FINANCIAL REPORT

For the year ended December 31, 2014

Dear Fellow Shareholders,

Our focus at the beginning of 2014 was largely a continuation of our 2013 strategy - execution of our organic growth program and further refinement of our operational strategy. We took delivery of four masted coil tubing rigs that are part of our long-term build program, acquired a U.S.-based downhole tool company and disposed of our rod rig assets.

While oil prices were strong through the first half of 2014, in July we started to see a price fall that continued to the end of the year. During the fourth quarter, it became apparent that the significant decline in oil prices was going to have a negative step-change on the industry. By the end of the fourth quarter our focus shifted to cost management and balance sheet preservation.

From an earnings perspective, Essential had a good year and we reported EBITDAS of $68 million. This was slightly ahead of $66 million in 2013.

From a shareholder perspective, the equity markets "priced into" our share price the falling oil price and anticipated slow-down sooner than reflected by activity on the ground. As our operations continued to be busy in the third quarter and the first part of the fourth quarter, our share price was falling. Like other Canadian oilfield services companies, Essential's share price suffered a significant decline in value. We did, however, continue to pay our shareholders $15 million of dividends in 2014.

Strategic Highlights in 2014

Essential's strategic highlights in 2014 included:

- Growth in our equipment fleet that focused on long-reach horizontal wells, including the addition of:
    - Two Generation III masted coil tubing rigs
    - Two Generation IV masted coil tubing rigs
    - One quintiplex fluid pumper
    - Rental equipment, primarily specialty drill pipe;
- Growth in our U.S. downhole tools operation including the acquisition of a downhole tool company;
- Sale of our rod rig assets, which were not considered part of our core strategy;
- Retired 12 conventional coil tubing rigs. This was older equipment with a shallower focus and persistently lower utilization;
- Preservation of our balance sheet with debt to EBITDAS at year-end of 0.8x; and
- Maintained the quarterly dividend at $0.03 per share.

Operations in 2014

Coil Well Service

We started to realize on the value of our long-term build program with incremental revenue from the new rigs. We experienced strong demand for our new Generation III rigs with an annual utilization of 83%. In 2014, we reached a new internal depth record of 6,311 meters with 2 3/8 inch coil with a Generation III rig. This is a strong testament to the ability of our new rigs to service long-reach horizontal wells. In addition, we improved the marketing and customer alignment strategy of our fluid and nitrogen pumpers which resulted in increased utilization and revenue in 2014.

In late 2014 and early 2015, some of our customers had the opportunity to work with two of our new Generation IV coil tubing rigs. We continue to believe that the specifications and design of these rigs offers our customers the latest innovations in fully mobile coil tubing technology. Unlike the overly crowded competitive market of conventional coil tubing, these Generation IV masted rigs offer the ability to safely work on longer-reach, high

pressure horizontal wells with equipment not previously available to our customers. We will continue to complete the majority of our Generation IV coil tubing build program in 2015/16 as we believe this equipment will be attractive to those customers who can economically continue their exploration and production ("E&P") programs even in today's lower-priced commodity world.

Service Rigs

Our service rig business had a decent year, considering the Canadian service rig industry, in general, was not particularly strong. The Canadian Association of Oilwell Drilling Contactors ("CAODC") reported an average service rig utilization of 46%. Essential reported 49% utilization for the year. Until we see competitors ceasing to add new equipment and/or park service rigs, we do not anticipate near-term improvements in pricing or utilization. Essential will continue to strive for top quartile utilization while carefully assessing the economics of customer's lower price expectations.

Downhole Tools & Rentals

Our downhole tools & rentals business finished the year with higher revenue and gross margin compared to 2013. We did see a shift in demand, with more revenue generated from conventional tools and rentals and less revenue from our multi-stage fracturing tools ("MSFS®"). This is, in part, due to growth of our rentals business and growth of our U.S. conventional tool operations. In addition, in the first quarter we experienced lower demand for our MSFS® ball & seat tools due to shifting demand from some customers. This seemed to be a short-term issue and, on a full year basis compared to 2013, we are pleased that the year ended with improved business results.

Outlook

Sector activity continued to be strong in October and November as our customers completed their 2014 capital spending budgets. However, the impact of lower oil prices became apparent in the last month of 2014 and activity has slowed considerably in the first part of 2015. CAODC reported drilling rig and service rig utilization in January 2015 of 48% and 38% respectively. This is considerably slower than 2014 when, in January, CAODC reported drilling rig utilization of 69% and service rig utilization of 54%. The low price of oil is widely anticipated to negatively impact activity in the Western Canadian Sedimentary Basin throughout the year. In January 2015, the Canadian Association of Petroleum Producers projected E&P spending in 2015 will be 33% lower, decreasing from $69 billion in 2014 to $46 billion in 2015. Since then, further capital spending cuts have been announced. Lower E&P spending decreases demand for oilfield services and puts pricing pressure on services. For Essential, all of our service lines are being impacted by lower activity and pricing pressure, with service rigs being hit the hardest.

Given the circumstances, Essential has taken proactive steps to manage costs and spending. We have implemented a number of initiatives including:

- A 20% reduction in cash compensation for the Board of Directors;
- Salary rollbacks effective March 2015 for all salaried employees – including 20% for executives;
- Suspending various benefit and incentive programs for employees; and
- Discretionary spending reductions in all areas including: consulting, advertising, promotion and administrative costs.

We anticipate annualized fixed cost savings from these initiatives of approximately $10 million. Certain costs and incentives and the resultant savings are dependent on industry activity and Essential's revenue which could increase or decrease the savings number. Unfortunately, despite the cost reduction initiatives, layoffs will be necessary in Calgary and the field. We expect to have these completed by the end of March, so our first quarter results will reflect the cost of employee severance.

On January 6, 2015, we announced a $21 million capital spending budget, well below the $46 million spent in 2014. The budget is focused on our long-term masted coil tubing build program. These rigs have the capability to work on long-reach horizontal wells and are well-suited to work in deep, high pressure basins including the Montney, Bakken, Duvernay and Horn River and should see demand for their services if work continues in these regions. By mid-2016, we expect to have three Generation III and six Generation IV rigs. As announced in January, we have deferred three masted coil tubing rigs. The delivery profile and deferral of the new masted coil tubing rigs is appropriate for the industry slowdown.

Unfortunately, downturns are an inherent part of the oil and gas industry. They usually come as a surprise and are never easy to live through as difficult decisions and actions are required. I acknowledge that the Board of Directors and management realize the implications of the downturn to all of our stakeholders:

- Our shareholders, many of whom have lost considerable value with the decline in the share price;
- Our employees, through salary, benefits and incentives rollbacks and suspensions and layoffs. Many of our employees are also shareholders;
- Our customers, whose revenue is directly impacted by the price of oil; and
- Our suppliers, who will also be impacted by less spending in the industry and whom we are asking for price concessions.

Our management team and the Board of Directors successfully navigated through the last downturn and we are drawing on that experience as we make decisions to work through this downturn.

Fortunately, we entered the downturn with a strong balance sheet and our focus is on maintaining that strength. Our debt at March 4, 2015 was $44 million.

As always, I offer a sincere thank you to all of our employees – for their dedication and hard work, our Board of Directions – for their support and our investors – for believing in and investing in Essential.

I also offer a special thank you to Andrew Zaleski, one of our directors who is retiring this year, for his 10 years of service as a director of Essential and a predecessor company.

Sincerely,

Garnet Amundson
President & Chief Executive Officer
March 4, 2015

Please refer to "Forward-Looking Statements and Information" on page 21 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the year ended December 31, 2014.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the year ended December 31, 2014 and 2013 and the notes contained therein to which readers are referred and the statement 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, 2015 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 4, 2015.

SELECTED INFORMATION

(in thousands of dollars, except per share, percentages and fleet data)

	Three months ended December 31,		Years ended December 31,		
	2014	2013	**2014**	2013	2012
Revenue	**$ 98,854**	$ 92,823	**$ 351,472**	$ 336,269	$ 348,580
Gross margin	**27,330**	25,332	**87,394**	83,268	90,695
Gross margin %	**28%**	27%	**25%**	25%	26%
EBITDAS[1] from continuing operations	**21,992**	20,705	**67,596**	66,092	74,342
EBITDAS % [1]	**22%**	22%	**19%**	20%	21%
Net income (loss)[i] attributable to shareholders of Essential	**(38,323)**	11,126	**(22,822)**	22,095	22,308
Per share – basic	**(0.30)**	0.09	**(0.18)**	0.18	0.18
Per share – diluted	**(0.30)**	0.09	**(0.18)**	0.17	0.18
Cash dividends per share	**0.03**	0.03	**0.12**	0.11	0.10
Total assets	**397,351**	423,963	**397,351**	423,963	406,853
Total long-term debt	**55,253**	39,027	**55,253**	39,027	35,563
Utilization					
Masted coil tubing rigs	**104%**	107%	**89%**	97%	96%
Service rigs	**49%**	53%	**49%**	50%	50%
Equipment fleet – end of period					
Masted coil tubing rigs	**19**	15	**19**	15	16
Service rigs	**54**	55	**54**	55	55

(i) The quarter and year ended December 31, 2014 includes an impairment loss on goodwill and intangible assets of $47.2 million.

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

HIGHLIGHTS

Highlights for the Fourth Quarter 2014

Revenue for the fourth quarter of 2014 was $98.9 million, $6.0 million or 6% higher than the fourth quarter of 2013. Activity was strong for the first two months of the quarter, but weaker in December as lower oil prices impacted customer activity.

- Coil Well Service – Coil well service revenue increased $5.3 million or 15% from the fourth quarter of 2013. The increase was due to incremental revenue from the new masted coil tubing rigs and higher utilization of the fluid and nitrogen pumper fleet.
- Service Rigs – Service rig revenue decreased $3.6 million or 14% from the fourth quarter of 2013 due to the sale of Essential's rod rig assets and lower activity in northern Alberta. Service rig utilization was 49% for the quarter compared to the Canadian Association of Oil Drilling Contractors ("CAODC") service rig industry utilization of 47%.
- Downhole Tools & Rentals – Essential's downhole tools & rentals revenue increased $4.4 million or 14% from the fourth quarter of 2013 due to increased rental revenue, demand for Tryton Multi-Stage Fracturing System ("MSFS®") products and growth in Essential's U.S. downhole tool revenue.

EBITDAS for the fourth quarter of 2014 was $22.0 million, an improvement of $1.3 million or 6% from the fourth quarter of 2013 due to the increase in revenue.

At December 31, 2014, Essential had $55.3 million of debt outstanding, a decrease of $9.7 million from September 30, 2014 primarily due to the proceeds from the sale of Essential's rod rig assets. At March 4, 2015, Essential had $44.0 million of debt outstanding.

Highlights for the Year 2014

For the year ended December 31, 2014, Essential focused on expanding:

- Its masted coil tubing fleet through the addition of two Generation III and two Generation IV rigs. These rigs have the capability to work on long-reach horizontal wells and are well suited to work in deep, high pressure basins; and
- Its downhole tools operation into the U.S. through organic growth and the complimentary acquisition of Sam's Packers & Supply on April 30, 2014 for U.S. $5.6 million.

Revenue for the year ended December 31, 2014 was $351.5 million, $15.2 million or 5% higher than 2013. EBITDAS for 2014 was $67.6 million or 2% higher than 2013. Well servicing revenue increased over 2013 as Essential realized incremental revenue from the deployment of the new masted coil tubing rigs and increased fluid and nitrogen pumper utilization. Operating costs as a percentage of revenue were higher in 2014 due to higher fuel expenses and logistics costs associated with the introduction of the new masted coil tubing rigs. Downhole tools & rentals revenue exceeded 2013 due to greater contributions from Essential's rental operation and higher revenue from Essential's U.S. downhole tool operation.

