FINANCIAL REPORT

For the year ended December 31, 2015

March 2, 2016

Dear Fellow Shareholders,

2015 was a very challenging year for oilfield services. Although we did not finish the year with a strong fourth quarter, Essential's timely cost reductions in early 2015 and controlled spending during the year allowed us to finish 2015 with one of the strongest balance sheets in the Canadian oilfield services sector. During 2015 we reduced our long term debt by $29.7 million to $25.5 million at December 31, 2015. Our low debt is a distinguishing feature which we achieved through working capital harvest and spending within cash flow. Our debt to EBITDAS covenant at year-end was 1.1x, well within bank covenant requirements. We hope to maintain this advantage in 2016 through similar tactics, as the downturn prolongs.

Our focus in 2015 was on maintaining our strong balance sheet through cost reductions, disciplined capital spending and dividend management:

1. Cost reductions were implemented early in 2015 and resulted in $10 million of fixed cost savings. This included salary rollbacks, led by executive management with 20% rollbacks and zero bonuses, significant layoffs and reduced discretionary spending. Our employee headcount was reduced by more than 40% and our general and administration expense was reduced by 29%.
2. 2015 capital spending was $16.7 million and was focused on progress payments for our masted coil tubing build program. Maintenance capital was significantly lower than the prior year due to lower utilization.
3. The annualized dividend commitment was reduced from $15 million to $1.5 million. This saved $2 million of cash in 2015.

2015 Annual Recap

2015 EBITDAS was $21.5 million, well below the $67.6 million reported in 2014. In 2015, revenue was reduced by almost 50% compared to 2014 as customers pulled back on their spending. This reduced our activity. Revenue was then further hit by severe price reductions. Through effective and timely cost reductions, we were able to preserve annual margins at 22% in our well servicing division. The pace of similar pressures in our downhole tools & rentals division could not be immediately offset by cost reductions, resulting in annual margins dropping almost in half to 18%. While this is still respectable, it is well below margin percentages in the low 30's that we had become accustomed to from that division.

Coil well service proved to have the greatest resilience with 2015 operating hours declining only 20%, compared to a 52% decline in industry well completions. A smaller number of customers were active, but they spent enough on their programs to allow us to experience relatively high utilization with our masted coil tubing and pumping fleets.

Service rigs were hit hard by the 2015 industry slowdown, facing very strong competition for work. Service rig revenue in 2015 decreased by 60% compared to 2014.

All of our businesses experienced competitive price pressure throughout the year. Compared to 2014, prices were down 15 to 20%.

Fourth Quarter 2015

For the fourth quarter of 2015 we reported $4.9 million of EBITDAS, well below $22.0 million in the fourth quarter of 2014.

Well Servicing

Revenue from coil well service was $23.8 million, a 42% decrease from the fourth quarter of 2014 due to lower activity and price declines. With industry well completions down 65% from the prior year period, masted coil

tubing and pumping operations were relatively strong, reporting a decrease in operating hours of 29%. This was due to key customers remaining active in the quarter. Coil well service revenue per hour declined 15 to 20% compared to the fourth quarter of 2014.

Service rigs continued to be hard-hit by the downturn with revenue 66% less than the fourth quarter of 2014 due to activity and price decreases. Revenue per hour declined approximately 20% compared to the prior year period.

Well servicing, which includes coil well service and service rigs, gross margin was 25% in the quarter, compared to 28% in the fourth quarter of 2014. Price reductions were offset by fixed cost reductions, lower labour costs and moderated discretionary spending, thus limiting margin erosion.

Downhole Tools & Rentals

The downhole tools & rentals segment reported $11.3 million of revenue, which was 69% lower than the fourth quarter of 2014. Tryton MSFS® and rentals experienced more significant revenue declines than conventional tools. Our customers performed fewer multi-stage completions and the rentals business was directly affected by the decrease in industry drilling rig utilization. This division was also severely affected by aggressive competition and pricing. We experienced price reductions of approximately 35%, compared to the prior year period.

Gross margin was 8%, significantly lower than the fourth quarter of 2014 due to reduced revenue from downhole tools, lower contribution from the higher margin rentals business and increased losses from the U.S. operations. These decreases more than offset fixed cost savings from headcount reductions and reduced discretionary spending that were implemented earlier in the year. Additional layoffs have already occurred in the first quarter of 2016 in order to re-set the cost structure.

Capital

Essential's capital budget is $9 million, comprised of $6 million of growth capital and $3 million of maintenance capital. Relative to our initial 2016 budget announced in November 2015, total spending is unchanged. Growth capital was increased by $2 million for carry-in capital from 2015 offset by a $2 million reduction in maintenance capital. The growth capital is focused on completing the masted coil tubing rig program. We received another Generation IV rig in January and expect a fourth rig by the end of March. It is unfortunate that we will be receiving these new rigs during a time of severe industry downturn, but it leaves Essential well-positioned for future growth with a fleet of virtually new, leading edge rigs awaiting our customers' future long reach horizontal well completion and development programs.

The $2 million reduction in maintenance capital is a function of anticipated lower activity. Despite the reduced maintenance capital we are continuing to spend at a reasonable pace for repairs and maintenance, so active equipment does not deteriorate in quality.

Outlook

Industry activity in the first quarter of 2016 has been much slower than we anticipated – and our expectations were not set very high. Fewer exploration and production companies are engaging in oilfield service work as they strive to preserve cash flow in this difficult market with oil and natural gas pricing at historic lows. Even the last of our largest and most reliable customers have started to defer spending decisions until the second half of 2016. Unseasonably warm weather has been a detriment to activity in all of our service areas. It is early March, but it appears clear that we are facing both a seasonal break up and an economic-driven cessation of activity that does not leave us with much optimism for the remainder of the first quarter.

As we see the first quarter unfold with significantly reduced activity, we unfortunately need to, once again, reduce our fixed cost structure to right-size the business relative to industry conditions and our revenue base. Further layoffs have already occurred in our downhole tools operation and additional layoffs and compensation reductions will be necessary across the Company. The executive team is taking further salary rollbacks of up to 10% in 2016. We must make these difficult decisions in an effort to support cash flow and preserve our low debt position.

This continues to be a difficult time for our employees and our shareholders who have all suffered as a result of reductions to compensation, dividends and share price. It is also a very difficult time for our customers. We are in this together. Essential is again taking timely and necessary steps to support cash flow and preserve our balance sheet through this difficult and prolonged downturn.

Sincerely,

Garnet Amundson
President & Chief Executive Officer

Please refer to "Forward-Looking Statements and Information" on page 20 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2015

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, 2015.

This MD&A should be read in conjunction with Essential's consolidated financial statements as at and for the year ended December 31, 2015 and 2014, the notes contained therein to which readers are referred and the statements regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective March 2, 2016 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on March 2, 2016.

SELECTED INFORMATION

(in thousands of dollars, except percentages, per share amounts and fleet data)	Three months ended December 31,		Years ended December 31,		
	2015	2014	**2015**	2014	2013
Revenue	**$ 42,480**	$ 98,854	**$ 184,713**	$ 351,472	$ 336,269
Gross margin	**7,786**	27,330	**35,595**	87,394	83,268
Gross margin %	**18%**	28%	**19%**	25%	25%
EBITDAS[1]	**4,930**	21,992	**21,460**	67,596	66,092
EBITDAS % [1]	**12%**	22%	**12%**	19%	20%
Net (loss) income [i]	**(18,082)**	(38,323)	**(22,485)**	(22,822)	22,095
Per share – basic	**(0.14)**	(0.30)	**(0.18)**	(0.18)	0.18
Per share – diluted	**(0.14)**	(0.30)	**(0.18)**	(0.18)	0.17
Cash dividends per share	**0.003**	0.03	**0.078**	0.12	0.11
Total assets	**317,224**	397,351	**317,224**	397,351	423,963
Total long-term debt	**25,543**	55,253	**25,543**	55,253	39,027
Utilization					
Masted coil tubing rigs	**65%**	104%	**63%**	89%	97%
Service rigs	**30%**	49%	**27%**	49%	50%
Equipment fleet – end of period					
Masted coil tubing rigs	**20**	19	**20**	19	15
Service rigs	**38**	54	**38**	54	55

(i) The quarters ended December 31, 2015 and December 31, 2014 include an impairment loss of $13.2 million and $47.2 million, respectively.

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

HIGHLIGHTS

Highlights for the Year 2015

Against an industry backdrop that saw oil prices and drilling rig utilization approach their lowest levels in the last decade, Essential was able to limit well servicing margin erosion as a result of proactive cost reductions implemented early in 2015. Throughout 2015, Essential experienced significant declines in activity and pricing as exploration and production ("E&P") companies reduced spending.

