,017
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**11,025**	(415)
Inventory	**3,853**	(4,572)
Income taxes payable	**32**	1,129
Prepayments and deposits	**385**	(68)
Trade and other accounts payable	**(2,965)**	(5,779)
Onerous lease contract	**-**	(829)
Share-based compensation	**1,179**	(3,145)
Net cash provided by operating activities	**27,702**	9,338
Investing activities:		
Purchase of property, equipment and intangible assets *(note 8)*	**(7,899)**	(15,670)
Non-cash investing working capital in trade and other accounts payable	**(1,428)**	(633)
Proceeds on disposal of equipment	**2,710**	5,083
Net cash used in investing activities	**(6,617)**	(11,220)
Financing activities:		
(Decrease) increase in long-term debt *(note 11)*	**(14,950)**	3,600
Net finance costs paid	**(595)**	(1,375)
Payments of lease liability *(note 5)*	**(5,110)**	-
Net cash (used in) provided by financing activities	**(20,655)**	2,225
Foreign exchange gain on cash held in a foreign currency	**6**	21
Net increase in cash	**436**	364
Cash, beginning of year	**410**	46
Cash, end of year	**$ 846**	$ 410
Supplemental cash flow information		
Cash taxes paid (received)	**$ 29**	$ (1,064)
Cash interest and standby fees paid	**$ 557**	$ 947

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, 2019 and 2018 were approved by the Board of Directors of Essential ("Board of Directors") on March 4, 2020.

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

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The Financial Statements for the year ended December 31, 2019, including comparative information, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of Presentation

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

c) Principles of Consolidation

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

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

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

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

d) Foreign Currency Translation

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

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

Essential recognizes revenue when it transfers control over a product or service to a customer. Revenue is measured based on the consideration specified in the contract with the customer.

Nature of products and services

The following is a description of principal activities, separated by reportable segments, from which Essential generates its revenue.

i) Essential Coil Well Service ("ECWS")

ECWS generates revenue from providing well completion, production and workover services with its fleet of coil tubing rigs, fluid pumpers, nitrogen pumpers and ancillary equipment. Products and services may be provided separately or in bundled packages.

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

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

ii) Tryton

Tryton generates revenue from the sale, rental and service of downhole tools and the rental of oilfield equipment. Downhole tools may be sold or rented separately or in bundled packages. Oilfield equipment is rented separately.

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

For downhole tools sold separately, revenue is recognized when the product is sold. For bundled packages, revenue for products sold is recognized upon completion of the contract and revenue for services is recognized as rendered. For rental of tools and oilfield equipment, revenue is recognized as services are rendered, which is normally based on rental days.

g) 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.

h) SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan

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

Restricted Share Unit Plan

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

Deferred Share Unit Plan

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

i) FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

Financial assets

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

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

Financial assets at fair value through net loss

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

Amortized cost

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

Financial liabilities

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

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

Financial liabilities at fair value through net loss

As at December 31, 2019 and 2018, Essential had no financial liabilities measured at fair value through net loss.

Amortized cost

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

j) PROPERTY AND EQUIPMENT

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

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

Depreciation rates are as follows:

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

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

k) Intangible Assets

Intangible assets are comprised of the values attributable to 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.

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:

Computer software	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.

l) Inventories

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

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

Tryton tools	weighted average cost basis
Coil tubing	specific cost basis
Supplies	first-in, first-out cost basis

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

m) Provision for Impairment of Trade Receivables

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

n) Impairment of Long-Lived Assets

At each reporting date, the Company assesses whether there is an indication that an asset or group of assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Essential makes an estimate of the recoverable amount of the asset. The impairment test is determined for an individual asset or group of assets, identified as a CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Essential's three CGU's are ECWS, Tryton Tools and Rentals. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized in the consolidated statements of net loss and comprehensive loss. After an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the CGU's

revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Key assumptions are based on a review of historical performance, budgets and industry considerations affecting the Company and the CGU. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.

