



NEWS RELEASE

ESSENTIAL ENERGY SERVICES ANNOUNCES FOURTH QUARTER AND YEAR END FINANCIAL RESULTS

Calgary, Alberta March 8, 2017 – Essential Energy Services Ltd. (TSX: ESN) (“Essential” or the “Company”) announces fourth quarter and year end results.

SELECTED INFORMATION

(in thousands of dollars, except percentages, per share amounts and hours)	Three months ended December 31,			Years ended December 31,	
	2016	2015	2016	2015	2014
Revenue	\$ 33,043	\$ 34,964	\$ 97,527	\$ 147,664	\$ 258,397
Gross margin	4,148	5,952	7,787	27,600	67,534
Gross margin %	13%	17%	8%	19%	26%
EBITDAS ⁽ⁱ⁾ from continuing operations ⁽ⁱ⁾	(4,161)	3,366	(9,169)	14,696	49,806
Adjusted EBITDAS ⁽¹⁾ from continuing operations	1,141	3,510	(2,118)	16,674	49,806
Net loss from continuing operations ⁽ⁱ⁾⁽ⁱⁱ⁾	(9,832)	(14,739)	(62,622)	(19,034)	(18,837)
Per share – basic and diluted	(0.07)	(0.12)	(0.48)	(0.15)	(0.15)
Net loss ⁽ⁱ⁾⁽ⁱⁱ⁾	(25,411)	(18,082)	(90,629)	(22,485)	(22,822)
Per share – basic and diluted	(0.18)	(0.14)	(0.70)	(0.18)	(0.18)
Operating hours					
Coil tubing rigs	11,119	13,817	32,306	51,739	72,677
Pumpers	12,341	15,049	37,022	54,763	70,138

(i) The fourth quarter and year ended December 31, 2016 includes an onerous lease contract expense of \$4.8 million.

(ii) The year ended December 31, 2016 includes an impairment loss of \$51.2 million, of which \$45.8 million was recognized in the first quarter 2016 and \$5.4 million was recognized in the fourth quarter 2016. The fourth quarter and year ended December 31, 2015 includes an impairment loss of \$11.1 million. The year ended December 31, 2014 includes an impairment loss of \$32.8 million.

In December 2016 Essential sold its service rig business for \$28.2 million in return for coil well service assets and cash proceeds of \$12.2 million. The service rig business has been reported as a discontinued operation in this reporting period with prior periods restated to this same basis of accounting and disclosure.

¹ Refer to “Non-IFRS Measures” section for further information.

(in thousands of dollars, except fleet data)	2016	As at December 31,	
		2015	2014
Total assets ⁽ⁱ⁾	\$ 209,270	\$ 317,224	\$ 397,351
Total long-term debt	11,250	25,543	55,253
Equipment fleet ⁽ⁱⁱ⁾			
Coil tubing rigs	31	31	36
Pumpers	32	30	32

(i) Total assets as at December 31, 2015 and December 31, 2014 include the service rig business which was sold in December 2016.

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

HIGHLIGHTS

Industry Highlights

Oilfield service activity in 2016 was below historical levels as exploration and production (“E&P”) companies reduced spending to preserve cash flow and manage debt due to low oil and natural gas prices. Wells drilled in the Western Canadian Sedimentary Basin (“WCSB”), a key indicator of industry activity, were 25% lower than 2015. Oil prices improved from a low of U.S.\$26 per barrel (West Texas Intermediate (“WTI”)) in February 2016 to over U.S.\$50 per barrel (WTI) by the end of 2016. An Organization of the Petroleum Exporting Countries (“OPEC”) announcement at the end of November 2016 helped to stabilize the price of oil above U.S.\$50 per barrel (WTI) and narrow the range of volatility. Natural gas prices followed a similar trend to oil with AECO prices falling to a 10-year low of \$0.65 per gigajoule in the first half of 2016 and steadily increasing to \$3.36 per gigajoule at the end of 2016. In the fourth quarter 2016, E&P companies’ sentiment began to improve and the demand for oilfield service activity started to increase. Wells drilled in the WCSB increased 15% in the fourth quarter 2016 compared to the same period in 2015. This was the first quarterly increase year-over-year since fourth quarter 2014.