International Financial Reporting Standards ("IFRS") require Essential to annually assess the carrying value of assets in the cash generating units ("CGUs") containing goodwill. As a direct result of the recent falling price of oil, which has reduced Essential's expectation of future activity and cash flow, the impairment assessment determined that a portion of Essential's goodwill and intangible assets no longer have an economic useful life. The Company recognized an impairment charge in the fourth quarter 2014, consisting of $43.9 million on goodwill and $3.3 million on intangible assets in the well servicing segment.

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

INDUSTRY OVERVIEW

Industry activity in 2014 was relatively consistent with the prior year as exploration and production ("E&P") companies had better access to capital markets and benefited from stronger commodity prices during the first half of the year. Oil prices started to decline mid-year and fell sharply following the November 27, 2014 announcement from the Organization of the Petroleum Exporting Countries that it was leaving its oil production level unchanged, impacting industry activity towards the end of the year.

During the fourth quarter of 2014, drilling rig utilization and the number of wells drilled were higher than the fourth quarter of 2013, while well completions were lower. Compared to the fourth quarter of 2013, drilling rig utilization increased 2 percentage points[a], the number of wells drilled increased 2%[a], while well completion count decreased by 2%[b].

For the year, drilling rig utilization increased 5 percentage points[a], the number of wells drilled increased 2%[a], and well completion counts were flat[b]. Drilling rig utilization, wells drilled and completion activity are all indicators of overall oilfield activity in the Western Canadian Sedimentary Basin ("WCSB").

CORPORATE INFORMATION

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

Additional information regarding Essential, including the Financial Statements and the Annual Information Form for the year ended December 31, 2014, as well as the March 31, 2014, June 30, 2014 and September 30, 2014 interim reports, the 2013 interim reports, 2013 Annual MD&A, Financial Statements and the Annual Information Form for the year ended December 31, 2013, can be found under Essential's profile on SEDAR at www.sedar.com or the Company's website at www.essentialenergy.ca

OVERVIEW OF ESSENTIAL

Essential is a growth-oriented, dividend paying corporation that provides oilfield services to E&P companies primarily in western Canada. Essential's operations are focused on meeting the well servicing needs of customers through its coil well service, service rigs, and downhole tools & rentals businesses.

Well Servicing

Coil well service

The demand for deep coil tubing has increased in recent years with growth in the number of horizontal wells in western Canada. Deep 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.

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

There are three types of equipment used in Essential's coil well service operation:

- Masted Coil Tubing – Essential operates the largest masted coil tubing fleet in Canada. Masted coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's masted coil tubing rigs are equipped to work with coil tubing from 2 inches to 2 7/8 inches in diameter and have a depth capacity in excess of 6,500 meters. Essential's current depth record is 6,311 meters using 2 3/8 inch diameter coil. The increased reel capacity and coil diameter ratings of Essential's masted coil fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.
- Conventional Coil Tubing – Conventional coil tubing rigs generally work in the depth range of 1,500 meters to 6,000 meters. Conventional coil tubing rigs have a smaller footprint on location and have greater flexibility during transport and rig-up operations. Conventional coil tubing rigs perform post-fracturing mill-out/ drill-out work and complete confirmation runs.
- Pumpers – The coil tubing rigs are 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 lubricants into the wellbore. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coil of fluids once the coil tubing work has been completed. As the length of long-reach horizontal wells has continued to increase, Essential has seen increased demand for its twin and quintiplex fluid pumpers and high rate nitrogen pumpers.

Service rigs

Essential's mobile service rig fleet provides well servicing from seven facilities offering well completion and production/work-over services in most major resource plays across the WCSB. Service rigs are used primarily on oil wells which are typically more service intensive than natural gas wells. These rigs are deployed to perform work-overs on existing wells and completions on new wells.

<u>Downhole Tools & Rentals</u>

Essential's downhole tools & rentals segment provides production and completion tools, and rentals for horizontal and vertical wells. Operations for this segment are well placed geographically across the WCSB and in the U.S. in Oklahoma, Texas and Kansas.

Essential provides a wide range of downhole tool and rental services for completion and production 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. The Tryton MSFS® product line includes:
  - Tryton ball & seat technology using standard or dissolvable balls;
  - Tryton Viking coil-actuated sliding-sleeve cemented-in-liner technology offering unlimited fracture stages without balls or seats providing a consistently large inner diameter sleeve that does not require mill-outs or drill-outs of the inner sleeve; and
  - Tryton MaxFrac™ tool using a packer design with a consistently large inner diameter to eliminate the mill-out phase of plug-and-perf completions.
- Conventional Tools – Includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and abandonment operations.
- Rentals – The rental business offers a broad range of oilfield equipment including specialty drill pipe, blowout preventers, specialty equipment for steam-assisted gravity drainage wells, and various other tools and handling equipment.

™ MaxFrac is a trademark of Essential Energy Services Ltd.

A statement of claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in the Canadian Federal Court which alleges certain products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes that the suit is without merit and is defending against the allegations. Proceedings of this nature can take years to resolve through the court process. The trial date has been set for February 2017. This lawsuit targets only the Tryton MSFS® ball & seat system, which Essential commenced using in 2009. It does not target past or future operations of Essential's conventional tools, other Tryton MSFS® tools or rentals business.

RESULTS OF OPERATIONS

(in thousands of dollars, except percentages and per share amounts)	Three months ended December 31,		Years ended December 31,	
	2014	2013	**2014**	2013
Revenue	**$ 98,854**	$ 92,823	**$ 351,472**	$ 336,269
Operating expenses	**71,524**	67,491	**264,078**	253,001
Gross margin	**27,330**	25,332	**87,394**	83,268
General and administrative expenses	**5,338**	4,627	**19,798**	17,176
EBITDAS[(1)]	**21,992**	20,705	**67,596**	66,092
Share-based compensation	**(224)**	840	**1,589**	2,038
Other expense	**1,588**	839	**2,586**	4,385
Depreciation and amortization	**6,854**	7,145	**27,042**	26,710
Impairment loss	**47,164**	-	**47,164**	-
Finance costs	**445**	482	**1,812**	1,634
Income (loss) before income tax from continuing operations	**(33,835)**	11,399	**(12,597)**	31,325
Current income tax expense	**3,692**	5,655	**8,276**	10,508
Deferred income tax expense (recovery)	**796**	(3,734)	**1,949**	(3,200)
Total income tax expense	**4,488**	1,921	**10,225**	7,308
Net income (loss) from continuing operations	**$ (38,323)**	$ 9,478	**$ (22,822)**	$ 24,017
Net income (loss) from discontinued operations[(i)], net of tax	**-**	1,648	**-**	(2,110)
Net income (loss)	**$ (38,323)**	$ 11,126	**$ (22,822)**	$ 21,907
Net income (loss) per share from continuing operations				
Basic	**$ (0.30)**	$ 0.07	**$ (0.18)**	$ 0.19
Diluted	**$ (0.30)**	$ 0.07	**$ (0.18)**	$ 0.19
Net income (loss) attributable to:				
Shareholders of Essential	**$ (38,323)**	$ 11,126	**$ (22,822)**	$ 22,095
Non-controlling interest	**-**	-	**-**	(188)
	$ (38,323)	$ 11,126	**$ (22,822)**	$ 21,907
Net income (loss) per share attributable to shareholders of Essential				
Basic	**$ (0.30)**	$ 0.09	**$ (0.18)**	$ 0.18
Diluted	**$ (0.30)**	$ 0.09	**$ (0.18)**	$ 0.17

[(i)] Relates to Essential's Colombia operations, which were classified as discontinued operations.

SEGMENT RESULTS - *WELL SERVICING*

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars, except percentages, fleet, and hours)	**2014**	2013	**2014**	2013
Revenue				
Coil well service [i]	**$ 41,426**	$ 36,150	**$ 139,556**	$ 128,241
Service rigs	**22,034**	25,593	**93,075**	97,751
Total revenue	**63,460**	61,743	**232,631**	225,992
Operating expenses	**45,929**	45,269	**179,888**	171,992
Gross margin	**$ 17,531**	$ 16,474	**$ 52,743**	$ 54,000
Gross margin %	**28%**	27%	**23%**	24%
Utilization [ii]				
Masted coil tubing rigs				
Utilization	**104%**	107%	**89%**	97%
Operating hours	**17,469**	14,699	**54,399**	50,580
Service rigs				
Utilization	**49%**	53%	**49%**	50%
Operating hours	**24,394**	26,557	**97,914**	100,239
Equipment fleet [iii]				
Masted coil tubing rigs	**19**	15	**19**	15
Service rigs	**54**	55	**54**	55

(i) Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.
(ii) Utilization is calculated using a 10 hour day.
(iii) Fleet data represents the number of units at the end of the period.

Coil well service revenue was $5.3 million or 15% higher than the fourth quarter of 2013. Masted coil tubing utilization was lower, but operating hours were 19% higher, reflecting the increased fleet size with the addition of the new masted coil tubing rigs. Revenue growth in the quarter was the result of operating a larger masted coil tubing fleet and increased revenue from Essential's fluid and nitrogen pumper fleet which supports masted coil operations.

Fourth quarter service rig revenue decreased $3.6 million or 14% compared to the fourth quarter of 2013 due to the sale of Essential's rod rig assets on October 8, 2014 and lower activity in northern Alberta. Service rig utilization for the fourth quarter was 49%, higher than the CAODC utilization of 47%, but lower than Essential's service rig utilization of 53% in the fourth quarter of 2013. Total proceeds from the sale of the rod rig assets were $6.1 million.

Gross margin increased over the fourth quarter of 2013 due to higher revenue and reduced labour costs in coil well service. Compared to 2013, labour costs as a percentage of revenue were lower due to labour efficiencies realized from better crew management as the new masted coil tubing rigs were put into service. Revenue per hour in the fourth quarter for coil well service and service rigs was consistent with the prior year.

Year-over-year, well servicing revenue increased $6.6 million or 3% as Essential generated incremental revenue from the deployment of the new masted coil tubing rigs and increased fluid and nitrogen pumper utilization. Gross margin for the year ended December 31, 2014 was negatively impacted by higher fuel costs in the first half of the year and logistics costs associated with the introduction of the new masted coil tubing rigs. Revenue per hour for coil well service and service rigs was consistent with the prior year.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

(in thousands of dollars, except percentages)	Three months ended December 31, 2014	2013	Years ended December 31, 2014	2013
Revenue	**$ 35,921**	$ 31,560	**$ 120,989**	$ 111,339
Operating expenses	**24,701**	20,907	**81,051**	75,446
Gross margin	**$ 11,220**	$ 10,653	**$ 39,938**	$ 35,893
Gross margin %	**31%**	34%	**33%**	32%
Downhole Tools & Rentals revenue – % of revenue				
Tryton MSFS®	**51%**	55%	**45%**	55%
Conventional Tools & Rentals	**49%**	45%	**55%**	45%

Downhole tools & rentals fourth quarter revenue increased $4.4 million or 14% from the same quarter of 2013. Tryton MSFS® revenue increased due to demand, primarily for the ball & seat products as well as the new MSFS® tools that were introduced earlier in the year. Conventional tools revenue increased due to growth in U.S. operations. Rental revenue increased largely from capital investments in specialty drill pipe targeted toward long-reach horizontal wells and pressure control equipment.

Gross margin as a percentage of revenue in the fourth quarter decreased to 31% compared to 34% for the fourth quarter of 2013 due to year-end inventory adjustments. The adjustments reflect a second half transition to new inventory processes and systems. As a percentage of revenue, gross margin for U.S. operations improved over the same quarter in prior year, as 2013 margins were impacted by initial start-up costs. Rentals gross margin as a percentage of revenue was consistent compared to the same quarter in the prior year.