Management is pleased with the performance of coil well service in 2015. Operating hours decreased by approximately 20% from 2014, compared to a 52%[a] decline in well completions[b]. This was due to continued demand for Essential's masted coil tubing and pumping fleet with key customers remaining active. Service rigs and downhole tools and rentals ("DT&R") revenue declines were more significant, as these operations faced strong competition for customer work in 2015.

In this environment, the Company's focus was on maintaining its strong balance sheet through cost management, disciplined capital spending and dividend management.

- Commencing in the first quarter of 2015, Essential proactively implemented cost reductions to decrease fixed costs. During 2015, the Company realized fixed cost savings, net of severance, of $10 million.
- Essential's capital spending was $16.7 million. 2015 growth capital related primarily to progress payments on its Generation III and Generation IV masted coil tubing rig build program. Lower utilization significantly reduced 2015 maintenance capital spending.
- The Board reduced the annualized dividend commitment from $15.1 million to $1.5 million to preserve cash given deteriorating industry conditions.

Essential continues to have one of the strongest balance sheets in the Canadian oilfield services sector. At December 31, 2015, Essential had $25.5 million of debt outstanding, a decrease of $29.7 million from December 31, 2014 due to proactive cost management, collection of accounts receivable, reduced capital spending and a lower dividend payment. At March 2, 2016, Essential had $28.4 million of debt outstanding and reported debt to EBITDAS of 1.1x at the end of 2015.

Highlights for the Fourth Quarter 2015

Revenue and EBITDAS were $42.5 million and $4.9 million respectively, compared to $98.9 million and $22.0 million in the fourth quarter of 2014. The decrease in revenue was a result of lower pricing and reduced customer activity. Cost management initiatives in early 2015 enabled Essential to limit well servicing margin erosion, despite significant revenue declines.

Coil well service performance was strong relative to industry declines with masted coil tubing and pumping operating hours declining against the fourth quarter 2014 by approximately 29%, compared to a 65%[a] decline in industry well completions[b] over the same period. Essential's key customers remained active in the Bakken, Montney and Duvernay regions.

Service rig activity continued to deteriorate with operating hours 57% below the prior year quarter and DT&R was adversely affected by significantly lower customer activity.

Revenue in each of Essential's operations was affected by competitive pricing. Revenue per hour declined 15% to 20% for coil well service and approximately 20% for service rigs. DT&R pricing declined approximately 35% compared to the fourth quarter of 2014.

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

(b) Well completions and drilling activity are key indicators of industry activity

International Financial Reporting Standards ("IFRS") require Essential to annually assess the carrying value of assets in cash generating units ("CGUs") that contain goodwill or have impairment indicators. Given the sustained downturn in the oil and gas industry and the negative industry outlook, the impairment assessment determined that the fair value of Essential's well servicing segment was less than its carrying value. The Company recognized an impairment charge in the fourth quarter of 2015 of $13.2 million, $11.1 million on goodwill related to coil well service and $2.1 million on service rig equipment**.** In the fourth quarter of 2014, Essential recognized an impairment charge of $47.2 million on goodwill and intangible assets in its well servicing segment.

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, 2015, as well as the March 31, 2015, June 30, 2015 and September 30, 2015 interim reports, the 2014 interim reports, the 2014 Annual MD&A, the Financial Statements and the Annual Information Form for the year ended December 31, 2014, can be found under Essential's profile on SEDAR at www.sedar.com

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

Masted 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.

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

- Masted Coil Tubing Rigs – 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. The increased reel capacity and coil diameter ratings of Essential's masted coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.
- 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 chemicals 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.

Service rigs

Essential's mobile service rig fleet provides well completion and production/work-over services in the major resource plays across the Western Canadian Sedimentary Basin ("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.

Downhole Tools & Rentals

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 Texas, Oklahoma and Kansas.

Essential provides a wide range of downhole tools 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.
- 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.

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 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 the rentals business.

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

RESULTS OF OPERATIONS

(in thousands of dollars, except percentages and per share amounts)	Three months ended December 31, 2015	Three months ended December 31, 2014	Years ended December 31, 2015	Years ended December 31, 2014
Revenue	**$ 42,480**	$ 98,854	**$ 184,713**	$ 351,472
Operating expenses	**34,694**	71,524	**149,118**	264,078
Gross margin	**7,786**	27,330	**35,595**	87,394
General and administrative expenses	**2,856**	5,338	**14,135**	19,798
EBITDAS[(1)]	**4,930**	21,992	**21,460**	67,596
Depreciation and amortization	**6,290**	6,854	**25,724**	27,042
Share-based compensation	**191**	(224)	**839**	1,589
Other expense	**3,948**	1,588	**3,467**	2,586
Impairment loss	**13,214**	47,164	**13,214**	47,164
Finance costs	**211**	445	**1,340**	1,812
Loss before income tax	**(18,924)**	(33,835)	**(23,124)**	(12,597)
Current income tax (recovery) expense	**(1,859)**	3,692	**(3,616)**	8,276
Deferred income tax expense	**1,017**	796	**2,977**	1,949
Income tax (recovery) expense	**(842)**	4,488	**(639)**	10,225
Net loss	**$ (18,082)**	$ (38,323)	**$ (22,485)**	$ (22,822)
Net loss per share				
Basic and diluted	**$ (0.14)**	$ (0.30)	**$ (0.18)**	$ (0.18)

SEGMENT RESULTS - *WELL SERVICING*

(in thousands of dollars, except percentages, fleet and hours)	Three months ended December 31, **2015**	2014	Years ended December 31, **2015**	2014
Revenue				
Coil well service [(i)]	**$ 23,833**	$ 41,426	**$ 90,128**	$ 139,556
Service rigs	**7,516**	22,034	**37,049**	93,075
Total revenue	**31,349**	63,460	**127,177**	232,631
Operating expenses	**23,509**	45,929	**98,662**	179,888
Gross margin	**$ 7,840**	$ 17,531	**$ 28,515**	$ 52,743
Gross margin %	**25%**	28%	**22%**	23%
Utilization [(ii)]				
Masted coil tubing rigs				
Utilization	**65%**	104%	**63%**	89%
Operating hours	**12,039**	17,469	**44,034**	54,399
Pumping				
Utilization	**55%**	72%	**49%**	60%
Operating hours	**15,049**	20,885	**54,763**	70,138
Service rigs				
Utilization	**30%**	49%	**27%**	49%
Operating hours	**10,391**	24,394	**47,793**	97,914
Equipment fleet [(iii)]				
Masted coil tubing rigs	**20**	19	**20**	19
Pumping	**30**	32	**30**	32
Service rigs	**38**	54	**38**	54

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

Given the significant industry activity decline, management is pleased with the fourth quarter 2015 performance for coil well service. Masted coil tubing and pumping hours were 29% lower than the fourth quarter of 2014, compared to a 65% decrease in industry well completions. Utilization, while down from the prior year quarter, was relatively strong at 65% for masted coil tubing and 55% for pumping as Essential's key customers remained active in the quarter. These customers continued to develop long-reach horizontal wells, for which Essential's equipment is specifically designed. Revenue per hour declined 15% to 20% for coil well service, compared to the fourth quarter of 2014.

The two Generation IV masted coil tubing rigs did not work in the fourth quarter. A third Generation IV rig was commissioned during the first quarter of 2016 and in February a long reach horizontal well in the Bakken region was successfully completed with a Generation IV rig. Management remains confident in the features and technology offered by the Generation IV rigs and continues to believe these rigs meet a specific niche for longer and higher pressure horizontal wells and multi-well pad work. However, the opportunity for that type of work has decreased significantly as a result of the industry downturn. Management believes customers are interested in these rigs and expects demand should increase once industry conditions improve.

Service rig revenue in the fourth quarter of 2015 declined 66% compared to the same period in 2014. Activity continued to deteriorate as a result of the industry downturn with operating hours 57% below the prior year quarter. Revenue per hour declined approximately 20% for the fourth quarter of 2015 compared to the same period in 2014 as a result of competitive pricing.

Well servicing gross margin for the fourth quarter was 25%, slightly lower than the same period in 2014. Cost reduction initiatives implemented earlier in the year successfully limited operating margin erosion despite significant activity and pricing declines. These initiatives included reduced employee headcount, wage reductions and a decrease in discretionary spending given lower activity.

Year-over-year, well servicing revenue decreased 45% due to competitive pricing and an industry-wide decrease in activity. Despite the significant revenue decline, gross margin for the year ended December 31, 2015 was consistent with the prior year due to Essential's cost reduction initiatives.