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

o) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of the 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.

p) PROVISIONS

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

3. CHANGE IN ACCOUNTING POLICY

NEW ACCOUNTING STANDARD

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

IFRS 16 Leases

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

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

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

Annual consolidated statement of financial position

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

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

(in thousands of dollars)	
Operating lease commitments as at December 31, 2018	$ 25,068
Discount using incremental borrowing rate as at January 1, 2019	(3,023)
Adjustments[i]	(3,647)
Lease liabilities recognized as at January 1, 2019	$ 18,398

[i]Includes the impact of judgment applied with regard to lease terms with renewal options and/or operating costs in which Essential is a lessee.

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, right-of-use lease assets, impairment of long-lived assets and goodwill, share-based compensation, provisions, lease liabilities and deferred income tax assets and liabilities. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

For the year ended December 31, 2019, the recoverable amount of the ECWS CGU was determined based on fair value less cost to sell. Management has identified that a 10% decrease in the fair value of assets would result in an impairment loss in the ECWS CGU.

5. LEASES

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

Significant accounting policy

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

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

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

Transition

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

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

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

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

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

Right-of-use lease asset

(in thousands of dollars)		As at December 31, 2019
Beginning of year	$	14,102
Leases added in year		1,451
Lease modification		449
Depreciation		(3,381)
Foreign exchange loss		(21)
End of year	$	12,600

Lease Liability

(in thousands of dollars)		As at December 31, 2019
Maturity analysis – contractual undiscounted cash flow		
Less than one year	$	4,754
One to five years		11,475
More than five years		2,409
Total undiscounted lease liability, end of year	$	18,638
Discounted value of future lease payments		
Current portion of lease liability	$	3,909
Long-term portion of lease liability		12,154
Lease liability included in the statement of financial position	$	16,063

For the year ended December 31, 2019, Essential recognized $1.0 million of finance costs related to the lease liability in its consolidated statements of net loss and comprehensive loss. For the year ended December 31, 2019, Essential recognized $5.1 million of total cash outflow for leases in the consolidated statement of cash flows.

6. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31, 2019	2018
Trade accounts receivable, net of provision	**$ 22,849**	$ 35,298
Other receivables	**1,694**	477
	$ 24,543	$ 35,775

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

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

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

	As at December 31, 2019	2018
Canadian dollar	**$ 18,794**	$ 32,052
U.S. dollar	**4,055**	3,246
	$ 22,849	$ 35,298

The aging analysis of trade accounts receivable is as follows:

	As at December 31, 2019	2018
< 31 days	**$ 8,698**	$ 9,674
31-60 days	**7,036**	13,286
61-90 days	**5,929**	9,762
> 90 days	**1,186**	2,576
	$ 22,849	$ 35,298

Essential considers a trade accounts receivable balance past due when it exceeds normal customer payment terms, which can range from 30 days to greater than 90 days. The provision for impairment of trade accounts receivable is included in the amounts over 90 days and has been included in operating expenses in the consolidated 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 year were as follows:

	For the years ended December 31, 2019	2018
Balance, beginning of year	**$ 715**	$ 671
Provision for receivables impairment	**500**	100
Receivables written off against the provision	**(147)**	(56)
Balance, end of year	**$ 1,068**	$ 715

7. INVENTORY

	As at December 31, 2019	2018
Tryton tools	**$ 24,610**	$ 27,441
Coil tubing and supplies	**12,006**	12,814
	$ 36,616	$ 40,255

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2019 was $38.0 million (2018 – $55.5 million).

8. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, 2019	2018
Coil rigs, pumpers and equipment	**$ 68,956**	$ 72,623
Other oilfield equipment	**25,513**	27,766
Vehicles	**15,108**	16,228
Office and computer equipment	**443**	605
Other	**1,121**	1,027
	$ 111,141	$ 118,249

Cost 2019	**Balance, beginning of year**	**Additions**	**Transfers**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 159,462**	**$ 1,882**	**$ -**	**$ (14,679)**	**$ -**	**$ 146,665**
Other oilfield equipment	**60,033**	**3,201**	**386**	**(4,020)**	**(65)**	**59,535**
Vehicles	**34,259**	**2,389**	**-**	**(2,596)**	**(30)**	**34,022**
Office and computer equipment	**4,044**	**12**	**-**	**-**	**-**	**4,056**
Other	**4,467**	**338**	**-**	**(110)**	**(2)**	**4,693**
	$ 262,265	**$ 7,822**	**$ 386**	**$ (21,405)**	**$ (97)**	**$ 248,971**

Cost 2018	Balance, beginning of year	Additions	Transfers	Disposals	Effects of movements in exchange rates	Balance, end of year
Coil rigs, pumpers and equipment	$ 161,324	$ 5,444	-	$ (7,306)	$ -	$ 159,462
Other oilfield equipment	57,087	4,792	-	(1,869)	23	60,033
Vehicles	32,199	4,396	-	(2,391)	55	34,259
Office and computer equipment	3,762	336	-	(54)	-	4,044
Other	3,811	654	-	-	2	4,467
	$ 258,183	$ 15,622	-	$ (11,620)	$ 80	$ 262,265

Accumulated Depreciation 2019	**Balance, beginning of year**	**Depreciation**	**Disposals**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil rigs, pumpers and equipment	**$ 86, 839**	**$ 4,298**	**$ (13,428)**	**$ -**	**$ 77,709**
Other oilfield equipment	**32,267**	**4,498**	**(2,683)**	**(60)**	**34,022**
Vehicles	**18,031**	**2,956**	**(2,059)**	**(14)**	**18,914**
Office and computer equipment	**3,439**	**174**	**-**	**-**	**3,613**
Other	**3,440**	**247**	**(113)**	**(2)**	**3,572**
	$ 144,016	**$ 12,173**	**$ (18,283)**	**$ (76)**	**$ 137,830**

Accumulated Depreciation 2018	Balance, beginning of year	Depreciation	Disposals & write-down of assets	Effects of movements in exchange rates	Balance, end of year
Coil rigs, pumpers and equipment	$ 67,790	6,295	$ 12,754	$ -	$ 86, 839
Other oilfield equipment	28,283	4,453	(480)	11	32,267
Vehicles	15,893	3,087	(991)	42	18,031
Office and computer equipment	3,237	246	(44)	-	3,439
Other	3,246	191	-	3	3,440
	$ 118,449	14,272	$ 11,239	$ 56	$ 144,016

At December 31, 2019, there were no assets under construction (December 31, 2018 – $2.7 million).

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

9. GOODWILL

	For the years ended December 31, **2019**	2018
Beginning of the year	**$ 3,745**	$ 3,444
Effect of movement in exchange rates	**(180)**	301
End of the year	**$ 3,565**	$ 3,745

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

For the year ended December 31, 2019, the recoverable amount of the Tryton Tools CGU was determined to be higher than its carrying amount by $23.7 million and no impairment loss was recognized. Management has identified that a 6 percentage point increase in the discount rate would result in an impairment loss in the Tryton Tools CGU.

10. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31, 2019	2018
Trade accounts payable	**$ 5,739**	$ 6,882
Accrued payroll	**3,360**	3,888
Accrued payables	**2,284**	4,100
Other	**130**	1,222
	$ 11,513	$ 16,092

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

	As at December 31, 2019	2018
Canadian dollar	**$ 5,425**	$ 5,834
U.S. dollar	**314**	1,048
	$ 5,739	$ 6,882

11. LONG-TERM DEBT

	As at December 31, 2019	2018
Term loan	**$ 6,750**	$ 21,700
Deferred financing costs	**(187)**	(312)
Non-current portion of long-term debt	**$ 6,563**	$ 21,388

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

As at December 31, 2019, the maximum of $50 million was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