For 2014, downhole tools & rentals revenue and gross margin exceeded prior year due to increased activity from Essential's higher margin rentals business and improved performance from U.S. operations. On April 30, 2014, Essential acquired all of the issued and outstanding shares of Sam's Packer & Supply LLC for U.S. $5.6 million.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars, except percentages)	Three months ended December 31, 2014	2013	Years ended December 31, 2014	2013
General and administrative expenses	**$ 5,338**	$ 4,627	**$ 19,798**	$ 17,176
As a % of revenue	**5%**	5%	**6%**	5%

General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at corporate and operational levels. General and administrative expense for the fourth quarter and year ended December 31, 2014 increased due to employee costs, facility costs, litigation and professional fees.

DEPRECIATION AND AMORTIZATION

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Depreciation and amortization expense	**$ 6,854**	$ 7,145	**$ 27,042**	$ 26,710

Depreciation and amortization expense for the fourth quarter decreased compared to the fourth quarter of 2013 due to the sale of Essential's rod rig assets in October 2014. For the year ended December 31, 2014 depreciation and amortization increased compared to prior year as a result of net capital asset additions.

SHARE-BASED COMPENSATION

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Share-based compensation expense	**$ (224)**	$ 840	**$ 1,589**	$ 2,038

For the year ended December 31, 2014, share-based compensation expense decreased from prior year due to the decline of Essential's share price.

OTHER EXPENSE

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Loss (gain) on disposal of assets	**$ (55)**	$ 1,008	**$ 831**	$ 1,322
Write-down of assets	**1,958**	-	**2,755**	-
Foreign exchange gain	**(370)**	(154)	**(1,123)**	(176)
Forfeited deposits	**-**	-	**-**	3,567
Other loss (gain)	**55**	(15)	**123**	(328)
Other expense	**$ 1,588**	$ 839	**$ 2,586**	$ 4,385

Write-down of assets in the fourth quarter of 2014 included $2.0 million to reduce the carrying value of Essential's conventional coil tubing equipment to its estimated net realizable value. Forfeited deposits in the prior year related to deposits on two coil tubing rigs as the supplier was placed into receivership in September 2013.

IMPAIRMENT LOSS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Impairment loss	**$ 47,164**	$ -	**$ 47,164**	$ -

IFRS requires Essential to annually assess the carrying value of assets in the CGUs containing goodwill. As a direct result of the recent falling price of oil, which has reduced Essential's expectation of future activity and cash flow, the impairment assessment determined that a portion of Essential's goodwill and intangible assets no longer have an economic useful life. The Company recognized an impairment charge in the fourth quarter of 2014, consisting of $43.9 million on goodwill and $3.3 million on intangible assets in the well servicing segment.

FINANCE COSTS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Finance costs	**$ 445**	$ 482	**$ 1,812**	$ 1,634

For the year ended December 31, 2014, finance costs increased over 2013 due to the increase in average long-term debt outstanding.

INCOME TAXES

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Current income tax expense	**$ 3,692**	$ 5,655	**$ 8,276**	$ 10,508
Deferred income tax expense (recovery)	**796**	(3,734)	**1,949**	(3,200)
Total income tax expense	**$ 4,488**	$ 1,921	**$ 10,225**	$ 7,308

During the three months and year ended December 31, 2014, income tax expense increased compared to 2013 due to an increase in income before income tax, excluding the 2014 impairment loss. The overall effective income tax rate before impairment loss and unrecognized tax losses related to the start-up of U.S. operations for the year was 25% compared to 23% in 2013.

DISCONTINUED OPERATIONS

As of December 31, 2013, Essential had sold all of its Colombian assets and the legal entity for total proceeds of $3.7 million. There were no further activities related to the discontinued operations in 2014.

Net income (loss) from discontinued operations related to the Colombian business was as follows:

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars, except per share amounts)	**2014**	2013	**2014**	2013
Revenue	**$ -**	$ -	**$ -**	$ 1,887
Expenses and loss (gain) on sale of assets	**-**	(605)	**-**	5,040
Income (loss) before income taxes	**-**	605	**-**	(3,153)
Current income tax recovery	**-**	(1,043)	**-**	(1,043)
Net income (loss) from discontinued operations	**$ -**	$ 1,648	**$ -**	$ (2,110)
Net income (loss) per share from discontinued operations				
Basic and diluted	**$ -**	$ 0.01	**$ -**	$ (0.02)

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS[1]

(in thousands of dollars, except per share amounts)	Three months ended December 31, 2014	2013	Years ended December 31, 2014	2013
Net cash provided by operating activities	**$ 24,602**	$ 15,759	**$ 44,842**	$ 47,276
Add:				
Changes in non-cash working capital	**(5,416)**	(975)	**15,228**	8,761
Funds flow provided by operations[1]	**$ 19,186**	$ 14,784	**$ 60,070**	$ 56,037
Per share – basic	**$ 0.15**	$ 0.12	**$ 0.48**	$ 0.45
Per share – diluted	**$ 0.15**	$ 0.12	**$ 0.48**	$ 0.44

WORKING CAPITAL

(in thousands of dollars, except ratios)	As at December 31, 2014	2013
Current assets	**$ 118,758**	$ 107,945
Current liabilities, excluding current portion of long-term debt	**(37,789)**	(45,419)
Working capital [1]	**$ 80,969**	$ 62,526
Working capital ratio	**3.1:1**	2.4:1

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

CREDIT FACILITY

Essential's Credit Facility with its banking syndicate is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on the lender's consent. The Credit Facility matures on May 31, 2017, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At December 31, 2014, the maximum of $100 million under the Credit Facility was available to Essential.

The Credit Facility requires Essential to comply with certain financial covenants including:

	Covenant Threshold	**As at December 31, 2014**
Funded debt[1] to capitalization[1]	≤ 50%	**17%**
Funded debt[1] to trailing 12 months EBITDAS[1]	≤ 3:1	**0.83**
Fixed charge coverage ratio[1] for trailing 12 months	≥ 1.25:1	**3.22**
Distributions[1] shall not exceed distributable cash flow[1] for trailing 12 months		**Covenant met**

The Credit Facility also contains a number of positive and negative covenants including placing 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, 2014 all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

As at December 31, 2014, Essential had a consolidated funded debt balance of $56.3 million, which consisted of long-term debt of $55.3 million and bank indebtedness of $1.0 million. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On March 4, 2015, Essential had long-term debt outstanding of $44.0 million.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Well Servicing	**$ 10,248**	$ 13,539	**$ 32,034**	$ 41,227
Downhole Tools & Rentals	**5,278**	1,460	**12,289**	3,785
Corporate	**489**	643	**1,501**	1,588
Total equipment expenditures	**16,015**	15,642	**45,824**	46,600
Less proceeds on disposal of property and equipment	**(6,622)**	(1,056)	**(9,674)**	(2,657)
Net equipment expenditures[1]	**$ 9,393**	$ 14,586	**$ 36,150**	$ 43,943

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

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2014**	2013	**2014**	2013
Growth capital[1]	**$ 10,995**	$ 10,251	**$ 31,747**	$ 31,650
Maintenance capital[1]	**5,020**	5,391	**14,077**	14,950
Total equipment expenditures	**$ 16,015**	$ 15,642	**$ 45,824**	$ 46,600

2014 growth capital spending related primarily to progress payments on the masted coil tubing build program. The following equipment was added to the fleet during 2014:

- Two Generation III masted coil tubing rigs;
- Two Generation IV masted coil tubing rigs;
- One quintiplex fluid pumper; and
- Rental equipment, primarily specialty drill pipe.

In the fourth quarter, Essential retired twelve conventional coil tubing rigs, including five shallow, five intermediate and two deep rigs. These older rigs have shallower depth capacity and have historically operated at a much lower utilization than the masted coil tubing rigs. On October 8, 2014, Essential sold its rod rigs for proceeds of $6.1 million, which is included in the above table in "proceeds on disposal of property and equipment."

Essential's 2015 capital budget of $21 million, announced on January 6, 2015, is comprised of $13 million growth capital and $8 million maintenance capital. Essential's 2015 growth capital consists primarily of four Generation IV masted coil tubing rigs, two of which are expected to be in service in 2015 and two in the first half of 2016.

Essential's long-term capital build program is aimed at increasing the size and depth capacity of the masted coil tubing fleet. To date, the Company has added three Generation III and two Generation IV masted coil tubing rigs. Essential reduced its expected spend on this program from $63 million to approximately $48 million by deferring the build of one Generation III and two Generation IV rigs in early 2015. Upon completion of the $48 million spending program in 2016, Essential will have three Generation III and six Generation IV masted coil tubing rigs. At December 31, 2014, Essential had spent approximately $37 million on this capital program. The Generation III and Generation IV rigs have the capability to work on long-reach horizontal wells and are well-suited to work in deep, high pressure basins including the Montney, Bakken, Duvernay and Horn River. With a coil diameter of 2 3/8", the Generation III rigs can reach 6,300 meters and the Generation IV rigs can reach 7,900 meters.

The following table shows the expected in-service dates of the major equipment as at March 4, 2015:

	Capital Build Program	Rigs In-Service	Expected In-Service Dates
Masted coil tubing rigs:			
Generation III	3	3	
Generation IV	6	2	Q3'15, Q4'15, 2016(2)

SHARE CAPITAL

As at March 4, 2015, there were 125,836,930 common shares and 5,346,535 share options outstanding. Of the 5,346,535 share options, 145,000 were exercisable and "in-the-money".

COMMITMENTS

Operating leases

Essential has entered into operating leases for office and shop premises that provide for minimum annual lease payments, as follows:

(in thousands of dollars)	Amount
2015	$ 5,912
2016	5,645
2017	4,829
2018	3,165
2019	2,830
Thereafter	10,429
As at December 31, 2014	$ 32,810

Other commitments

As part of its long-term capital program, Essential is committed to future capital expenditures of $13 million of which $10 million is expected to be incurred in 2015 and the balance in 2016.

NORMAL COURSE ISSUER BID ("NCIB")

On March 20, 2014, the Company received approval from the TSX to renew its NCIB for Essential's common shares ("Shares"). Any Shares purchased by Essential pursuant to the NCIB will be for cancellation. The renewed NCIB commenced on March 25, 2014 and will terminate on March 24, 2015, or at such earlier date as the NCIB is completed, or terminated, at the option of Essential.

Under the NCIB, Essential may purchase up to 12,311,641 of its issued and outstanding Shares on the open market through the facilities of the TSX and other alternative trading systems. In accordance with the provisions of the TSX Company Manual, the maximum number of Shares that may be purchased on one day may not exceed 81,141 Shares, which is 25% of the six month average daily trading volume of Shares on the TSX, at February 28, 2014. The price which Essential will pay for any Shares purchased will be the prevailing market price of such Shares at the time of purchase. Shareholders may obtain a copy of the "Notice of Intention to make a Normal Course Issuer Bid" that was filed by the Company with the TSX, free of charge, by contacting the Company.

For the year ended December 31, 2014, 697,046 Shares were acquired and cancelled under the NCIB at an average price of $2.14 per Share.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2014 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, 2014.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Based on the evaluation of the design and operating effectiveness of the Company's ICFR, the CEO and CFO concluded that the Company's ICFR are effective as at December 31, 2014 with no material weaknesses.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES

Preparation of consolidated financial statements requires that the Company make assumptions regarding accounting estimates for certain amounts contained within the consolidated financial statements. The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements necessarily involves the use of estimates and approximations based on information available as at the reporting date of the financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the provisions for impairment of trade receivables, net realizable value of inventory, depreciation and amortization, intangible assets, impairment of long-lived assets, share-based compensation, deferred income tax assets and liabilities, and other cost estimates relating to discontinued operations. 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 also be material.