In the fourth quarter 2015, Essential parked ten service rigs that were not being utilized.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars, except percentages)	**2015**	2014	**2015**	2014
Revenue	**$ 11,278**	$ 35,921	**$ 58,268**	$ 120,989
Operating expenses	**10,430**	24,701	**47,494**	81,051
Gross margin	**$ 848**	$ 11,220	**$ 10,774**	$ 39,938
Gross margin %	**8%**	31%	**18%**	33%
Downhole Tools & Rentals revenue – % of revenue				
Tryton MSFS®	**24%**	45%	**33%**	41%
Conventional Tools & Rentals	**76%**	55%	**67%**	59%

Downhole tools & rentals fourth quarter 2015 revenue decreased 69% compared to the same quarter in 2014 due to lower customer activity and pricing reductions of approximately 35%. Tryton MSFS® and rentals experienced more significant revenue declines than conventional tools. Essential's customers performed fewer multi-stage completions in the quarter and the rentals business was directly affected by the substantial decrease in drilling rig utilization. Conventional tools revenue also declined, although less significantly, as customers chose to defer work to preserve cash.

Gross margin as a percentage of revenue in the fourth quarter of 2015 decreased to 8% compared to 31% for the fourth quarter of 2014. Gross margin declined due to the decrease in downhole tools revenue, lower contribution from the higher margin rentals business and increased losses in the U.S. These decreases more than offset fixed cost reductions implemented earlier in 2015, which included headcount reductions and decreased discretionary spending.

Year-over-year, revenue was below prior year due to declines in both the downhole tools and rentals businesses in Canada as a result of lower activity and competitive pricing. U.S. revenue was consistent with 2014. Gross margin for downhole tools & rentals was below prior year due to revenue declines and fixed costs comprising a greater percentage of revenue.

GENERAL AND ADMINISTRATIVE

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars, except percentages)	**2015**	2014	**2015**	2014
General and administrative expenses	**$ 2,856**	$ 5,338	**$ 14,135**	$ 19,798
As a % of revenue	**7%**	5%	**8%**	6%

General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at the corporate and operational levels. General and administrative expenses for the fourth quarter and year ended December 31, 2015 decreased compared to the same periods in 2014 due to cost

reductions implemented earlier in 2015, including decreases in employee costs, professional fees and discretionary spending.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Depreciation and amortization expense	**$ 6,290**	$ 6,854	**$ 25,724**	$ 27,042

Depreciation for the year ended December 31, 2015 was lower than the prior year due to the sale of Essential's rod rig assets in October 2014 and decreased amortization due to intangible assets that are now fully amortized.

SHARE-BASED COMPENSATION

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Share-based compensation expense	**$ 191**	$ (224)	**$ 839**	$ 1,589

For the year ended December 31, 2015, share-based compensation expense decreased from prior year due to the decline of Essential's share price.

OTHER EXPENSE

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Loss (gain) on disposal of assets	**$ 1,878**	$ (55)	**$ 2,832**	$ 831
Write-down of assets	**2,082**	1,958	**2,332**	2,755
Foreign exchange gain	**(387)**	(370)	**(2,025)**	(1,123)
Other loss	**375**	55	**328**	123
Other expense	**$ 3,948**	$ 1,588	**$ 3,467**	$ 2,586

Loss on disposal of assets in 2015 related to the sale of surplus equipment. Write-down of assets in 2015 and 2014 related to removing service rigs and conventional coil tubing equipment from operations, reducing their carrying values to their estimated net realizable values.

IMPAIRMENT LOSS

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Impairment loss	**$ 13,214**	$ 47,164	**$ 13,214**	$ 47,164

IFRS requires the Company to annually assess the carrying value of assets in the CGUs containing goodwill. As a direct result of the industry downturn, which has reduced Essential's expectation of future activity and cash flow, the impairment assessment determined that the fair value of Essential's well servicing segment was less than its carrying value. The Company recognized an impairment charge in the fourth quarter 2015 of $13.2 million, $11.1 million on goodwill related to coil well service and $2.1 million on service rig equipment (2014 - $43.9 million on goodwill and $3.3 million on intangible assets).

FINANCE COSTS

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Finance costs	**$ 211**	$ 445	**$ 1,340**	$ 1,812

For the year ended December 31, 2015, finance costs decreased from 2014 due to lower average long-term debt outstanding.

INCOME TAXES

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Current income tax (recovery) expense	**$ (1,859)**	$ 3,692	**$ (3,616)**	$ 8,276
Deferred income tax expense	**1,017**	796	**2,977**	1,949
Total income tax (recovery) expense	**$ (842)**	$ 4,488	**$ (639)**	$ 10,225

For the three and twelve months ended December 31, 2015, the current income tax recovery relates to 2015 losses that will be applied to recover taxes paid in previous years.

For the year ended December 31, 2015, deferred income tax expense increased compared to 2014 due to legislation that was enacted during the second quarter of 2015 to increase the Alberta provincial corporate income tax rate from 10% to 12% effective July 1, 2015. This resulted in the revaluation of the deferred income tax liability.

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS[1]

(in thousands of dollars, except per share amounts)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Net cash provided by operating activities	**$ 15,360**	$ 24,602	**$ 64,670**	$ 44,842
Add:				
Changes in non-cash working capital	**(8,432)**	(5,416)	**(37,490)**	15,228
Funds flow provided by operations[1]	**$ 6,928**	$ 19,186	**$ 27,180**	$ 60,070
Per share – basic and diluted	**$ 0.06**	$ 0.15	**$ 0.22**	$ 0.48

WORKING CAPITAL

(in thousands of dollars, except ratios)	As at December 31, 2015	2014
Current assets	**$ 66,599**	$ 118,758
Current liabilities	**(15,844)**	(37,789)
Working capital [1]	**$ 50,755**	$ 80,969
Working capital ratio	**4.2:1**	3.1:1

The accounts receivable portion of working capital typically grows through the first, third and fourth quarters of the year when activity is greater. The inventory component is comprised of downhole tools and coil tubing inventory,

which does not fluctuate as much with activity. 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, 2015, the amount available under the Credit Facility was $70.3 million, below the maximum $100 million credit facility due to the reduction in 2015 EBITDAS and the Company's funded debt[1] to trailing 12 month EBITDAS[1] financial covenant limitation.

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

	Covenant Threshold	**As at December 31, 2015**
Funded debt[1] to capitalization[1]	≤ 50%	**9%**
Funded debt[1] to trailing 12 months EBITDAS[1]	≤ 3:1	**1.1**
Fixed charge coverage ratio[1] for trailing 12 months	≥ 1.25:1	**2.43**
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, 2015 all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

As at December 31, 2015, Essential had a consolidated funded debt balance of $25.5 million, consisting of long-term debt. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On March 2, 2016, Essential had long-term debt outstanding of $28.4 million.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

	Three months ended December 31,		Years ended December 31,	
(in thousands of dollars)	**2015**	2014	**2015**	2014
Well Servicing	**$ 3,217**	$ 10,248	**$ 15,086**	$ 32,034
Downhole Tools & Rentals	**109**	5,278	**801**	12,289
Corporate	**167**	489	**790**	1,501
Total equipment expenditures	**3,493**	16,015	**16,677**	45,824
Less proceeds on disposal of property and equipment	**(421)**	(6,622)	**(1,533)**	(9,674)
Net equipment expenditures[1]	**$ 3,072**	$ 9,393	**$ 15,144**	$ 36,150

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

(in thousands of dollars)	Three months ended December 31, 2015	2014	Years ended December 31, 2015	2014
Growth capital[1]	**$ 1,926**	$ 10,995	**$ 12,642**	$ 31,747
Maintenance capital[1]	**1,567**	5,020	**4,035**	14,077
Total equipment expenditures	**$ 3,493**	$ 16,015	**$ 16,677**	$ 45,824

2015 growth capital spending related primarily to progress payments on the masted coil tubing rig build program. During 2015, one Generation III masted coil tubing rig was added to the fleet.

Essential's 2016 capital budget is $9 million, comprised of $6 million of growth capital and $3 million of maintenance capital. Planned maintenance capital has been reduced by $2 million compared to the previously announced 2016 capital budget. This was offset by $2 million of carry-in growth capital from 2015. Growth capital will be used to complete the Generation IV masted coil tubing rigs. One rig is expected to be in service in each of the second, third and fourth quarters of 2016.