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

	For the years ended December 31,			
		2019		2018
Balance, beginning of year	**$**	**21,388**	$	17,975
Cash changes:				
(Decrease) increase in long-term debt		**(14,950)**		3,600
Non cash changes:				
Deferred financing costs for Credit Facility renewal		**-**		(363)
Amortization of deferred financing costs		**125**		176
Balance, end of year	**$**	**6,563**	$	21,388

12. INCOME TAXES

	For the years ended December 31,			
		2019		2018
Current income tax expense	**$**	**65**	$	63
Deferred income tax recovery		**(2,381)**		(3,104)
Total income tax recovery	**$**	**(2,316)**	$	(3,041)

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,			
		2019		2018
Loss before income taxes	**$**	**(3,872)**	$	(11,819)
Statutory tax rate		**26.6%**		27.0%
Expected income tax recovery		**(1,030)**		(3,191)
Increase (decrease) resulting from:				
Recovery related to prior years		**(770)**		-
Changes in tax rates		**(673)**		-
Items not deductible for tax		**182**		34
Share-based compensation		**22**		65
Other		**(47)**		51
Total income tax recovery	**$**	**(2,316)**	$	(3,041)

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

	As at December 31, 2019	2018
Property and equipment	**$ (10,267)**	$ (9,541)
Net operating losses	**5,977**	3,622
Right-of-use lease asset and liability	**826**	-
Onerous lease contract expense	**-**	1,035
Share issuance costs	**42**	91
Other	**798**	(232)
Deferred tax liabilities	**$ (2,624)**	$ (5,025)

At December 31, 2019, Essential had unrecognized tax assets that related to $8.7 million (2018 - $9.1 million) of gross non-capital losses in the United States, which will expire in 2033 to 2039.

13. SHARE CAPITAL

Authorized

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

	Number of Common Shares (000's)	Amount
As at December 31, 2019, December 31, 2018 and January 1, 2018	**141,857**	**$ 272,732**

14. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income	Total
As at January 1, 2018	$ 5,548	$ 479	$ 6,027
Share-based compensation	239	-	239
Unrealized foreign exchange loss	-	(82)	(82)
As at December 31, 2018	$ 5,787	$ 397	$ 6,184
Share-based compensation	**83**	**-**	**83**
Unrealized foreign exchange gain	**-**	**72**	**72**
As at December 31, 2019	**$ 5,870**	**$ 469**	**$ 6,339**

15. OPERATING EXPENSES

	For the years ended December 31, 2019	2018
Employee costs *(note 17)*	**$ 43,393**	$ 53,166
Materials and related costs	**41,823**	63,391
Repairs and maintenance	**8,407**	9,264
Fuel	**6,243**	9,311
Travel	**5,234**	7,153
Subcontracting	**4,716**	6,294
Occupancy costs	**2,035**	5,571
Other	**3,227**	3,063
Operating expenses	**$ 115,078**	$ 157,213

16. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, 2019	2018
Employee costs *(note 17)*	**$ 6,312**	$ 6,880
Professional fees	**1,610**	1,885
Patent litigation – cost recovery *(note 21)*	**(1,600)**	-
Occupancy costs	**468**	1,098
Other	**2,290**	2,649
General and administrative expenses	**$ 9,080**	$ 12,512

17. EMPLOYEE COSTS

	For the years ended December 31, 2019	2018
Wages and salaries	**$ 45,827**	$ 56,189
Share-based compensation *(note 19)*	**2,362**	(1,311)
Other benefits	**3,878**	3,857
	$ 52,067	$ 58,735
Employee costs are included in:		
Operating expenses *(note 15)*	**$ 43,393**	$ 53,166
General and administrative expenses *(note 16)*	**6,312**	6,880
Share-based compensation *(note 19)*	**2,362**	(1,311)
	$ 52,067	$ 58,735

18. OTHER EXPENSE (INCOME)

	For the years ended December 31,			
		2019		2018
Gain on disposal of assets	**$**	**(135)**	$	(145)
Realized foreign exchange loss		**15**		51
Unrealized foreign exchange loss (gain)		**745**		(1,185)
Other loss (gain)		**103**		(127)
Other expense (income)	**$**	**728**	$	(1,406)