Provision for Impairment of Trade Receivables

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

Net Realizable Value of Inventory

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

Depreciation and Amortization

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

Intangible Assets

Intangible assets consist of customer relationships, trade names, favourable leases and computer software. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Impairment of Long-Lived Assets

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

Share-based Compensation

Share-based compensation is provided in respect of the share option, restricted share unit ("RSU") and deferred share unit ("DSU") plans.

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

The RSU plan is for key employees and consultants of the Company. RSU's represent the right to receive a cash payment or its equivalent in fully paid shares at the time of vesting, at the option of the Company. As determined by the Board, RSUs may vest evenly over a specified period on the anniversary of the grant date, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to profit and 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 profit or loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

DSUs are for non-employee directors of the Company. DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding expense is charged to profit and 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 profit or 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 income (loss) and other comprehensive income (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 for most deductible temporary differences, carry-forward of unused tax credits and unused tax losses, 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, with certain exceptions being applied. 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.

CHANGES IN ACCOUNTING POLICIES

The Company adopted the following new standards and amendments to standards as of January 1, 2014: IAS 32, "Financial Instruments: Presentation"; IAS 36, "Impairment of Assets"; and IFRIC 21, "Levies – Interpretation of IAS 37 Provisions, Contingent Liabilities and Assets". The adoption of these standards did not materially impact the Company.

FUTURE ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2015 and have not been applied in preparing the Consolidated Financial Statements for the year-ended December 31, 2014. The standards and interpretations are as follows and will be adopted on their respective effective dates: IFRS 2, "Share-Based Payments"; IFRS 3, "Business Combinations"; IFRS 8, "Operating Segments"; IFRS 9, "Financial Instruments"; IFRS 13, "Fair Value Measurement"; and IFRS 15, "Revenue from Contracts with Customers". Essential is evaluating the potential impact these standards are expected to have on the Company.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form for the year ended December 31, 2014, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's Annual Information Form. The risks and uncertainties in Essential's Annual Information Form are not the only ones it

faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business.

OUTLOOK

Sector activity continued to be strong in October and November as E&P customers completed their 2014 capital spending budgets. However, the impact of lower oil prices became apparent in the last month of 2014 and the start of 2015 as activity slowed considerably. The CAODC reported drilling rig and service rig utilization in January 2015 of 48% and 38% respectively. In January 2014, CAODC drilling rig utilization was 69% and service rig utilization was 54%. The low price of oil is widely anticipated to keep activity in the WCSB slower throughout the year. In January 2015 the Canadian Association of Petroleum Producers projected E&P spending in 2015 will be 33% lower, decreasing from $69 billion in 2014 to $46 billion in 2015. Since then, further capital spending cuts have been announced. Lower E&P spending decreases demand for oilfield services and puts pricing pressure on those services.

Given the circumstances, Essential is taking proactive steps to manage costs and spending. Compensation reductions have been implemented in March 2015, including a 20% cash compensation decrease for the Board of Directors and 20% salary rollback for executives. In addition, Essential has suspended various benefit and incentive programs. The compensation reductions will remain in place pending clarity on the duration and extent of the industry downturn. Discretionary spending is under review in all areas including consulting costs, advertising, promotion and administrative costs. Essential anticipates annualized fixed cost savings from these initiatives will be approximately $10 million. Unfortunately, despite these cost reduction initiatives, the slowdown has necessitated the need for employee layoffs, which are expected to be completed prior to the end of the first quarter.

On January 6, 2015, Essential announced a $21 million capital spending budget, well below the $46 million spent in 2014. As detailed in January, Essential has deferred three of the masted coil tubing rigs that are part of the long-term capital build program. The delivery profile and deferral of the new masted coil tubing rigs is appropriate for the industry slowdown. These rigs have the capability to work on long-reach horizontal wells and are well-suited to work in deep, high pressure basins including the Montney, Bakken, Duvernay and Horn River and should see demand for their services if work continues in these regions.

The cost cutting efforts and conservative capital spending will help to preserve the strength of Essential's balance sheet. At March 4, 2015, Essential had $44 million of debt and reported Debt to EBITDAS of 0.8x at year-end.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity levels of the Company are directly impacted by seasonality. Activity is traditionally higher in the first, third and fourth quarters of the year and lower in the second quarter. With the onset of spring, melting snow renders many roadways incapable of supporting heavy equipment. In addition, certain areas in Canada are typically only accessible during the winter months. The following table provides the Company's quarterly information for the past eight quarters:

(in thousands of dollars, except per share amounts, percentages and fleet data)	**Dec 31, 2014**	Sept 30, 2014	Jun 30, 2014	Mar 31, 2014	**Dec 31, 2013**	Sept 30, 2013	Jun 30, 2013	Mar 31, 2013
Well Servicing:								
Coil Well Service	**41,426**	39,233	17,398	41,499	**36,150**	33,037	9,433	49,621
Service Rigs	**22,034**	22,105	16,437	32,499	**25,593**	23,870	14,732	33,556
Total Well Servicing	**63,460**	61,338	33,835	73,998	**61,743**	56,907	24,165	83,177
Downhole Tools & Rentals	**35,921**	35,261	19,521	30,286	**31,560**	28,185	14,252	37,342
Inter-segment eliminations	**(527)**	(463)	(604)	(554)	**(480)**	(582)	-	-
Total revenue	**98,854**	96,136	52,752	103,730	**92,823**	84,510	38,417	120,519
Gross margin	**27,330**	27,515	5,222	27,327	**25,332**	21,414	(1,310)	37,832
Gross margin %	**28%**	29%	10%	26%	**27%**	25%	(3)%	31%
EBITDAS[1]	**21,992**	22,657	440	22,507	**20,705**	17,132	(5,171)	33,426
EBITDAS %[1]	**22%**	24%	1%	22%	**22%**	20%	(13)%	28%
Net income (loss) [i] attributable to shareholders of Essential	**(38,323)**	10,777	(5,425)	10,149	**11,126**	3,843	(11,501)	18,627
Per share – basic	**(0.30)**	0.09	(0.04)	0.08	**0.09**	0.03	(0.09)	0.15
Per share – diluted	**(0.30)**	0.08	(0.04)	0.08	**0.09**	0.03	(0.09)	0.15
Total assets	**397,351**	454,745	408,964	439,745	**423,963**	409,613	380,728	436,301
Long-term debt	**55,253**	65,043	38,433	50,821	**39,027**	40,484	14,592	35,603
Utilization [ii]								
Masted coil tubing rigs	**104%**	105%	42%	109%	**107%**	112%	19%	148%
Pumpers [iii]	**72%**	66%	34%	69%	**55%**	47%	14%	73%
Service rigs	**49%**	48%	34%	66%	**53%**	50%	28%	69%
Operating Hours								
Masted coil tubing rigs	**17,469**	15,524	6,094	15,312	**14,699**	14,738	2,477	18,666
Pumpers [iii]	**20,885**	19,397	9,861	19,995	**16,612**	14,418	4,241	20,481
Conventional coil tubing rigs	**3,951**	4,426	2,942	6,959	**6,612**	5,002	2,832	8,609
Service rigs	**24,394**	23,997	16,907	32,616	**26,557**	25,084	14,234	34,364
Downhole Tools & Rentals - % of revenue								
Tryton MSFS®	**51%**	53%	25%	39%	**55%**	55%	40%	60%
Conventional Tools & Rentals	**49%**	47%	75%	61%	**45%**	45%	60%	40%
Equipment fleet [iv]								
Masted coil tubing rigs	**19**	17	17	16	**15**	15	14	14
Fluid pumpers	**18**	18	18	18	**18**	18	18	18
Nitrogen pumpers	**14**	14	14	14	**14**	15	15	13
Conventional coil tubing rigs	**17**	29	30	30	**30**	30	30	30
Service rigs	**54**	54	55	55	**55**	54	56	56

(i) The quarter ended December 31, 2014 includes an impairment loss on goodwill and intangible assets of $47.2 million.
(ii) Utilization is calculated using a 10 hour day.
(iii) Pumpers include both fluid and nitrogen pumpers.
(iv) Fleet data represents the number of units at the end of the period.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "projects", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: capital spending; cash flow and earnings; the Credit Facility; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the Company's belief that the Packers Plus Energy Services Inc. claim is without merit and the length of time it will take to resolve the claim; Essential's long-term build program and the addition of new masted coil rigs; the costs and timing associated with such program and the delivery of the equipment; the demand for the services of the rigs; the amount expected to paid for Essential's "Other commitments"; the termination date of the NCIB; senior management's oversight and controls compensating for any non-material control weaknesses in the Company's ICFR; information provided under the subheading "Critical Accounting Estimates"; the adoption of new standards, amendments to standards, and interpretations for the Company's accounting policies; the price of oil and its impact on activity and pricing in the WCSB; projected E&P spending in 2015; anticipated savings from cost reduction initiatives; duration compensation reductions will remain in place; the timing of employee layoffs; and the impact of cost cutting efforts and conservative capital spending on Essential's balance sheet.

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

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

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

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

[1]Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net earnings and net earnings 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, capital programs and pay dividends. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net earnings and net earnings per share as calculated in accordance with IFRS.

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 funds flow from operations less required principal repayments for the most recent four consecutive fiscal quarters.

Distributions – This measure is generally defined in Essential's Credit Facility as dividends declared or paid, plus normal course issuer bid purchases for the most recent four consecutive fiscal quarters.

EBITDAS (Earnings before finance costs, income taxes, depreciation, amortization, transaction costs, non-controlling interest earnings, losses or gains on disposal of equipment, write-down of assets, impairment loss, foreign exchange gains or losses, results of discontinued operations 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 ability to generate funds flow in order to fund required working capital, service debt, invest in capital programs and pay dividends.

EBITDAS % – This measure is considered an indicator of Essential's ability to generate funds flow as calculated by EBITDAS divided by revenue.

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

	Three months ended December 31,		Year ended December 31,	
(in thousands of dollars)	**2014**	2013[(i)]	**2014**	2013[(i)]
EBITDAS	**$ 21,992**	$ 20,705	**$ 67,596**	$ 66,092
Share-based compensation	**(224)**	840	**1,589**	2,038
Impairment loss	**47,164**	-	**47,164**	-
Other expense	**1,588**	839	**2,586**	4,385
EBITDA	**(26,536)**	19,026	**16,257**	59,669
Depreciation and amortization	**6,854**	7,145	**27,042**	26,710
Finance costs	**445**	482	**1,812**	1,634
Income (loss) before income tax	**(33,835)**	11,399	**(12,597)**	31,325
Total income tax expense	**4,488**	1,921	**10,225**	7,308
Net income (loss) from continuing operations	**$ (38,323)**	$ 9,478	**$ (22,822)**	$ 24,017

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

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

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt including current portion of long-term debt plus bank indebtedness.

Funds flow or funds flow provided by (used in) operations[(ii)] – This measure is an indicator of Essential's ability to generate funds flow[(ii)] in order to fund working capital, principal debt repayments, capital programs and pay dividends. Funds flow or funds flow from operations is defined as cash flow from operations before changes in non-cash operating working capital. This measure is useful in assessing Essential's operational cash flow as it provides cash generated in the period excluding the timing of non-cash operating working capital. This reflects the ability of the operations of Essential to meet the above noted funding requirements.
Growth capital – Growth capital is capital spending which is intended to result in incremental increases in revenue. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenue and funds flow to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired equipment. Such additions do not provide incremental increases in revenue. Maintenance capital is a key component in understanding the sustainability of Essential's business as cash resources retained within Essential must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation.

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

Working capital – Working capital is calculated as current assets less current liabilities, excluding the current portion of long-term debt.

[(ii)] Funds flow is reconciled to the IFRS measure, net cash flow from operating activities, in the table "Funds Flow from Operations".