Essential's long-term capital build program increases the size and depth capacity of its masted coil tubing fleet. As at March 2, 2016, the Company added four Generation III and three Generation IV masted coil tubing rigs. Upon completion of the $53 million spending program in 2016, Essential will have four Generation III and six Generation IV masted coil tubing rigs. At December 31, 2015, Essential had spent approximately $47 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 2, 2016:

Masted coil tubing rigs:	# Rigs In Program	# Rigs In-Service	Expected In-Service Dates
Generation III	4	4	
Generation IV	6	3	Q2'16, Q3'16, Q4'16

SHARE CAPITAL

As at March 2, 2016, there were 125,836,930 common shares and 7,193,667 share options outstanding. Of the 7,193,667 share options, 3,247,824 were exercisable but not "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
2016	$ 6,000
2017	5,509
2018	4,234
2019	3,851
2020	3,277
Thereafter	7,901
As at December 31, 2015	$ 30,772

Other commitments

As part of its long-term capital program, Essential is committed to future capital expenditures of $5.6 million, which is expected to be incurred in 2016.

NORMAL COURSE ISSUER BID ("NCIB")

On March 23, 2015, 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, 2015 and will terminate on March 24, 2016, 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 12,316,891 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 39,893 Shares, which is 25% of the six month average daily trading volume of Shares on the TSX, at February 28, 2015. 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, 2015, no Shares were acquired and cancelled under the NCIB.

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, 2015, 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, 2015.

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, 2015 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 and deferred income tax assets and liabilities. The Company believes that each of the assumptions and estimates are appropriate to the circumstances and represent the most likely future outcome. However, because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in material differences between estimates and actual results. The effect on the financial statements of changes in such estimates in future years could be material.

Provision for Impairment of Trade Receivables

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

Net Realizable Value of Inventory

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

Depreciation and Amortization

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

Existing assets' estimated useful lives, residual values and methods of depreciation are assessed as part of the Company's annual review of the estimated useful lives of property and equipment. In 2015, as a result of this review, effective January 1, 2016 certain assets will be depreciated prospectively over a shorter period.

- Vehicles - will be depreciated with an average life of 4-8 years (previously 5-10 years);
- Coil tubing rigs and equipment - will be depreciated with an average life of 8-20 years (previously 8-30 years); and
- Service rigs and equipment - will be depreciated with an average life of 8-30 years (previously 8-40 years).

The change in estimate arose from more information and experience operating and maintaining these assets

obtained with the passage of time. The reduction of the average life of these assets will result in additional depreciation expense for the year ending December 31, 2016 of approximately $2.3 million.

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 certain employees and executives of the Company. RSU's granted prior to December 9, 2015 represent the right to receive a cash payment or its equivalent in fully paid shares at the time of vesting, at the option of the Company. RSU's granted after December 9, 2015 represent the right to receive a cash payment at the time of vesting. As determined by the Board, RSUs vest over a specified time period, vest based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

The DSU plan is 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 net loss evenly over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in net loss.

Provisions

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

Deferred Income Tax Liabilities and Assets

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

CHANGES IN ACCOUNTING POLICIES

The Company adopted the following new standards and amendments to standards as of January 1, 2015: IFRS 2, “Share-Based Payments”; IFRS 3, “Business Combinations”; IFRS 8, “Operating Segments”; and IFRS 13, “Fair Value Measurement”. 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, 2016 and have not been applied in preparing the Consolidated Financial Statements for the year-ended December 31, 2015. The standards and interpretations are as follows and will be adopted on their respective effective dates: IFRS 9, “Financial Instruments”; IFRS 15, “Revenue from Contracts with Customers”; and IFRS 16 “Leases”. 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, 2015, 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

Industry activity to-date in the first quarter of 2016 is much slower than expected. Fewer E&P companies are engaging in oilfield service work as they strive to preserve cash flow and several of Essential’s key customers have significantly reduced their work programs. In addition, unseasonably warm weather has resulted in early break-up conditions in all of Essential’s service areas. As a result, Essential’s activity to-date in the first quarter has been slower than the fourth quarter of 2015 and pricing pressure continues.

At March 2, 2016, Essential’s debt was $28.4 million. Essential significantly reduced debt by $29.7 million in 2015 and ended the year with $25.5 million of debt outstanding at December 31, 2015. On an annual basis, Essential had a debt to EBITDAS ratio of 1.1x, remaining within bank covenant requirements.

The projected 2016 capital spending budget remains at $9 million. In view of reduced first quarter activity, planned maintenance capital has been reduced by $2 million, offset by $2 million of carry-in growth capital from the 2015 capital budget. Capital spending is expected to be comprised of $6 million of growth capital and $3 million of maintenance capital. The growth capital will be focused on completing the Generation IV masted coil tubing rigs.

“Despite our strong balance sheet, in the face of a very difficult 2015 we were one of the first companies to take meaningful steps to reduce our cost structure. Our employees and shareholders all suffered as a result of reductions to compensation, dividends and the share price. As the first quarter of 2016 unfolds with significantly lower activity, we are reducing our cost structure again to right-size the business relative to current industry conditions. We are in the process of making difficult decisions in an effort to support cash flow and preserve our strong balance sheet", said Garnet Amundson, President and CEO.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity is directly impacted by seasonality. Activity is traditionally higher in the first, third and fourth quarters of the year and lower in the second quarter. With the onset of spring, melting snow 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, 2015**	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015	**Dec 31, 2014**	Sept 30, 2014	Jun 30, 2014	Mar 31, 2014
Well Servicing:								
Coil well service	**23,833**	24,432	9,887	31,976	**41,426**	39,233	17,398	41,499
Service rigs	**7,516**	7,682	6,825	15,026	**22,034**	22,105	16,437	32,499
Total Well Servicing	**31,349**	32,114	16,712	47,002	**63,460**	61,338	33,835	73,998
Downhole Tools & Rentals	**11,278**	15,919	7,460	23,611	**35,921**	35,261	19,521	30,286
Inter-segment eliminations	**(147)**	(209)	(182)	(194)	**(527)**	(463)	(604)	(554)
Total revenue	**42,480**	47,824	23,990	70,419	**98,854**	96,136	52,752	103,730
Gross margin	**7,786**	11,927	580	15,302	**27,330**	27,515	5,222	27,327
Gross margin %	**18%**	25%	2%	22%	**28%**	29%	10%	26%
EBITDAS[(1)]	**4,930**	8,503	(2,832)	10,859	**21,992**	22,657	440	22,507
EBITDAS %[(1)]	**12%**	18%	(12)%	15%	**22%**	24%	1%	22%
Net (loss) income [(i)]	**(18,082)**	2,996	(10,495)	3,096	**(38,323)**	10,777	(5,425)	10,149
Per share – basic	**(0.14)**	0.02	(0.08)	0.02	**(0.30)**	0.09	(0.04)	0.08
Per share – diluted	**(0.14)**	0.02	(0.08)	0.02	**(0.30)**	0.08	(0.04)	0.08
Total assets	**317,244**	346,564	337,299	371,496	**397,351**	454,745	408,964	439,745
Long-term debt	**25,543**	34,738	27,027	39,817	**55,253**	65,043	38,433	50,821
Utilization [(ii)]								
Masted coil tubing rigs	**65%**	70%	25%	90%	**104%**	105%	42%	109%
Pumping [(iii)]	**55%**	57%	23%	61%	**72%**	66%	34%	69%
Service rigs	**30%**	24%	19%	37%	**49%**	48%	34%	66%
Operating hours								
Masted coil tubing rigs	**12,039**	12,319	4,341	15,335	**17,469**	15,524	6,094	15,312
Pumping [(iii)]	**15,049**	15,747	6,381	17,586	**20,885**	19,397	9,861	19,995
Conventional coil tubing rigs	**1,778**	1,174	1,088	3,665	**3,951**	4,426	2,942	6,959
Service rigs	**10,391**	10,418	9,239	17,745	**24,394**	23,997	16,907	32,616
Downhole Tools & Rentals - % of revenue								
Tryton MSFS®	**24%**	40%	16%	38%	**45%**	46%	25%	39%
Conventional Tools & Rentals	**76%**	60%	84%	62%	**55%**	54%	75%	61%
Equipment fleet [(iv)]								
Masted coil tubing rigs	**20**	19	19	19	**19**	17	17	16
Fluid pumpers	**18**	18	18	18	**18**	18	18	18
Nitrogen pumpers	**12**	12	12	14	**14**	14	14	14
Conventional coil tubing rigs	**11**	11	11	17	**17**	29	30	30
Service rigs	**38**	48	54	54	**54**	54	55	55

(i) The quarters ended December 31, 2015 and December 31, 2014 include an impairment loss of $13.2 million and $47.2 million, respectively.
(ii) Utilization is calculated using a 10 hour day.
(iii) Pumping includes 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 material factors, assumptions, risks and uncertainties, many of which are beyond the control of the Company.