19. SHARE-BASED COMPENSATION

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

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

	For the years ended December 31,			
		2019		2018
Share options	**$**	**83**	$	239
Restricted share units		**1,615**		447
Deferred share units		**664**		(1,997)
Share-based compensation expense (recovery)	**$**	**2,362**	$	(1,311)

a) Share Option Plan

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

At December 31, 2019, the maximum number of share options issuable under the Share Option Plan may not exceed 6% (2018 – 9%) of the Company's outstanding Common Shares. As at December 31, 2019, the maximum number of share options allowed for issuance was 8,511,409 (2018 – 12,767,114).

	For the year ended December 31, 2019			For the year ended December 31, 2018		
	Number of Options (000's)		**Weighted Average Exercise Price**	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of year	**5,821**	**$**	**0.99**	6,398	$	1.11
Issued	**532**		**0.32**	-		-
Expired	**(465)**		**2.90**	(577)		2.29
Forfeited	**(1,460)**		**0.81**	-		-
Outstanding, end of year	**4,428**	**$**	**0.77**	5,821	$	0.99
Exercisable, end of year	**3,636**	**$**	**0.82**	4,264	$	1.09

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

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

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

The following table summarizes information with respect to the share options outstanding:

Exercise Prices	**Options Outstanding (000's)**	**Weighted Average Remaining Contractual Life (years)**		**Weighted Average Exercise Price (per option)**	**Number of Options Exercisable (000's)**
As at December 31, 2019					
$0.32 – $1.00	**3,263**	**1.86**	**$**	**0.62**	**2,471**
$1.01 – $1.46	**1,165**	**0.36**	**$**	**1.19**	**1,165**
	4,428	**1.47**	**$**	**0.77**	**3,636**
As at December 31, 2018					
$0.55 – $1.00	3,726	2.50	$	0.66	2,169
$1.01 – $2.00	1,630	1.36	$	1.19	1,630
$2.01 – $2.90	465	0.02	$	2.90	465
	5,821	1.98	$	0.99	4,264

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments and may contain time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Essential's liability as at December 31, 2019 was $1.8 million (December 31, 2018 – $1.0 million) of which $1.2 million is due within one year (December 31, 2018 – $0.7 million).

The following table summarizes information with respect to RSUs outstanding:

	For the years ended December 31,	
Number of RSUs (000's)	**2019**	2018
Outstanding, beginning of year	**4,930**	4,833
Issued	**6,827**	2,824
Vested	**(2,342)**	(2,471)
Forfeited	**(1,338)**	(256)
Outstanding, end of year	**8,077**	4,930

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Essential's liability at December 31, 2019 was $2.1 million (December 31, 2018 – $1.8 million) of which $nil is due within one year (December 31, 2018 – $nil).

The following table summarizes information with respect to DSUs outstanding:

Number of DSUs (000's)	For the years ended December 31, **2019**	2018
Outstanding, beginning of year	**6,231**	5,509
Issued	**601**	722
Redeemed	**(1,187)**	-
Forfeited	**(94)**	-
Outstanding, end of year	**5,551**	6,231

20. EARNINGS PER SHARE

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

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

(000's)	For the year ended December 31, **2019**	2018
Basic and diluted	**141,857**	141,857

21. CONTINGENCIES

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

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

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

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

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

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

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

On June 24, 2019, Packers Plus filed an application seeking leave from the Supreme Court of Canada (the "Supreme Court") to hear an appeal of the Appeal Decision.

On December 19, 2019, the Supreme Court ruled that it would not grant leave to hear an appeal and awarded costs in favour of Essential. There can be no appeal of the Supreme Court's ruling and, except for Essential collecting the cost recovery awards discussed below, this litigation is now complete.

Since October 2013, Essential has incurred approximately $5 million in external legal fees and disbursements defending this litigation. On January 17, 2020, the Trial Court awarded Essential $1.7 million in cost recovery related to trial costs for this litigation, which is approximately 40% of the costs incurred by Essential for that portion of the litigation. $1.6 million of this amount was accrued in the December 31, 2019 financial statements as a reduction of general and administrative costs. $1.7 million was paid by Packers Plus on March 2, 2020.