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

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Allan Mowbray"

ALLAN MOWBRAY
Vice President, Finance and
Chief Financial Officer

March 4, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Essential Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Essential Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

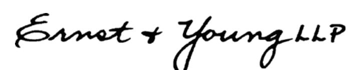
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Essential Energy Services Ltd. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Calgary, Canada

March 4, 2015

Chartered Accountants

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)	As at December 31, **2014**	2013
Assets		
Current		
Trade and other accounts receivable *(note 6)*	**$ 79,651**	$ 76,640
Inventories *(note 7)*	**35,991**	27,979
Prepayments	**3,116**	3,326
	118,758	107,945
Non-current		
Property and equipment *(note 8)*	**239,696**	230,292
Intangible assets *(note 9)*	**24,599**	30,712
Goodwill *(note 10)*	**14,298**	55,014
	278,593	316,018
Total assets	**$ 397,351**	$ 423,963
Liabilities		
Current		
Bank indebtedness	**$ 991**	$ 2,112
Trade and other accounts payable *(note 11)*	**32,822**	36,161
Dividends payable *(note 12)*	**3,773**	3,765
Income taxes payable	**203**	3,381
Current portion of long-term debt *(note 13)*	**-**	7,603
	37,789	53,022
Non-current		
Long-term debt *(note 13)*	**55,253**	31,424
Deferred tax liabilities *(note 14)*	**28,299**	26,360
	83,552	57,784
Total liabilities	**121,341**	110,806
Commitments and contingencies *(note 26)*		
Equity		
Share capital *(note 15)*	**262,871**	262,177
Retained earnings	**8,706**	46,622
Other reserves *(note 16)*	**4,433**	4,358
Total equity	**276,010**	313,157
Total liabilities and equity	**$ 397,351**	$ 423,963

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

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

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

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

(in thousands of dollars, except per share amounts)	For the years ended December 31, **2014**	2013
Revenue	**$ 351,472**	$ 336,269
Operating expenses *(note 18)*	**264,078**	253,001
Gross margin	**87,394**	83,268
General and administrative expenses *(note 19)*	**19,798**	17,176
	67,596	66,092
Depreciation and amortization	**27,042**	26,710
Share-based compensation *(note 23)*	**1,589**	2,038
Impairment loss *(notes 9 and 10)*	**47,164**	-
Other expenses *(note 21)*	**2,586**	4,385
Operating profit (loss) from continuing operations	**(10,785)**	32,959
Finance costs *(note 22)*	**1,812**	1,634
Income (loss) before income taxes from continuing operations	**(12,597)**	31,325
Current income tax expense	**8,276**	10,508
Deferred income tax expense (recovery)	**1,949**	(3,200)
Total income tax expense *(note 14)*	**10,225**	7,308
Net income (loss) from continuing operations	**$ (22,822)**	$ 24,017
Loss from discontinued operations, net of tax *(note 24)*	**-**	(2,110)
Net income (loss)	**$ (22,822)**	$ 21,907
Unrealized foreign exchange gain (loss) from continuing operations *(note 16)*	**61**	(54)
Unrealized foreign exchange loss from discontinued operations *(note 16 and 24)*	**-**	(224)
Reclassification of foreign exchange from discontinued operations *(note 16 and 24)*	**-**	(664)
Other comprehensive income (loss)	**61**	(942)
Comprehensive income (loss)	**$ (22,761)**	$ 20,965
Net income (loss) attributable to:		
Shareholders of Essential	**$ (22,822)**	$ 22,095
Non-controlling interest	**-**	(188)
	$ (22,822)	$ 21,907
Comprehensive income (loss) attributable to:		
Shareholders of Essential	**$ (22,761)**	$ 21,153
Non-controlling interest	**-**	(188)
	$ (22,761)	$ 20,965
Net income (loss) per share from continuing operations *(note 25)*		
Basic and diluted, attributable to shareholders of Essential	**$ (0.18)**	$ 0.19
Net income (loss) per share *(note 25)*		
Basic, attributable to shareholders of Essential	**$ (0.18)**	$ 0.18
Diluted, attributable to shareholders of Essential	**$ (0.18)**	$ 0.17
Comprehensive income (loss) per share *(note 25)*		
Basic and diluted, attributable to shareholders of Essential	**$ (0.18)**	$ 0.17

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, **2014**	2013
Equity attributable to shareholders of Essential:		
Share capital		
Balance, January 1	**$ 262,177**	$ 258,772
Exercise of options *(note 15)*	**2,149**	4,491
Shares repurchased in normal course issuer bid *(note 15)*	**(1,455)**	(1,086)
Balance, December 31	**$ 262,871**	$ 262,177
Retained earnings		
Balance, January 1	**$ 46,622**	$ 38,276
Net income (loss) attributable to shareholders of Essential	**(22,822)**	22,095
Dividends *(note 12)*	**(15,094)**	(13,749)
Balance, December 31	**$ 8,706**	$ 46,622
Other reserves		
Balance, January 1	**$ 4,358**	$ 5,363
Other comprehensive income (loss) *(note 16)*	**61**	(942)
Equity-settled share-based compensation *(note 16)*	**789**	1,177
Exercise of options *(note 16)*	**(730)**	(1,100)
Shares cancelled under normal course issuer bid *(note 16)*	**(45)**	(140)
Balance, December 31	**$ 4,433**	$ 4,358
Total equity attributed to shareholders of Essential	**$ 276,010**	$ 313,157
Equity attributable to non-controlling interest:		
Balance, January 1	**$ -**	$ (6)
Loss attributed to non-controlling interest *(note 17)*	**-**	(188)
Unrealized foreign exchange loss on discontinued operations *(note 17)*	**-**	(4)
De-recognition of non-controlling interest *(note 17)*	**-**	198
Balance, December 31	**$ -**	$ -
Total equity	**$ 276,010**	$ 313,157

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, **2014**	2013
Operating activities:		
Net income (loss) from continuing operations	**$ (22,822)**	$ 24,017
Non-cash adjustments to reconcile net income for the year to operating cash flow:		
Depreciation and amortization	**27,042**	26,710
Deferred income tax expense (recovery) *(note 14)*	**1,949**	(3,200)
Share-based compensation *(note 23)*	**789**	1,177
Provision for impairment of trade accounts receivable *(note 6)*	**550**	810
Finance costs *(note 22)*	**1,812**	1,634
Impairment loss *(notes 9 and 10)*	**47,164**	-
Loss on disposal of assets, write-down of assets and forfeited deposits *(note 21)*	**3,586**	4,889
Operating cash flow before changes in non-cash operating working capital	**60,070**	56,037
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(2,224)**	(6,708)
Inventories	**(7,464)**	(7,280)
Prepayments	**210**	(20)
Trade and other accounts payable	**(2,572)**	1,128
Current income taxes payable	**(3,178)**	4,119
Net cash provided by operating activities from continuing operations	**44,842**	47,276
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 8 and 9)*	**(45,824)**	(46,600)
Business acquisition, net of cash acquired *(note 5)*	**(6,043)**	-
Non-cash investing working capital in trade and other accounts payable	**(805)**	2,387
Proceeds on disposal of equipment	**9,674**	2,657
Proceeds on sale of assets held for sale	**-**	3,063
Net cash used in investing activities from continuing operations	**(42,998)**	(38,493)
Financing activities:		
Issuance of long-term debt	**16,226**	3,464
Proceeds from exercise of share options	**1,419**	3,389
Repurchase of shares	**(1,500)**	(1,226)
Dividends paid	**(15,085)**	(13,083)
Finance costs *(note 22)*	**(1,812)**	(1,634)
Net cash used in financing activities from continuing operations	**(752)**	(9,090)
Foreign exchange gain on cash held in a foreign currency	**29**	30
Net increase (decrease) in cash	**1,121**	(277)
Bank indebtedness, beginning of year	**(2,112)**	(1,835)
Bank indebtedness, end of year	**$ (991)**	$ (2,112)
Supplemental cash flow information		
Cash taxes paid	**$ 11,465**	$ 6,370
Cash interest and standby fees paid	**$ 1,655**	$ 1,402

See accompanying notes to the consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at and for the years ended December 31, 2014 and 2013
(All tabular amounts in thousands of dollars unless otherwise stated, except for per share amounts)

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, 2014 and 2013 were approved by the Board of Directors of Essential ("Board of Directors" or "Board") on March 4, 2015. Essential is a publicly traded oilfield services company incorporated under the *Business Corporations Act* (Alberta). Essential is listed on the Toronto Stock Exchange ("TSX") and trades under the symbol ESN.

Based in Calgary, Alberta, Essential provides oilfield services to oil and gas producers primarily in western Canada. The address of the registered office is 3400, 350 – 7 Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

2. SUMMARY OF SIGNFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements for the year ended December 31, 2014, including comparatives, have been prepared using accounting policies in compliance with 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 for the fair values assigned to certain equipment on transition to IFRS. 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 consolidated financial statements may be presented. The results and financial position are translated into the presentation currency using the following procedures:

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

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

iii. any resulting exchange differences are recognized in other comprehensive income (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 cost of the acquisition 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 income (loss) and comprehensive income (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) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

Fair value less costs to sell equipment was estimated using the best available information at that time and was presented as assets and liabilities held for sale in the statement of financial position. At the time the estimate was made, it involved uncertainties inherent in making assumptions regarding unknown future outcomes and events. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

g) REVENUE RECOGNITION

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

h) INCOME TAXES

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by 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 income (loss) and comprehensive income (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 profit nor taxable profit 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward 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 profit nor taxable profit 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 profit 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 income (loss) and comprehensive income (loss). Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. The measurement of deferred income tax assets and liabilities involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

i) SHARE-BASED PAYMENT TRANSACTIONS

Essential has a Share Option Plan, a Restricted Share Unit (“RSU”) Plan and a Deferred Share Unit (“DSU”) Plan for which share-based compensation costs are incurred.

Share Option Plan

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

Restricted Share Unit Plan

The RSU Plan is for key employees and consultants of the Company. RSUs represent the right to receive a cash payment or its equivalent in common shares at the time of vesting, at the option of the Company. As determined by the Board, the grants may vest in three equal instalments and if a performance criteria is featured, they vest conditionally. The fair value of the liability and the corresponding expense is charged to share-based compensation expense and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in share-based compensation expense. The RSU expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

DSUs are for non-employee directors ("Eligible Directors") of the Company. DSUs vest on the first anniversary from the grant date. The fair value of the liability and the corresponding expense is charged to share-based compensation expense 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 share-based compensation expense.

The estimates used to determine fair value and forfeiture rates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events. In addition, the dilutive effect of outstanding options and RSU's are reflected as additional share dilution in the computation of diluted earnings per share.

j) Financial Instruments

Fair value hierarchy

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

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

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

Financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Trade and other receivables are classified as "loans and receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities recognized at fair value through profit or loss include those designated as held-for-trading and as fair value through profit or loss upon initial recognition. As at December 31, 2014, Essential had no held-for-trading financial liabilities.

Other financial liabilities

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

k) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of an asset. The costs of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The costs associated with day-to-day servicing and repairs and maintenance are recognized in the consolidated statements of net income (loss) and comprehensive income (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. However, 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
Service rigs and equipment – certifications	24,000 hours	Hours of service
Service rigs and equipment – frames	20-40 years	Straight-line
Service rigs and equipment – other	8-20 years	Straight-line
Coil tubing rigs and equipment – certifications	24,000 hours	Hours of service
Coil tubing rigs and equipment – frames	20-30 years	Straight-line
Coil tubing rigs and equipment – other	8-15 years	Straight-line
Oilfield equipment	10-15 years	Straight-line
Vehicles	5-10 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 or disposal. 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 income (loss) and comprehensive income (loss) in the period the asset is derecognized.