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “plans”, “anticipates”, “believes”, “intends”, “estimates”, “continues”, “projects”, “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; application of losses against taxes paid in previous years; 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 positioning advantage for 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”; depreciation life of vehicles, coil tubing rigs and equipment and service rigs and equipment; additional depreciation expense for the year ending December 31, 2016; the adoption of new standards, amendments to standards, and interpretations for the Company’s accounting policies; continued industry pricing pressures; focus of growth capital spending; and the need to review the cost structure and make difficult decisions in an effort to support cash flow and preserve the 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 loss and net loss per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments, 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 loss and net loss 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, losses or gains on disposal of equipment, write-down of assets, impairment loss, foreign exchange gains or losses, and share-based compensation, which includes both equity-settled and cash-settled transactions) – These adjustments are relevant as they provide another measure which is considered an indicator of Essential's 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 loss:

	Three months ended December 31,		Year ended December 31,	
(in thousands of dollars)	**2015**	2014	**2015**	2014
EBITDAS	**$ 4,930**	$ 21,992	**$ 21,460**	$ 67,596
Share-based compensation	**191**	(224)	**839**	1,589
Impairment loss	**13,214**	47,164	**13,214**	47,164
Other expense	**3,948**	1,588	**3,467**	2,586
EBITDA	**(12,423)**	(26,536)	**3,940**	16,257
Depreciation and amortization	**6,290**	6,854	**25,724**	27,042
Finance costs	**211**	445	**1,340**	1,812
Loss before income tax	**(18,924)**	(33,835)	**(23,124)**	(12,597)
Total income tax (recovery) expense	**(842)**	4,488	**(639)**	10,225
Net loss	**$ (18,082)**	$ (38,323)	**$ (22,485)**	$ (22,822)

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.

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 operations[(i)] – 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[(ii)] – 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.

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

[(ii)] 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".

Consolidated Financial Statements

Essential Energy Services Ltd.

December 31, 2015

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), using management's best estimates and judgments. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Allan Mowbray"

ALLAN MOWBRAY
Vice President, Finance and
Chief Financial Officer

March 2, 2016

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, 2015 and 2014, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Essential Energy Services Ltd. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada

March 2, 2016

Chartered Professional Accountants

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of dollars)	As at December 31, **2015**	2014
Assets		
Current		
Cash	**$ 1,042**	$ -
Trade and other accounts receivable *(note 6)*	**32,251**	79,651
Inventories *(note 7)*	**30,609**	35,991
Prepayments	**2,697**	3,116
	66,599	118,758
Non-current		
Property and equipment *(note 8)*	**225,479**	239,696
Intangible assets *(note 9)*	**21,347**	24,599
Goodwill *(note 10)*	**3,799**	14,298
	250,625	278,593
Total assets	**$ 317,224**	$ 397,351
Liabilities		
Current		
Bank indebtedness	**$ -**	$ 991
Trade and other accounts payable *(note 11)*	**15,466**	32,822
Dividends payable *(note 12)*	**378**	3,773
Income taxes payable	**-**	203
	15,844	37,789
Non-current		
Long-term debt *(note 13)*	**25,543**	55,253
Deferred tax liabilities *(note 14)*	**31,279**	28,299
	56,822	83,552
Total liabilities	**72,666**	121,341
Commitments and contingencies *(note 23)*		
Equity		
Share capital *(note 15)*	**262,977**	262,871
(Deficit) retained earnings	**(23,595)**	8,706
Other reserves *(note 16)*	**5,176**	4,433
Total equity	**244,558**	276,010
Total liabilities and equity	**$ 317,224**	$ 397,351

See accompanying notes to the consolidated financial statements.

Signed "Garnet K. Amundson"

Garnet K. Amundson
Director

Signed "James A. Banister"

James A. Banister
Director

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

(in thousands of dollars, except per share amounts)	For the years ended December 31, **2015**	2014
Revenue	**$ 184,713**	$ 351,472
Operating expenses *(notes 17 and 19)*	**149,118**	264,078
Gross margin	**35,595**	87,394
General and administrative expenses *(notes 18 and 19)*	**14,135**	19,798
	21,460	67,596
Depreciation and amortization *(notes 8 and 9)*	**25,724**	27,042
Share-based compensation *(note 21)*	**839**	1,589
Impairment loss *(notes 8 and 10)*	**13,214**	47,164
Other expenses *(note 20)*	**3,467**	2,586
Operating loss	**(21,784)**	(10,785)
Finance costs	**1,340**	1,812
Loss before income taxes	**(23,124)**	(12,597)
Current income tax (recovery) expense	**(3,616)**	8,276
Deferred income tax expense	**2,977**	1,949
Income tax (recovery) expense *(note 14)*	**(639)**	10,225
Net loss	**$ (22,485)**	$ (22,822)
Unrealized foreign exchange gain *(note 16)*	**418**	61
Comprehensive loss	**$ (22,067)**	$ (22,761)
Net loss per share *(note 22)*		
Basic and diluted	**$ (0.18)**	$ (0.18)
Comprehensive loss per share *(note 22)*		
Basic and diluted	**$ (0.18)**	$ (0.18)

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, **2015**	2014
Equity:		
Share capital		
Balance, January 1	**$ 262,871**	$ 262,177
Exercise of options *(note 15)*	**106**	2,149
Shares repurchased in normal course issuer bid *(note 15)*	**-**	(1,455)
Balance, December 31	**$ 262,977**	$ 262,871
(Deficit) retained earnings		
Balance, January 1	**$ 8,706**	$ 46,622
Net loss	**(22,485)**	(22,822)
Dividends *(note 12)*	**(9,816)**	(15,094)
Balance, December 31	**$ (23,595)**	$ 8,706
Other reserves		
Balance, January 1	**$ 4,433**	$ 4,358
Other comprehensive income *(note 16)*	**418**	61
Equity-settled share-based compensation *(note 16)*	**363**	789
Exercise of options *(note 16)*	**(38)**	(730)
Shares cancelled under normal course issuer bid *(note 16)*	**-**	(45)
Balance, December 31	**$ 5,176**	$ 4,433
Total equity	**$ 244,558**	$ 276,010

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, 2015	2014
Operating activities:		
Net loss	**$ (22,485)**	$ (22,822)
Non-cash adjustments to reconcile net income for the period to operating cash flow:		
Depreciation and amortization	**25,724**	27,042
Deferred income tax expense *(note 14)*	**2,977**	1,949
Share-based compensation *(note 21)*	**363**	789
Provision for impairment of trade accounts receivable *(note 6)*	**883**	550
Finance costs	**1,340**	1,812
Impairment loss *(notes 8 and 10)*	**13,214**	47,164
Loss on disposal and write-down of assets *(note 20)*	**5,164**	3,586
Operating cash flow before changes in non-cash operating working capital	**27,180**	60,070
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**49,375**	(2,224)
Inventories	**5,382**	(7,464)
Prepayments	**419**	210
Trade and other accounts payable	**(13,692)**	(2,572)
Current income taxes	**(3,994)**	(3,178)
Net cash provided by operating activities	**64,670**	44,842
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 8 and 9)*	**(16,677)**	(45,824)
Business acquisition, net of cash acquired *(note 5)*	**-**	(6,043)
Non-cash investing working capital in trade and other accounts payable	**(3,662)**	(805)
Proceeds on disposal of equipment	**1,533**	9,674
Net cash used in investing activities	**(18,806)**	(42,998)
Financing activities:		
(Decrease) increase in long-term debt	**(29,710)**	16,226
Proceeds from exercise of options	**68**	1,419
Repurchase of shares	**-**	(1,500)
Dividends paid *(note 12)*	**(13,211)**	(15,085)
Finance costs	**(1,340)**	(1,812)
Net cash used in financing activities	**(44,193)**	(752)
Foreign exchange gain on cash held in a foreign currency	**362**	29
Net increase in cash	**2,033**	1,121
Bank indebtedness, beginning of period	**(991)**	(2,112)
Cash (bank indebtedness), end of period	**$ 1,042**	$ (991)
Supplemental cash flow information		
Cash taxes paid, net of refunds	**$ 339**	$ 11,465
Cash interest and standby fees paid	**$ 1,253**	$ 1,655

See accompanying notes to the consolidated financial statements.

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the year ended December 31, 2015 and 2014 were approved by the Board of Directors of Essential ("Board of Directors") on March 2, 2016. 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 exploration and production companies 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, 2015, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

b) Basis of Presentation

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

c) Principles of Consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiaries.