22. RELATED PARTY TRANSACTIONS

a) Transactions with key management personnel

The Company provides salaries, cash and non-cash benefits to the Board of Directors and Named Executive Officers. Named Executive Officers participate in the Company's Share Option Plan, RSU and DSU Plan. The Board of Directors participate in Essential's DSU Plan.
Key management personnel compensation is comprised of the following:

	For the years ended December 31,			
		2019		2018
Salaries and other benefits	**$**	**2,915**	$	3,350
Share-based compensation (equity and cash settled)		**960**		1,220
	$	**3,875**	$	4,570

b) Key management personnel transactions

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

For the year ended December 31, 2019, Essential incurred lease and leasehold improvement payments related to these shop premises of $1.5 million (2018 - $0.6 million). Included in accrued payables at December 31, 2019 is leasehold improvement payments of $nil (December 31, 2018 - $0.4 million). Future annual lease payments related to these shop premises are as follows:

		Amount
2020	$	779
2021		779
2022		672
2023		317
2024		160
Thereafter		213
As at December 31, 2019	$	2,920

23. CAPITAL DISCLOSURE

	As at December 31,			
		2019		2018
Long-term debt	**$**	**6,563**	$	21,388
Equity		**150,671**		152,182
Total capitalization	**$**	**157,234**	$	173,570

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

24. FINANCIAL INSTRUMENTS

Designation and valuation of financial instruments

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

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

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

Fair values

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

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

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and natural gas industry and are subject to normal industry credit risks. These balances represent the Company's total credit exposure. During the year ended December 31, 2019, the Company earned revenue from 483 customers (2018 – 530 customers) with five of these customers representing 35% of revenue (2018 – 41% of revenue). As at December 31, 2019, approximately 30% of the trade accounts receivable balance was due from five companies (2018 – 42%).

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 $0.1 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2018 – $0.2 million).

Liquidity risk

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

25. SEGMENTED INFORMATION

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

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

a) Essential Coil Well Service

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

b) Tryton

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

c) Corporate

The Corporate segment is comprised of corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. Loss before income taxes for the year ended December 31, 2019 for the Corporate segment includes corporate office and certain operational costs of $9.4 million (December 31, 2018 - $12.7 million), and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

As at and for the year ended December 31, 2019	ECWS	Tryton	Corporate	Consolidated
Revenue	**$ 78,962**	**$ 62,171**	**$ -**	**$ 141,133**
(Loss) income before income taxes	**$ 5,674**	**$ 5,331**	**$ (14,877)**	**$ (3,872)**
Depreciation and amortization	**$ 9,674**	**$ 5,079**	**$ 1,243**	**$ 15,996**
Total assets	**$ 118,261**	**$ 68,642**	**$ 4,492**	**$ 191,395**
Total liabilities	**$ 17,948**	**$ 11,980**	**$ 10,796**	**$ 40,724**
Property, equipment and intangible asset expenditures	**$ 4,587**	**$ 3,160**	**$ 152**	**$ 7,899**

As at and for the year ended December 31, 2018	ECWS	Tryton	Corporate	Consolidated
Revenue	$ 99,513	$ 90,381	$ -	$ 189,894
(Loss) income before income taxes	$ (15,019)	$ 13,922	$ (10,722)	$ (11,819)
Depreciation and amortization	$ 10,238	$ 4,097	$ 740	$ 15,075
Total assets	$ 124,652	$ 75,291	$ 1,327	$ 201,270
Total Liabilities	$ 14,320	$ 7,848	$ 26,920	$ 49,088
Property, equipment and intangible asset expenditures	$ 12,288	$ 3,029	$ 353	$ 15,670

26. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

ATB Financial

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Jeff B. Newman
Chief Financial Officer

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Finance and Corporate Secretary

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