The assets' residual values, useful lives, and methods of depreciation are reviewed at each financial year end and adjusted prospectively if required.

l) Leases

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

Finance leases

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

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

Operating leases

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

m) Intangible Assets

Intangible assets are comprised of the values attributable to computer software, customer relationships, and trade names from acquired businesses.

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

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

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

Customer relationships	5 - 10 years
Trade names	3 - 5 years
Computer software	5 years
Non-compete agreement	5 years

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

n) INVENTORIES

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

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

Downhole tools	weighted average cost basis
Coil tubing	specific cost basis

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

o) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

The Company performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. The history of bad debt losses of the Company has been within expectations and is generally limited to specific customer circumstances. However, given the cyclical nature of the oil and gas industry, a customer's ability to fulfill its payment obligations can change suddenly and without notice. The provision for impairment of trade receivables involves uncertainties inherent in making assumptions and estimates regarding unknown future outcomes and events.

p) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

q) GOODWILL

Goodwill is measured at cost, determined as the excess of the purchase price over the fair value of identifiable net asset acquired, less any accumulated impairment losses after initial recognition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is

recognized. Any goodwill impairment will be recognized as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

r) PROVISIONS

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

s) NON-CONTROLLING INTEREST

Non-controlling interest on the consolidated statements of financial position is represented by contributions made by the non-controlling partner, plus or minus the accumulated earnings (loss) attributable to the non-controlling interest, less distributions.

3. CHANGES IN ACCOUNTING POLICIES AND FUTURE ACCOUNTING POLICIES

a) Changes in Accounting Policies

The Company adopted the following amendments and interpretation standards as of January 1, 2014:

IAS 32 *Financial Instruments: Presentation* was issued in December 2011 to address offsetting financial assets and financial liabilities. The standard amends IAS 32 *Financial Instruments: Presentation* to provide clarification on the application of the offsetting rules. This standard did not impact Essential.

IAS 36 *Impairment of Assets* has been amended to remove the requirement to disclose the recoverable amount for each CGU containing goodwill or indefinite long-lived asset unless there are impairments charges or reversal thereof in the period. Essential will be required to report the recoverable amount of any CGU where impairment charges or reversal thereof are recognized.

IFRIC 21 *Levies – Interpretation of IAS 37 Provisions, Contingent Liabilities and assets* sets out criteria for the recognition of a liability as the obligating event that gives rise to a liability to pay a levy being the activity described in the relevant legislation that triggers the payment of the levy. The standard did not impact the way in which Essential accounts for government issued levies, such as annual property taxes.

b) Future Accounting Policies

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after July 1, 2014 and have not been applied in preparing the consolidated financial statements for the year ended December 31, 2014. The standards and interpretations are as follows and will be adopted on the above mentioned effective date or as otherwise stated:

Share-based Payments

Amendments to IFRS 2 *Share-based Payments* amends definitions of “vesting conditions” and “market conditions” to include “performance and service conditions”, not previously defined, to add clarity and resolve various issues around when vesting conditions are satisfied. The revision to the standard will not impact Essential as the Company currently distinguishes between the definitions provided.

Business Combinations

Amendment to IFRS 3 *Business Combinations* clarifies that contingent considerations that are classified as an asset or liability shall be measured at fair value at each reporting period. The revision will not impact Essential.

Operating Segments

Amendments to IFRS 8 *Operating Segments* require entities to disclose the judgment made by management in applying the aggregation criteria to operating segments. The revision will require additional disclosure to be added to ensure Essential complies with the reporting standard.

Fair Value Measurement

Amendments to IFRS 13 *Fair Value Measurement* require short-term receivables and payables to be measured at their invoice amounts with no discounting if there are no stated interest rates available, if the effect of not discounting is not material. The revision will not impact Essential.

Financial Instruments

IFRS 9 *Financial Instruments* addresses requirements for the classification and measurement of financial instruments, impairment methodology and hedge accounting. The IASB set a mandatory effective date for annual periods beginning on or after January 1, 2018. The Company continues to assess this new standard, but does not expect it to have a significant impact.

Revenue

IFRS 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition guidance with a new framework to determine the timing and measurement of revenue, providing users of the financial statements more information and relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company continues to assess this new standard, but does not expect it to have a significant impact.

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 necessarily involves the use of estimates and approximations based on information available as at the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the estimates used for the impairment provisions for trade receivables, net realizable value of inventory, depreciation and amortization, intangible assets, impairment of long-lived assets, share-based compensation, provisions, deferred income tax assets and liabilities, and fair value less cost to sell on measurement of assets and liabilities held for sale and other cost estimates relating to discontinued operations. 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 consolidated financial statements of changes in such estimates in future years could also be material.

5. BUSINESS ACQUISITION

On April 30, 2014, Essential acquired all of the issued and outstanding shares of Sam's Packer & Supply LLC ("Sam's"), a private downhole tool company that operates in the United States. The purchase price was $6.2 million (U.S. $5.6 million).

This acquisition has been accounted for using the acquisition method. Essential has allocated the purchase price to the net assets acquired based on management's best estimate of fair value, which takes into consideration the condition of the assets acquired as well as the amount expected to settle the outstanding liabilities, with the residual allocated to goodwill. Sam's operating results have been included in Essential's consolidated financial statements from the date of acquisition.

The following summarizes the allocation of the aggregate consideration for the acquisition of Sam's:

		Amount
Purchase price	$	6,174
Net assets acquired:		
Cash		131
Net working capital (including accounts receivable of $636)		1,146
Property and equipment		175
Intangible assets		1,677
Goodwill		3,045
	$	6,174

The net assets acquired and liabilities assumed have been included in the Downhole Tools & Rentals segment. Goodwill relates to the following: i) the acquisition of Sam's is complementary to Essential's downhole tool business and a continuation of the Company's strategy to expand into the United States; and ii) an experienced management team and work force has been in place for many years. Intangible assets relate to a customer list and a non-compete agreement. The goodwill and intangible assets recognized are deductible for U.S. income tax purposes.

6. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at December 31,			
		2014		2013
Trade receivables, net of provision	**$**	**78,367**	$	76,358
Other receivables		**1,284**		282
	$	**79,651**	$	76,640

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

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

	As at December 31,			
		2014		2013
Canadian dollar	**$**	**75,802**	$	74,266
U.S. dollar		**2,565**		2,092
	$	**78,367**	$	76,358

The aging analysis of trade receivables is as follows:

	As at December 31, 2014	As at December 31, 2013
< 31 days	**$ 30,012**	$ 31,458
31-60 days	**26,730**	27,146
61-90 days	**12,390**	12,206
>90 days	**9,235**	5,548
	$ 78,367	$ 76,358

The provision for impairment of receivables of $1.1 million (December 31, 2013 – $1.0 million) is included in the amounts over 90 days old. The movements in the provision during the year were as follows:

	For the years ended December 31, 2014	For the years ended December 31, 2013
Balance, beginning of year	**$ 962**	$ 314
Provision for receivables impairment	**550**	810
Receivables written off against the provision	**(364)**	(162)
Balance, end of year	**$ 1,148**	$ 962

The addition and release of the provision for impairment of receivables has been included in operating expense in the consolidated statements of net income (loss) and comprehensive income (loss). Amounts included in the provision are generally written off when there is no expectation of recovery.

7. INVENTORIES

	As at December 31, 2014	As at December 31, 2013
Downhole tools	**$ 26,172**	$ 19,924
Coil well service	**9,819**	8,055
	$ 35,991	$ 27,979

Inventory charged through operating expenses in the consolidated statements of net income (loss) and comprehensive income (loss) for the year ended December 31, 2014 was $56.9 million (2013 – $49.3 million).

8. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, **2014**	2013
Coil well service rigs and equipment	**$ 109,649**	$ 102,447
Service rigs and equipment	**67,644**	76,617
Oilfield equipment	**33,363**	26,671
Vehicles	**24,558**	20,513
Office and computer equipment	**1,797**	1,708
Land	**482**	482
Other	**2,203**	1,854
	$ 239,696	$ 230,292

Cost **As at December 31, 2014**	**Balance beginning of year**	**Additions**	**Additions through acquisition**	**Disposals and write-down**	**Effects of movements in exchange rates**	**Balance end of year**
Coil well service rigs and equipment	**$ 126,847**	**$ 19,462**	**$ -**	**$ (6,660)**	**$ -**	**$ 139,649**
Service rigs and equipment	**100,438**	**3,641**	**-**	**(11,807)**	**28**	**92,300**
Oilfield equipment	**42,968**	**11,350**	**11**	**(99)**	**24**	**54,254**
Vehicles	**28,265**	**9,441**	**164**	**(4,728)**	**59**	**33,201**
Office and computer equipment	**3,875**	**728**	**-**	**-**	**1**	**4,604**
Land	**482**	**-**	**-**	**-**	**-**	**482**
Other	**4,288**	**834**	**-**	**-**	**1**	**5,123**
	$ 307,163	**$ 45,456**	**$ 175**	**$ (23,294)**	**$ 113**	**$ 329,613**
As at December 31, 2013						
Coil well service rigs and equipment	$ 118,460	$ 11,768	$ -	$ (3,381)	$ -	$ 126,847
Service rigs and equipment	90,799	12,505	-	(2,866)	-	100,438
Oilfield equipment	32,606	13,376	-	(3,012)	(2)	42,968
Vehicles	23,010	7,736	-	(2,466)	(15)	28,265
Office and computer equipment	3,364	670	-	(159)	-	3,875
Land	482	-	-	-	-	482
Other	4,100	188	-	-	-	4,288
	$ 272,821	$ 46,243	$ -	$ (11,884)	$ (17)	$ 307,163

Accumulated Depreciation As at December 31, 2014	Balance beginning of year	Depreciation	Disposals	Effects of movements in exchange rates	Balance end of year
Coil well service rigs and equipment	**$ 24,400**	**$ 6,995**	**$ (1,395)**	**$ -**	**$ 30,000**
Service rigs and equipment	**23,821**	**5,604**	**(4,769)**	**-**	**24,656**
Oilfield equipment	**16,297**	**4,748**	**(156)**	**2**	**20,891**
Vehicles	**7,752**	**3,588**	**(2,709)**	**12**	**8,643**
Office and computer equipment	**2,167**	**641**	**-**	**(1)**	**2,807**
Other	**2,434**	**484**	**-**	**2**	**2,920**
	$ 76,871	**$ 22,060**	**$ (9,029)**	**$ 15**	**$ 89,917**
As at December 31, 2013					
Coil well service rigs and equipment	$ 18,977	$ 7,008	$ (1,208)	$ (377)	$ 24,400
Service rigs and equipment	20,272	5,305	(2,017)	261	23,821
Oilfield equipment	12,796	3,995	(703)	209	16,297
Vehicles	5,986	3,085	(1,297)	(22)	7,752
Office and computer equipment	1,556	611	-	-	2,167
Other	1,930	506	-	(2)	2,434
	$ 61,517	$ 20,510	$ (5,225)	$ 69	$ 76,871

On October 8, 2014, the Company sold its rod rig assets for gross proceeds of $6.1 million.

Included in 2013 disposals is $3.6 million in forfeited deposits. The amount had been paid to a fabrication company for two masted coil tubing rigs which were previously recorded as assets under construction within coil well service rigs and equipment. In 2013, the fabricator was placed into receivership and Essential's deposits on those rigs were forfeited. Impairment of the deposits was charged to other expenses for the year ended December 31, 2013.

9. INTANGIBLE ASSETS

Carrying Amount	As at December 31, 2014	2013
Customer relationships	**$ 23,236**	$ 29,517
Computer software	**1,030**	1,195
Non-compete agreement	**333**	-
	$ 24,599	$ 30,712

In 2014, an impairment loss of $47.2 million was recorded, of which $43.9 million (2013 – nil) relates to goodwill and $3.3 million (2013 – nil) relates to intangible assets.