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

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

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

d) Foreign Currency Translation

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

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

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

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

e) BUSINESS COMBINATIONS

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

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

f) 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.

g) INCOME TAXES

Current income taxes

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

Deferred income taxes

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

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

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

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

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

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

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

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

h) SHARE-BASED PAYMENT TRANSACTIONS

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

Share Option Plan

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

Restricted Share Unit Plan

The RSU Plan is for certain employees and executives of the Company. RSU’s granted prior to December 9, 2015 represent the right to receive a cash payment or its equivalent in fully paid common shares of Essential (“Common Shares”) at the time of vesting, at the option of the Board. RSU’s granted after December 9, 2015 represent the right to receive a cash payment at the time of vesting. As determined by the Board, RSUs may vest evenly over a specified period, based on performance criteria, or a combination of both. The fair value of the liability and the corresponding expense is charged to net loss and subsequently revalued at the end of each reporting period, between the grant date and settlement, with corresponding changes in fair value recognized in net loss. The RSU expense is recognized over the vesting period on a graded vesting schedule.

Deferred Share Unit Plan

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 over the vesting period. Once fully vested, the fair value of the liability is re-measured with any changes in fair value recognized in share-based compensation expense.

i) Financial Instruments

Fair value hierarchy

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

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

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

Financial assets

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

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

Financial assets at fair value through net loss

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

Loans and receivables

Trade and other 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 net loss (including held-for-trading), or
b. other financial liabilities.

Financial liabilities at fair value through net loss

Financial liabilities recognized at fair value through net loss include those designated as held-for-trading and as fair value through net loss upon initial recognition. As at December 31, 2015, 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.

j) PROPERTY AND EQUIPMENT

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

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

Category	Period	Method
Coil tubing rigs and equipment – certifications	24,000 hours	Hours of service
Coil tubing rigs and equipment	8-30 years	Straight-line
Service rigs and equipment – certifications	24,000 hours	Hours of service
Service rigs and equipment	8-40 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 loss and comprehensive loss in the period the asset is derecognized.

Existing assets' estimated useful lives, residual values and methods of depreciation are assessed as part of the Company's annual review of the estimated useful lives of property and equipment. In 2015, as a result of this review, effective January 1, 2016 certain assets will be depreciated prospectively over a shorter period. This was approved by Essential's Audit Committee on March 2, 2016.

- Vehicles - will be depreciated with an average life of 4-8 years (previously 5-10 years);
- Coil tubing rigs and equipment - will be depreciated with an average life of 8-20 years (previously 8-30 years); and
- Service rigs and equipment - will be depreciated with an average life of 8-30 years (previously 8-40 years).

The change in estimate arose from more information and experience operating and maintaining these assets obtained with the passage of time. The reduction of the average life of these assets will result in additional depreciation expense for the year ending December 31, 2016 of approximately $2.3 million.

k) 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.

l) 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
Computer software	5 years
Non-compete agreement	5 years

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

m) 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.

n) PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES

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

o) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

p) 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.

q) 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 loss and comprehensive loss.

3. CHANGES IN ACCOUNTING POLICIES

a) New accounting standards

The Company adopted the following amendments and interpretation standards effective January 1, 2015:

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 amendment to the standard did not impact Essential as the Company 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 through net loss at each reporting period. The amendment did not impact Essential as the Company does not have any contingent considerations related to previously recognized business combinations.

Operating Segments

Amendments to IFRS 8 *Operating Segments* requires entities to disclose the judgments made by management in applying the aggregation criteria to operating segments. Essential included additional disclosures relating to the aggregation criteria in note 28 to the financial statements.

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 amendment did not impact Essential as the Company does not discount short-term receivables and/or payables.

b) Accounting standard issued but not yet adopted

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. Essential continues to assess this new standard, but does not expect it to have a significant impact.

Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a single revenue recognition and measurement framework to determine the timing and measurement of revenue from contracts with customers. The effective date has been deferred to annual periods beginning on or after January 1, 2018 with early adoption permitted. Essential continues to assess this new standard, but does not expect it to have a significant impact.

Leases

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

4. KEY SOURCES OF ESTIMATION AND UNCERTAINTY

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

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 allocated the purchase price to the net assets acquired based on management’s best estimate of fair value, taking 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 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			
		2015		2014
Trade receivables, net of provision	**$**	**28,023**	$	78,367
Other receivables		**4,228**		1,284
	$	**32,251**	$	79,651

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			
		2015		2014
Canadian dollar	**$**	**26,848**	$	75,802
U.S. dollar		**1,175**		2,565
	$	**28,023**	$	78,367

The aging analysis of trade receivables is as follows:

	As at December 31 **2015**	2014
< 31 days	**$ 11,334**	$ 30,012
31-60 days	**10,021**	26,730
61-90 days	**4,473**	12,390
>90 days	**2,195**	9,235
	$ 28,023	$ 78,367

The provision for impairment of receivables of $0.9 million (December 31, 2014 – $1.1 million) is included in the amounts over 90 days old. The movements in the provision during the period were as follows:

	For years ended December 31, **2015**	2014
Balance, beginning of period	**$ 1,148**	$ 962
Provision for receivables impairment	**883**	550
Receivables written off against the provision	**(1,106)**	(364)
Balance, end of period	**$ 925**	$ 1,148

The addition and release of the provision for impairment of receivables has been included in operating expenses in the consolidated statements of net loss and comprehensive loss. Uncollectable amounts included in the provision are generally written off against the provision when there is no expectation of recovery.

7. INVENTORIES

	As at December 31 **2015**	2014
Downhole tools	**$ 23,146**	$ 26,172
Coil well service	**7,463**	9,819
	$ 30,609	$ 35,991

Inventory charged through operating expenses in the consolidated statements of net loss and comprehensive loss for the year ended December 31, 2015 was $31.4 million (2014 – $56.9 million).

8. PROPERTY AND EQUIPMENT

Carrying Amount	As at December 31, 2015	2014
Coil well service, rigs and equipment	**$ 112,895**	$ 109,649
Service rigs and equipment	**58,931**	67,644
Oilfield equipment	**28,794**	33,363
Vehicles	**21,160**	24,558
Office and computer equipment	**1,420**	1,797
Land	**482**	482
Other	**1,797**	2,203
	$ 225,479	$ 239,696

Cost As at December 31, 2015	**Balance, beginning of year**	**Additions**	**Additions through acquisition**	**Disposals, write-down, and impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil well service, rigs and equipment	**$ 139,649**	**$ 11,393**	**$ -**	**$ (3,558)**	**$ -**	**$ 147,484**
Service rigs and equipment	**92,300**	**405**	**-**	**(6,239)**	**-**	**86,466**
Oilfield equipment	**54,254**	**1,337**	**-**	**(6,137)**	**185**	**49,639**
Vehicles	**33,201**	**2,150**	**-**	**(4,218)**	**16**	**31,149**
Office and computer equipment	**4,604**	**307**	**-**	**(488)**	**3**	**4,426**
Land	**482**	**-**	**-**	**-**	**-**	**482**
Other	**5,123**	**104**	**-**	**(445)**	**5**	**4,787**
	$ 329,613	**$ 15,696**	**$ -**	**$ (21,085)**	**$ 209**	**$ 324,433**
Cost As at December 31, 2014						
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

Accumulated Depreciation As at December 31, 2015	**Balance, beginning of year**	**Depreciation**	**Disposals & write-down**	**Effects of movements in exchange rates**	**Balance, end of year**
Coil well service, rigs and equipment	**$ 30,000**	**$ 7,382**	**$ (2,793)**	**$ -**	**$ 34,589**
Service rigs and equipment	**24,656**	**3,789**	**(910)**	**-**	**27,535**
Oilfield equipment	**20,891**	**5,017**	**(5,109)**	**46**	**20,845**
Vehicles	**8,643**	**3,917**	**(2,573)**	**2**	**9,989**
Office and computer equipment	**2,807**	**622**	**(423)**	**-**	**3,006**
Other	**2,920**	**511**	**(445)**	**4**	**2,990**
	$ 89,917	**$ 21,238**	**$ (12,253)**	**$ 52**	**$ 98,954**
Accumulated Depreciation As at December 31, 2014					
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

In 2015, an impairment loss of $13.2 million (2014 - $47.2 million) was recorded, of which $11.1 million relates to goodwill (2014 – $43.9 million), $2.1 million relates to service rig equipment (2014 – nil) and nil relates to intangible assets (2014 – $3.3 million).