Cost As at December 31, 2014	Balance beginning of year	Additions	Additions through acquisition	Impairment loss	Effects of movements in exchange rates	Balance end of year
Customer relationships	**$ 43,115**	**$ -**	**$ 1,315**	**$ (3,264)**	**$ 76**	**$ 41,242**
Trade names	**3,159**	**-**	**-**	**-**	**-**	**3,159**
Computer software	**4,126**	**368**	**-**	**-**	**-**	**4,494**
Favourable leases	**500**	**-**	**-**	**-**	**-**	**500**
Non-compete agreement	**-**	**-**	**362**	**-**	**22**	**384**
	$ 50,900	**$ 368**	**$ 1,677**	**$ (3,264)**	**$ 98**	**$ 49,779**
As at December 31, 2013						
Customer relationships	$ 43,115	$ -	$ -	$ -	$ -	$ 43,115
Trade names	3,159	-	-	-	-	3,159
Computer software	3,769	357	-	-	-	4,126
Favourable leases	500	-	-	-	-	500
	$ 50,543	$ 357	$ -	$ -	$ -	$ 50,900

Accumulated Amortization As at December 31, 2014	Balance beginning of year	Amortization	Disposals	Effects of movements in exchange rates	Balance end of year
Customer relationships	**$ 13,598**	**$ 4,400**	**$ -**	**$ 8**	**$ 18,006**
Trade names	**3,159**	**-**	**-**	**-**	**3,159**
Computer software	**2,931**	**533**	**-**	**-**	**3,464**
Favourable leases	**500**	**-**	**-**	**-**	**500**
Non-compete agreement	**-**	**49**	**-**	**2**	**51**
	$ 20,188	**$ 4,982**	**$ -**	**$ 10**	**$ 25,180**
As at December 31, 2013					
Customer relationships	$ 9,375	$ 4,223	$ -	$ -	$ 13,598
Trade names	1,751	1,408	-	-	3,159
Computer software	2,362	569	-	-	2,931
Favourable leases	500	-	-	-	500
	$ 13,988	$ 6,200	$ -	$ -	$ 20,188

10. GOODWILL

	For the years ended December 31,	
	2014	2013
Beginning of the year	**$ 55,014**	$ 55,014
Business acquisitions *(note 5)*	**3,045**	-
Impairment loss	**(43,900)**	-
Effect of movement in exchange rates	**139**	-
End of the year	**$ 14,298**	$ 55,014

In 2014, an impairment loss of $47.2 million was recorded, of which $43.9 million (2013 – nil) relates to goodwill and $3.3 million (2013 – nil) relates to intangible assets.

Goodwill is allocated to the Company's CGUs as follows:

	As at December 31, 2014	2013
Coil well service	**$ 11,114**	$ 43,926
Service rigs	**-**	11,088
Downhole tools	**3,184**	-
	$ 14,298	$ 55,014

Oilfield service sector market valuations reflect an environment of declining commodity prices and significant capital spending reductions for Essential's customers, reducing the outlook for oilfield service activity and pricing. As at December 31, 2014, the market capitalization of Essential was below the book value of its equity, indicating a potential impairment of goodwill.

The recoverable amounts of Essential's CGUs was based on value in use, determined using discounted cash flow projections for a five-year period from financial forecasts covering a three-year period extrapolated thereafter at a growth rate of 2.5% per annum (2013 – 1.8%) and discounted at a rate of 14.5% (2013 – 15.4%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends.

Coil well service

The carrying amount of this CGU was determined to be higher than its recoverable amount of $195.3 million and an impairment loss of $32.9 million in 2014 (2013 – nil) was recognized. Management has identified that a 1.3% change in the discount rate would require no impairment loss to be recognized for the coil well service CGU. Following the impairment loss recognized in Essential's coil well service CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

Service rigs

The carrying amount of this CGU was determined to be higher than its recoverable amount of $82.5 million and an impairment loss of $14.3 million was recognized in 2014 (2013 – nil), $11.0 million allocated to goodwill and $3.3 million allocated to intangible assets. Management has identified that a 2.0% change in the discount rate would require no impairment loss to be recognized for the service rigs CGU. Following the impairment loss recognized in Essential's service rigs CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to further impairment.

11. TRADE AND OTHER ACCOUNTS PAYABLE

	As at December 31, 2014	2013
Trade accounts payable	**$ 14,880**	$ 17,151
Accrued payables	**6,268**	7,290
Accrued payroll	**8,516**	9,405
Other	**3,158**	2,315
	$ 32,822	$ 36,161

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

	As at December 31, 2014	2013
Canadian dollar	**$ 14,329**	$ 17,122
U.S. dollar	**551**	29
	$ 14,880	$ 17,151

12. DIVIDENDS PAYABLE

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

Record date	**Payment date**	**Total dividend**	**Amount per share**
2014			
December 31, 2014	**January 15, 2015**	**$ 3,773**	**$ 0.030**
September 30, 2014	**October 15, 2014**	**$ 3,779**	**$ 0.030**
June 30, 2014	**July 15, 2014**	**$ 3,774**	**$ 0.030**
March 31, 2014	**April 15, 2014**	**$ 3,768**	**$ 0.030**

Record date	Payment date	Total dividend	Amount per share
2013			
December 31, 2013	January 15, 2014	$ 3,765	$ 0.030
September 30, 2013	October 15, 2013	$ 3,755	$ 0.030
June 28, 2013	July 15, 2013	$ 3,126	$ 0.025
March 28, 2013	April 15, 2013	$ 3,102	$ 0.025

13. LONG-TERM DEBT

	As at December 31, 2014	2013
Term loan	**$ 55,350**	$ 39,100
Deferred financing costs	**(97)**	(73)
	55,253	39,027
Less: current portion of long-term debt	**-**	7,603
Non-current portion of long-term debt	**$ 55,253**	$ 31,424

Essential's credit facility with its banking syndicate was renewed in May 2014 and is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2017, 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, 2014, the maximum of $100 million under the Credit Facility was available to Essential.

The Credit Facility requires Essential to comply with certain financial covenants including: funded debt to capitalization ratio shall not exceed 50%, funded debt to EBITDAS ratio shall not exceed 3:1, fixed charge coverage ratio shall not be less than 1.25:1, and distributions shall not exceed distributable cash flow. The funded debt to EBITDAS, fixed charge coverage and distribution ratios are calculated on a trailing 12 month basis. As at December

31, 2014 all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

14. INCOME TAXES

Components of income tax expense	For the years ended December 31, **2014**	2013
Current income tax expense	**$ 8,276**	$ 10,508
Deferred income tax expense (recovery)	**1,949**	(3,200)
Total income tax expense	**$ 10,225**	$ 7,308

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

	For the years ended December 31, **2014**	2013
Income (loss) before income taxes	**$ (12,597)**	$ 31,325
Statutory tax rate	**25.4%**	25.0%
Expected income tax expense	**(3,200)**	7,831
Increase (decrease) resulting from:		
Impairment loss on goodwill	**11,151**	-
Unrecognized deferred tax assets	**1,411**	-
Changes in deferred tax rates	**401**	-
Items not deductible for tax	**207**	456
Share-based compensation	**201**	294
Impact of foreign tax rates	**(159)**	(214)
Utilization of operating losses not previously recognized	**-**	(945)
Other	**213**	(114)
Total income tax expense	**$ 10,225**	$ 7,308

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

	As at December 31, **2014**	2013
Foreign operating loss	**$ -**	$ 764
Property and equipment	**(25,716)**	(22,971)
Intangible assets	**(2,596)**	(4,206)
Share issuance costs	**81**	218
Other	**(68)**	(165)
Deferred tax liabilities	**$ (28,299)**	$ (26,360)

As at December 31, 2014, Essential has unrecognized tax assets that relate to $4.2 million of gross non-capital losses in the United States, which expire in 2033 and 2034.

15. SHARE CAPITAL

Authorized

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

	Number of Common Shares (000's)	Amount
As at January 1, 2013	123,991	$ 258,772
Shares issued on exercise of options	2,025	4,491
Shares repurchased under normal course issuer bid	(520)	(1,086)
As at December 31, 2013	125,496	$ 262,177
Shares issued on exercise of options	**979**	**2,149**
Shares repurchased in normal course issuer bid	**(697)**	**(1,455)**
As at December 31, 2014	**125,778**	**$ 262,871**

On March 20, 2014, the Company received approval from the TSX to renew its Normal Course Issuer Bid ("NCIB") for Essential's Common Shares. Any Common Shares purchased by Essential pursuant to the NCIB will be for cancellation. The NCIB commenced on March 25, 2014 and will terminate on March 24, 2015, or at such earlier date as the NCIB is completed or terminated at the option of Essential. Under the renewed NCIB, Essential may purchase up to 12,311,641 of its issued and outstanding Common Shares on the open market through the facilities of the TSX or other alternative trading systems.

For the year ended December 31, 2014, 697,046 Common Shares were acquired and cancelled under the NCIB at an average price of $2.14 per Common Share. Any excess amount paid for these shares, relative to their carrying amount, was recorded as a reduction of contributed surplus.

16. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2013	$ 4,475	$ 888	$ 5,363
Share-based compensation	1,177	-	1,177
Exercise of options	(1,100)	-	(1,100)
Shares cancelled under normal course issuer bid	(140)	-	(140)
Unrealized foreign exchange loss on foreign operations	-	(54)	(54)
Unrealized foreign exchange loss on discontinued operations	-	(224)	(224)
Reclassification of foreign exchange loss on discontinued operations	-	(664)	(664)
As at December 31, 2013	$ 4,412	$ (54)	$ 4,358
Share-based compensation	**789**	**-**	**789**
Exercise of options	**(730)**	**-**	**(730)**
Shares cancelled under NCIB	**(45)**	**-**	**(45)**
Unrealized foreign exchange gain on foreign operations	**-**	**61**	**61**
As at December 31, 2014	**$ 4,426**	**$ 7**	**$ 4,433**

17. NON-CONTROLLING INTEREST

	As at December 31, 2014	2013
Balance, January 1	$ -	$ (6)
Loss attributed to non-controlling interest	-	(188)
Unrealized foreign exchange loss on discontinued operations	-	(4)
De-recognition of non-controlling interest	-	198
Balance, December 31	$ -	$ -

As of December 31, 2013, Essential sold all assets held-for-sale and its Colombian legal entity. Essential owned 95% and a partner owned 5% of the entity; income and losses were allocated accordingly.

18. OPERATING EXPENSES

	For the years ended December 31, 2014	2013
Employee costs *(note 20)*	**$ 111,723**	$ 109,759
Materials and related costs	**71,890**	68,713
Travel	**23,782**	22,464
Repairs and maintenance	**18,633**	18,045
Fuel	**15,934**	13,665
Subcontracting	**9,387**	8,164
Occupancy costs	**5,517**	4,980
Other	**7,212**	7,211
	$ 264,078	$ 253,001

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, 2014	2013
Employee costs *(note 20)*	**$ 10,117**	$ 9,071
Professional fees	**2,785**	1,742
Occupancy costs	**2,320**	1,940
Other	**4,576**	4,423
	$ 19,798	$ 17,176

20. EMPLOYEE COSTS

	For the years ended December 31, 2014	2013
Wages and salaries	**$ 118,942**	$ 115,042
Share-based compensation *(note 23)*	**1,589**	2,038
Other benefits	**2,898**	3,788
	$ 123,429	$ 120,868
Employee costs are included in:		
Operating expenses *(note 18)*	**$ 111,723**	$ 109,759
General and administrative expenses *(note 19)*	**10,117**	9,071
Share-based compensation *(note 23)*	**1,589**	2,038
	$ 123,429	$ 120,868

21. OTHER EXPENSES

	For the years ended December 31, 2014	2013
Loss on disposal of assets	**$ 831**	$ 1,322
Write-down of assets	**2,755**	-
Foreign exchange gain	**(1,123)**	(176)
Forfeited deposits	-	3,567
Other loss (gain)	**123**	(328)
	$ 2,586	$ 4,385

22. FINANCE COSTS

	For the years ended December 31, 2014	2013
Bank borrowings	**$ 1,812**	$ 1,632
Lease financing	**-**	2
	$ 1,812	$ 1,634

23. SHARE-BASED COMPENSATION

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

The maximum number of share options issuable under the Share Option Plan and RSU units under the RSU Plan, together may not exceed 9% of the Company’s outstanding Common Shares. As at December 31, 2014, the maximum number of share options and RSU units allowed for issuance was 11,320,014 (2013 – 11,294,701).

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

	For the years ended December 31,			
		2014		2013
Equity-settled share options	**$**	**789**	$	1,177
Restricted share units		**693**		750
Cash-settled deferred share units		**107**		111
Total share-based compensation expense	**$**	**1,589**	$	2,038

a) Share Option Plan

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

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Number of Options (000's)		**Weighted Average Exercise Price**	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of year	**5,444**	**$**	**1.97**	7,374	$	1.91
Issued	**655**		**2.90**	818		2.26
Exercised	**(978)**		**1.45**	(2,025)		1.72
Expired	**-**		**-**	(395)		2.66
Forfeited	**(97)**		**2.06**	(328)		2.14
Outstanding, end of year	**5,024**	**$**	**2.19**	5,444	$	1.97
Exercisable, end of year	**3,194**	**$**	**2.06**	2,642	$	1.79

The fair value of the share options issued during the year was between $0.72 – $0.82 per option (2013 – $0.53 – $0.76), estimated using the Black-Scholes Option Pricing model using the following underlying assumptions:

	2014	2013
Risk-free interest rate	**1.4 – 1.7%**	1.1 – 1.6%
Expected volatility	**43.5 – 46.4%**	45.0 – 58.5%
Expected term	**3.6 – 4.4 years**	2.7 – 4.2 years
Expected forfeiture rate	**7.9 – 17.4%**	7.9 – 18.2%
Dividend yield	**4.1%**	4.2 – 4.6%

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 as at December 31, 2014 and 2013:

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, 2014				
$1.00 – $1.37	**204**	**0.46**	**$ 1.19**	**204**
$2.00 – $2.90	**4,820**	**2.24**	**$ 2.99**	**2,990**
	5,024	**2.17**	**$ 2.19**	**3,194**
As at December 31, 2013				
$0.91 – $1.91	874	1.09	$ 1.15	874
$1.91 – $2.60	4,570	2.94	$ 2.13	1,768
	5,444	2.64	$ 1.97	2,642

On January 8, 2015, Essential issued 410,000 share options to key officers and employees of the Company with an exercise price of $1.46 per option.

b) Restricted Share Units

The RSU Plan authorizes the Board of Directors to grant RSUs to key employees and consultants of the Company. RSUs granted to a participant represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. The 2013 grants are time vested and the 2014 grants have both a time and performance-based component. The grants vest in three equal instalments and if a performance criteria is featured, they vest conditionally. The associated liability related to the RSUs as at December 31, 2014 is $0.9 million (December 31, 2013 – $0.8 million) of which $0.5 million is due within one year.

The following table summarizes information with respect to RSUs outstanding for the years ended December 31, 2014 and 2013:

Number of RSUs (000's)	For the years ended December 31, 2014	2013
Outstanding, beginning of year	**588**	-
Issued	**803**	588
Vested	**(200)**	-
Forfeited	**(88)**	-
Outstanding, end of year	**1,103**	588

On January 8, 2015, Essential issued 933,900 RSUs to key employees of the Company. The 2015 grant contains both performance-based and time vesting features for senior employees.

c) Deferred Share Units

Participation in the DSU Plan is restricted to Eligible Directors of the Company. A DSU gives the participant a right of redemption in the form of a lump sum cash payment, less applicable withholding taxes, within fifteen days of the participant ceasing to be an Eligible Director of the Company. The carrying amount of the liability as at December 31, 2014 is $0.2 million (December 31, 2013 – $0.1 million).

The following table summarizes information with respect to DSUs outstanding for the years ended December 31, 2014 and 2013:

Number of DSUs (000's)	For the years ended December 31, 2014	2013
Outstanding, beginning of year	**100**	-
Issued	**143**	100
Outstanding, end of year	**243**	100

24. DISCONTINUED OPERATIONS

As of December 31, 2013, Essential had sold all of its Colombian assets and the legal entity for total proceeds of $3.7 million. There were no further activities related to the discontinued operations in 2014.

Losses from discontinued operations related to the Colombian business was as follows:

	For the years ended December 31,			
		2014		2013
Revenue	**$**	**-**	$	1,887
Expenses and loss on sale of asset		**-**		5,040
Loss before income taxes		**-**		(3,153)
Current income tax recovery		**-**		(1,043)
Net loss from discontinued operations		**-**		(2,110)
Unrealized foreign exchange loss on discontinued operations		**-**		(224)
Reclassification of foreign exchange on discontinued operations		**-**		(664)
Comprehensive loss from discontinued operations, net of tax	**$**	**-**	$	(2,998)
Comprehensive loss from discontinued operations attributable to:				
Shareholders of Essential	**$**	**-**	$	(2,810)
Non-controlling interest		**-**		(188)
	$	**-**	$	(2,998)
Net loss from discontinued operations	**$**	**-**	$	(2,110)
Net loss per share from discontinued operations				
Basic and diluted	**$**	**-**	$	(0.02)
Net cash provided by (used in) discontinued operations:				
Operating	**$**	**-**	$	(420)
Investing		**-**		3,222
Financing		**-**		(3,063)
	$	**-**	$	(261)

25. EARNINGS PER SHARE

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

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

(000's)	For the years ended December 31, **2014**	2013
Basic	**125,728**	124,643
Dilutive common shares from share options and RSUs	**-**	1,800
Total diluted	**125,728**	126,443

26. COMMITMENTS AND CONTINGENCIES

Operating leases

Essential has entered into operating leases for office and shop premises that provide for minimum annual lease payments, as follows:

	Amount
2015	$ 5,912
2016	5,645
2017	4,829
2018	3,165
2019	2,830
Thereafter	10,429
	$ 32,810

Other commitments

As part of its long-term capital program, Essential is committed to future capital expenditures of $13 million of which $10 million is expected to be incurred in 2015 and the balance in 2016.

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 is not determinable at this time; however, any ultimate resolution is not expected to have a material adverse effect on the Company.

A statement of claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in the Canadian Federal Court which alleges certain products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes that the suit is without merit and is defending against the allegations. Proceedings of this nature can take years to resolve through the court process. The trial date has been set for February 2017. This lawsuit targets only the Tryton MSFS® ball & seat system, which Essential commenced using in 2009. It does not target past or future operations of Essential's conventional tools, other Tryton MSFS® tools or rentals business.

27. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

The Company provides salaries and non-cash benefits to the Board of Directors and Named Executive Officers. Named Executive Officers participate in the Company's Share Option Plan and RSU 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,	
	2014	2013
Short-term employee benefits (wages and other benefits)	**$ 3,335**	$ 3,094
Share-based compensation (equity and cash settled)	**1,405**	1,008
	$ 4,740	$ 4,102

28. CAPITAL DISCLOSURE

The Company's capital structure consists of the following:

	As at December 31,	
	2014	2013
Long-term debt	**$ 55,253**	$ 39,027
Equity attributable to shareholders of Essential	**276,010**	313,157
Total capitalization	**$ 331,263**	$ 352,184

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, controlling the amount of dividends issued to shareholders and making adjustments to its capital expenditure program.

29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Designation and valuation of financial instruments

The Company's financial instruments recognized on the Consolidated Statement of Financial Position consist of cash, bank indebtedness, trade and other receivables, trade and other payables, dividends payable, income taxes 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 and bank indebtedness	Held-for-trading
Trade and other receivables	Loans and receivables
Trade and other payables	Other financial liabilities
Long-term debt	Other financial liabilities

Fair values

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

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

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and 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, 2014, the Company earned revenues from more than 560 customers (2013 – more than 500 customers) with five of these customers representing 34% of revenue (2013 – 31% of revenue). As at December 31, 2014, approximately 33% of the total accounts receivable balance was due from five companies (2013 – 34%).

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 income (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 $0.5 million change to consolidated statements of net income (loss) and comprehensive income (loss) on an annualized basis (2013 – $0.3 million).

Liquidity risk

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

30. SEASONALITY OF OPERATIONS

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

31. SEGMENTED INFORMATION

Essential has two operating segments, Well Servicing and Downhole Tools & Rentals, and a non-operating segment, Corporate and Eliminations.

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

a) Well Servicing

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

b) Downhole Tools & Rentals

The Downhole Tools & Rentals segment provides downhole tools and rentals services in Canada and the United States.

c) Corporate and Eliminations

The Corporate and Eliminations segment is comprised of: i) corporate office costs, which are managed on a group basis and are not allocated to the operating segments; and ii) eliminations, which includes transactions between segments which are eliminated upon consolidation. Net income (loss) before income taxes for the years ended December 31, 2014 and 2013 for the Corporate and Eliminations segment substantially represents corporate office costs.

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

As at and for the year ended December 31, 2014	**Well Servicing**	**Downhole Tools & Rentals**	**Corporate & Eliminations**	**Consolidated**
Revenue	**$ 232,631**	**$ 120,988**	**$ (2,147)**	**$ 351,472**
Income (loss) before income taxes	**$ (24,442)**	**$ 34,830**	**$ (22,985)**	**$ (12,597)**
Depreciation and amortization	**$ 22,534**	**$ 3,432**	**$ 1,076**	**$ 27,042**
Impairment loss	**$ 47,164**	**$ -**	**$ -**	**$ 47,164**
Total assets	**$ 306,376**	**$ 87,623**	**$ 3,352**	**$ 397,351**
Total liabilities	**$ 33,243**	**$ 5,644**	**$ 82,454**	**$ 121,341**
Property, equipment and intangible asset expenditures	**$ 32,034**	**$ 12,289**	**$ 1,501**	**$ 45,824**

As at and for the year ended December 31, 2013	Well Servicing	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	$ 225,992	$ 111,339	$ (1,062)	$ 336,269
Income (loss) before income taxes	$ 21,817	$ 32,228	$ (22,720)	$ 31,325
Depreciation and amortization	$ 22,918	$ 2,736	$ 1,056	$ 26,710
Total assets	$ 354,374	$ 66,227	$ 4,110	$ 424,711
Total liabilities	$ 45,295	$ 8,981	$ 57,278	$ 111,554
Property, equipment and intangible asset expenditures	$ 41,227	$ 3,785	$ 1,588	$ 46,600

32. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

DIRECTORS

James Banister, Chairman[2]

Garnet Amundson[3]

Michael Black [2]

Robert German [1,3]

Nicholas Kirton [1,2]

Robert Michaleski[1]

Andrew Zaleski [3]

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

MANAGEMENT

Garnet Amundson
PRESIDENT & CHIEF EXECUTIVE OFFICER

Don Webster
CHIEF OPERATING OFFICER

Allan Mowbray
VICE PRESIDENT, FINANCE & CHIEF FINANCIAL OFFICER

Jeff Newman
SENIOR VICE PRESIDENT, CORPORATE

Kevin Job
SENIOR VICE PRESIDENT, OPERATIONS

Karen Perasalo
VICE PRESIDENT, INVESTOR RELATIONS &
CORPORATE SECRETARY

AUDITORS

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Toronto Dominion Bank

HSBC Bank Canada

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