Included in coil well service rigs and equipment, service rigs and equipment and oilfield equipment is $23.1 million (2014 – $19.9 million) of assets under construction which will not be depreciated until put into use.

9. INTANGIBLE ASSETS

Carrying Amount	As at December 31, **2015**	2014
Customer relationships	**$ 19,518**	$ 23,236
Computer software	**1,523**	1,030
Non-compete agreement	**306**	333
	$ 21,347	$ 24,599

In 2014, an impairment loss of $47.2 million was recorded, of which $43.9 million related to goodwill and $3.3 million related to intangible assets.

Cost As at December 31, 2015	**Balance, beginning of year**	**Additions**	**Additions through acquisition**	**De-recognition & impairment loss**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 41,242**	**$ -**	**$ -**	**$ (2,897)**	**$ 257**	**$ 38,602**
Trade names	**3,159**	**-**	**-**	**(3,159)**	**-**	**-**
Computer software	**4,494**	**981**	**-**	**-**	**-**	**5,475**
Favourable leases	**500**	**-**	**-**	**(500)**	**-**	**-**
Non-compete agreement	**384**	**-**	**-**	**-**	**74**	**458**
	$ 49,779	**$ 981**	**$ -**	**$ (6,556)**	**$ 331**	**$ 44,535**
Cost As at December 31, 2014						
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

Accumulated Amortization As at December 31, 2015	**Balance, beginning of year**	**Amortization**	**De-recognition**	**Effects of movements in exchange rates**	**Balance, end of year**
Customer relationships	**$ 18,006**	**$ 3,914**	**$ (2,897)**	**$ 61**	**$ 19,084**
Trade names	**3,159**	**-**	**(3,159)**	**-**	**-**
Computer software	**3,464**	**488**	**-**	**-**	**3,952**
Favourable leases	**500**	**-**	**(500)**	**-**	**-**
Non-compete agreement	**51**	**84**	**-**	**17**	**152**
	$ 25,180	**$ 4,486**	**$ (6,556)**	**$ 78**	**$ 23,188**
Accumulated Amortization As at December 31, 2014					
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

10. GOODWILL

	For the years ended December 31,	
	2015	2014
Beginning of the year	**$ 14,298**	$ 55,014
Business acquisitions *(note 5)*	**-**	3,045
Impairment loss	**(11,114)**	(43,900)
Effect of movement in exchange rates	**615**	139
End of the year	**$ 3,799**	$ 14,298

In 2015, an impairment loss of $13.2 million was recorded, of which $11.1 million relates to goodwill (2014 – $43.9 million), $2.1 million relates to service rig equipment (2014 – nil), and nil relates to intangible assets (2014 – $3.3 million).

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

	As at December 31, 2015	2014
Coil well service	**$ -**	$ 11,114
Downhole tools	**3,799**	3,184
	$ 3,799	$ 14,298

For 2015, oilfield service sector market valuations reflect an environment of declining commodity prices and significant capital spending reductions by Essential's customers, reducing the outlook for oilfield service activity and pricing. As at December 31, 2015, the market capitalization of Essential was below the book value of its equity, indicating a potential impairment of goodwill and certain equipment.

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 extrapolated thereafter at a growth rate of 2.5% per annum (2014 – 2.5%) and discounted at a rate ranging from 15.1 – 15.4% (2014 – 14.5%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends.

Coil well service

For the year ended December 31, 2015, the carrying amount of this CGU was determined to be higher than its recoverable amount of $169.8 million and an impairment loss of $11.1 million was recognized (2014 – $32.9 million), allocated to goodwill. Management has identified that a 0.53% decrease in the discount rate would support a conclusion of 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

For the year ended December 31, 2015, the carrying amount of this CGU was determined to be higher than its recoverable amount of $68.8 million and an impairment loss of $2.1 million was recognized, allocated to equipment (2014 – $14.3 million allocated to goodwill and intangible assets). Management has identified that a 0.36% decrease in the discount rate would support a conclusion of 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 2015	2014
Trade accounts payable	**$ 6,894**	$ 14,880
Accrued payables	**3,437**	6,268
Accrued payroll	**3,236**	8,516
Other	**1,899**	3,158
	$ 15,466	$ 32,822

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

	As at December 31 2015	2014
Canadian dollar	**$ 6,709**	$ 14,329
U.S. dollar	**185**	551
	$ 6,894	$ 14,880

12. DIVIDENDS PAYABLE

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

Record date	Payment date	Total dividend	Amount per share
2015			
December 31, 2015	**January 15, 2016**	**$ 378**	**$ 0.003**
September 30, 2015	**October 15, 2015**	**$ 1,888**	**$ 0.015**
June 30, 2015	**July 15, 2015**	**$ 3,775**	**$ 0.030**
March 31, 2015	**April 15, 2015**	**$ 3,775**	**$ 0.030**
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

13. LONG-TERM DEBT

	As at December 31 2015	2014
Term loan	**$ 25,600**	$ 55,350
Deferred financing costs	**(57)**	(97)
Non-current portion of long-term debt	**$ 25,543**	$ 55,253

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, 2015, $70.3 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, 2015 all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

14. INCOME TAXES

	For the years ended December 31,	
Components of income tax expense	**2015**	2014
Current income tax (recovery) expense	**$ (3,616)**	$ 8,276
Deferred income tax expense	**2,977**	1,949
Total income tax (recovery) expense	**$ (639)**	$ 10,225

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,	
	2015	2014
Loss before income taxes	**$ (23,124)**	$ (12,597)
Statutory tax rate	**26.2%**	25.4%
Expected income tax recovery	**(6,058)**	(3,200)
Increase (decrease) resulting from:		
Impairment loss on goodwill	**2,912**	11,151
Changes in tax rates	**1,849**	401
Unrecognized deferred tax assets	**357**	1,411
Items not deductible for tax	**219**	207
Share-based compensation	**95**	201
Impact of foreign tax rates	**(97)**	(159)
Other	**84**	213
Total income tax (recovery) expense	**$ (639)**	$ 10,225

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

	As at December 31, **2015**	2014
Property and equipment	**$ (28,123)**	$ (25,716)
Intangible assets	**(2,236)**	(2,596)
Share issuance costs	**-**	81
Other	**(920)**	(68)
Deferred tax liabilities	**$ (31,279)**	$ (28,299)

As at December 31, 2015, Essential has unrecognized tax assets that relate to $6.2 million (2014 - $4.2 million) of gross non-capital losses in the United States, which expire in 2033 to 2035.

15. SHARE CAPITAL

Authorized

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

	Number of Common Shares (000's)	Amount
As at January 1, 2014	125,496	$ 262,177
Shares issued on exercise of options	979	2,149
Shares repurchased under normal course issuer bid	(697)	(1,455)
As at December 31, 2014	125,778	$ 262,871
Shares issued on exercise of options	**59**	**106**
As at December 31, 2015	**125,837**	**$ 262,977**

On March 23, 2015, 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, 2015 and will terminate on March 24, 2016, 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 12,316,891 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, 2015 no Common Shares were acquired and cancelled under the NCIB (2014 – 697,046 Common Shares were acquired and cancelled at an average price of $2.14 per Common Share).

16. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2014	$ 4,412	$ (54)	$ 4,358
Share-based compensation	789	-	789
Exercise of options	(730)	-	(730)
Shares cancelled under normal course issuer bid	(45)	-	(45)
Unrealized foreign exchange gain on foreign operations	-	61	61
As at December 31, 2014	$ 4,426	$ 7	$ 4,433
Share-based compensation	**363**	**-**	**363**
Exercise of options	**(38)**	**-**	**(38)**
Unrealized foreign exchange gain on foreign operations	**-**	**418**	**418**
As at December 31, 2015	**$ 4,751**	**$ 425**	**$ 5,176**

17. OPERATING EXPENSES

	For the years ended December 31, **2015**	2014
Employee costs *(note 19)*	**$ 61,532**	$ 111,723
Materials and related costs	**39,485**	71,890
Travel	**11,324**	23,782
Repairs and maintenance	**10,160**	18,633
Fuel	**8,917**	15,934
Subcontracting	**6,435**	9,387
Occupancy costs	**5,569**	5,517
Other	**5,696**	7,212
	$ 149,118	$ 264,078

18. GENERAL AND ADMINISTRATIVE EXPENSES

	For the years ended December 31, **2015**	2014
Employee costs *(note 19)*	**$ 7,482**	$ 10,117
Professional fees	**1,918**	2,785
Occupancy costs	**2,062**	2,320
Other	**2,673**	4,576
	$ 14,135	$ 19,798

19. EMPLOYEE COSTS

	For the years ended December 31, 2015	2014
Wages and salaries	**$ 65,386**	$ 117,712
Share-based compensation *(note 22)*	**363**	1,589
Other benefits	**3,628**	4,128
	$ 69,377	$ 123,429
Employee costs are included in:		
Operating expenses *(note 17)*	**$ 61,532**	$ 111,723
General and administrative expenses *(note 18)*	**7,482**	10,117
Share-based compensation *(note 22)*	**363**	1,589
	$ 69,377	$ 123,429

20. OTHER EXPENSES

	For the years ended December 31, 2015	2014
Loss on disposal of assets	**$ 2,832**	$ 831
Write-down of assets	**2,332**	2,755
Foreign exchange gain	**(2,025)**	(1,123)
Other loss	**328**	123
	$ 3,467	$ 2,586

21. 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 RSUs issued prior to December 9, 2015 under the RSU Plan, together may not exceed 9% of the Company's outstanding Common Shares. RSU's granted after December 9, 2015 represent the right to receive a cash payment only, at the time of vesting, and as such, are not included in the maximum number of share options or RSUs allowed for issuance. As at December 31 2015, the maximum number of share options and RSUs allowed for issuance was 11,325,324 (2014 – 11,320,014).

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

	For the years ended December 31, 2015	2014
Equity-settled share options	**$ 363**	$ 789
Restricted share units	**495**	693
Cash-settled deferred share units	**(19)**	107
Total share-based compensation expense	**$ 839**	$ 1,589

a) Share Option Plan

Under the Company's Share Option Plan, senior management and executives are eligible to receive options to acquire Common Shares, with terms not to exceed five years from the date of the grant. The exercise price is the

weighted-average price of the Common Shares for the five trading days immediately prior to the grant date. Under the Share Option Plan, vesting periods are determined by the Board of Directors at the time of the grant. The options currently outstanding vest over three years with one-third of the options exercisable on each anniversary date from the date of the original grant.

	For the years ended December 31, 2015		For the years ended December 31, 2014	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**5,024**	**$ 2.19**	5,444	$ 1.97
Issued	**2,025**	**1.19**	655	2.90
Exercised	**(59)**	**1.15**	(978)	1.45
Expired	**(145)**	**1.20**	-	-
Forfeited	**(452)**	**2.14**	(97)	2.06
Outstanding, end of period	**6,393**	**$ 1.91**	5,024	$ 2.19
Exercisable, end of period	**3,707**	**$ 2.17**	3,194	$ 2.06

The fair value of the share options issued during the period was between $0.15 – $0.24 per option (2014 – $0.72 – $0.82), estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2015	2014
Risk-free interest rate	**1.0 – 1.1%**	1.4 – 1.7%
Expected volatility	**41.6 – 43.3%**	43.5 – 46.4%
Expected term	**3.7 – 5.0 years**	3.6 – 4.4 years
Expected forfeiture rate	**7.5 – 16.5%**	7.9 – 17.4%
Dividend yield	**8.7 – 10.6%**	4.1%

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, 2015 and 2014:

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, 2015				
\$1.12 – \$2.00	**2,355**	**3.82**	**\$ 1.30**	**330**
\$2.01 – \$2.90	**4,038**	**1.33**	**\$ 2.27**	**3,377**
	6,393	**2.25**	**\$ 1.91**	**3,707**
As at December 31, 2014				
\$1.15 – \$1.37	204	0.46	\$ 1.19	204
\$1.38 – \$2.90	4,820	2.24	\$ 2.99	2,990
	5,024	2.17	\$ 2.19	3,194

On January 7, 2016, Essential issued 1,785,000 share options to certain senior management and executives of the Company with an exercise price of $0.55 per option.

b) Restricted Share Units

The RSU Plan authorizes the Board of Directors to grant RSUs to certain employees and executives of the Company. RSUs granted to a participant prior to December 9, 2015 represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. The grants vest in three equal instalments; contain a time vesting feature, or both performance based and time vesting features. The performance based criteria vest conditionally. Under the terms of the plan, RSU's are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at December 31, 2015 is $0.8 million (December 31, 2014 – $0.9 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, 2015 and 2014:

Number of RSUs (000's)	For years ended December 31, **2015**	2014
Outstanding, beginning of period	**1,103**	588
Issued	**2,396**	803
Vested	**(431)**	(200)
Forfeited	**(193)**	(88)
Outstanding, end of period	**2,875**	1,103

RSU's granted after December 9, 2015 represent the right to receive a cash payment at the time of vesting. On January 7, 2016, Essential issued 2,088,250 RSUs to certain employees of the Company.

c) Deferred Share Units

Participation in the DSU Plan is restricted to non-employee directors ("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. Under the terms of

the plan, DSU's are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at December 31, 2015 is $0.2 million (December 31, 2014 – $0.2 million).

The following table summarizes information with respect to DSUs outstanding:

	For the years ended December 31,	
Number of DSUs (000's)	**2015**	2014
Outstanding, beginning of period	**243**	100
Issued	**187**	143
Redeemed	**(32)**	-
Outstanding, end of period	**398**	243

22. EARNINGS PER SHARE

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

In calculating the diluted earnings per share, share options and 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 loss per share as their effect is anti-dilutive.

	For the years ended December 31,	
(000's)	**2015**	2014
Basic and diluted	**125,836**	125,728

23. 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
2016	$ 6,000
2017	5,509
2018	4,234
2019	3,851
20120	3,277
Thereafter	7,901
	$ 30,772

Other commitments

As part of its long-term capital program, Essential is committed to future capital expenditures of $5.6 million, which is expected to be incurred 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.

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 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.

24. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

The Company provides salaries, cash and non-cash benefits to the Board of Directors and Named Executive Officers. Named Executive Officers participate in the Company's Share Option Plan 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,	
	2015	2014
Salaries and other benefits	**$ 1,602**	$ 3,335
Share-based compensation (equity and cash settled)	**1,520**	1,405
	$ 3,122	$ 4,740

25. CAPITAL DISCLOSURE

The Company's capital structure consists of the following:

	As at December 31,	
	2015	2014
Long-term debt	**$ 25,543**	$ 55,253
Equity	**244,558**	276,010
Total capitalization	**$ 270,101**	$ 331,263

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.

26. 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, 2015, the Company earned revenues from more than 525 customers (2014 – more than 700 customers) with five of these customers representing 47% of revenue (2014 – 34% of revenue). As at December 31, 2015, approximately 51% of the total accounts receivable balance was due from five companies (2014 – 33%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's loss or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.4 million change to the consolidated statements of net loss and comprehensive loss on an annualized basis (2014 – $0.5 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.

27. 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.

The recent industry downturn in 2015 has disrupted typical historic oilfield services seasonal patterns in western Canada as exploration and production companies are driven by constrained cash flow rather than weather and access issues.

28. 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 ("WCSB"). The Well Servicing segment is comprised of a fleet of coil tubing rigs, service rigs, fluid and nitrogen pumpers and ancillary equipment. Service lines within the Well Servicing segment were aggregated on the basis they provide similar services to the same customers, achieve similar long-term margins, share infrastructure and operate within the WCSB throughout Western Canada.

b) Downhole Tools & Rentals

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

c) Corporate and Eliminations

The Corporate and Eliminations segment is comprised of: i) corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments; and ii) eliminations, which includes transactions between segments which are eliminated upon consolidation. Loss before income taxes for the years ended December 31, 2015 and 2014 for the Corporate and Eliminations segment substantially represents corporate office and certain operational costs.

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

As at and for the year ended December 31, 2015	**Well Servicing**	**Downhole Tools & Rentals**	**Corporate & Eliminations**	**Consolidated**
Revenue	$ **127,177**	$ **58,268**	$ **(732)**	$ **184,713**
(Loss) income before income taxes	$ **(13,343)**	$ **5,417**	$ **(15,198)**	$ **(23,124)**
Depreciation and amortization	$ **20,834**	$ **3,730**	$ **1,160**	$ **25,724**
Impairment loss	$ **13,214**	$ **-**	$ **-**	$ **13,214**
Total assets	$ **251,762**	$ **61,587**	$ **3,875**	$ **317,224**
Total liabilities	$ **37,846**	$ **3,920**	$ **30,900**	$ **72,666**
Property, equipment and intangible asset expenditures	$ **15,086**	$ **801**	$ **790**	$ **16,677**

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
(Loss) income 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

29. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Auditors

Ernst & Young LLP

Bankers

National Bank of Canada

The Toronto-Dominion Bank

HSBC Bank Canada

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Don A. K. Webster
Chief Operating Officer

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Kevin W. Job
Senior Vice President, Corporate

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

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