Essential - Highlights for the Fourth Quarter 2016

Revenue and EBITDAS⁽¹⁾ were \$33.0 million and negative \$4.2 million respectively, compared to \$35.0 million and \$3.4 million in the fourth quarter of 2015. Adjusted EBITDAS⁽¹⁾ was \$1.1 million, after removing the one-time \$4.8 million onerous lease contract expense and severance costs recognized in the fourth quarter 2016. Both Essential coil well service (“ECWS”) and downhole tools & rentals (“DT&R”) activity experienced improvement in the fourth quarter 2016 with both segments recording their highest quarterly revenue for the year, after a very slow start to 2016.

ECWS fourth quarter 2016 revenue of \$17.6 million was 26% lower than the same period in 2015 due to lower spending on Essential’s services by key customers, wet weather in the first half of the quarter and pricing declines compared to fourth quarter 2015. While overall operating hours were below fourth quarter 2015, Essential’s Generation III coil tubing rigs achieved 93% utilization during the quarter as a result of strong customer demand for work on deep horizontal wells. Gross margin of 8% was below the prior year as a result of higher labour and repairs and maintenance expenses incurred to hire and prepare crews and equipment as activity began to improve.

Management was pleased with the performance of DT&R in the fourth quarter 2016. Revenue of \$15.7 million exceeded the prior year period by 39% due to strong Tryton MSFS® activity and higher rental revenue. Gross margin of 19% reflected increased activity and the benefits of cost reductions implemented earlier in the year and was a significant improvement from 8% in the prior year period.

Essential - Highlights for the Year 2016

Revenue and EBITDAS⁽¹⁾ were \$97.5 million and negative \$9.2 million respectively, compared to \$147.7 million and \$14.7 million in 2015. Adjusting for the one-time onerous lease contract expense recognized in the fourth quarter 2016 and severance costs incurred during the year, Adjusted EBITDAS⁽¹⁾ was negative \$2.1 million for the year

ended December 31, 2016. Essential's focus in 2016 was debt management and positioning the Company to return to growth and profitability as the industry recovered. Key strategic activities included:

- Business simplification - In December 2016, Essential sold its service rig business in exchange for four Generation III coil tubing rigs, three quintuplex pumpers, a nitrogen pumper, ancillary equipment, inventory and cash proceeds of \$12.2 million. The cash proceeds were used to reduce outstanding debt. In the past few years, ECWS generated higher utilization and margins than the service rig business. Essential believes the opportunity to return to growth and profitability is greater in ECWS as there is less competition and not as much excess competitor equipment.
- Debt reduction – At December 31, 2016, Essential had \$11.3 million of debt outstanding, a decrease of \$20.5 million from September 30, 2016 and \$14.3 million from December 31, 2015. Essential renewed and extended its revolving credit facility agreement with relaxation of financial covenants in June 2016 and completed a bought deal financing for \$10.4 million in October 2016. Proceeds from the financing were used to partially repay outstanding indebtedness and as an equity cure to the Company's fourth quarter 2016 Bank EBITDA⁽¹⁾ calculation. With the proceeds from the sale of the service rig business, the equity cure and the revised credit facility, Essential is in a strong financial position as oil and gas industry activity begins to improve.
- Cost management – Essential completed a second round of significant cost reductions including additional employee and wage reductions in the first half of 2016. These cost reductions allowed Essential to achieve positive annual gross margins throughout the industry downturn and minimized the EBITDAS⁽¹⁾ loss for 2016. The cost reductions and efficiency improvements implemented during the prolonged downturn position Essential to return to profitability as the industry recovers.

RESULTS OF OPERATIONS

SEGMENT RESULTS – ESSENTIAL COIL WELL SERVICE

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Revenue	\$ 17,564	\$ 23,833	\$ 53,638	\$ 90,128
Operating expenses	16,107	17,828	49,976	69,609
Gross margin	\$ 1,457	\$ 6,005	\$ 3,662	\$ 20,519
Gross margin %	8%	25%	7%	23%
<u>Operating hours</u>				
Coil tubing rigs	11,119	13,817	32,306	51,739
Pumpers	12,341	15,049	37,022	54,763
<u>Equipment fleet⁽ⁱ⁾</u>				
Coil tubing rigs	31	31	31	31
Pumpers	32	30	32	30

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

ECWS revenue decreased 26% compared to the fourth quarter 2015 due to lower operating hours and pricing. Although industry activity, as measured by the number of wells drilled, increased in the fourth quarter 2016 compared to the prior year, lower spending on Essential's services by key customers and wet weather in the first half of the quarter resulted in reduced operating hours for both coil tubing and pumping. Activity improved in the second half of the quarter with some work continuing through the Christmas break. Coil tubing and pumping revenue per hour declined approximately 10% compared to the fourth quarter 2015. There was price stability in the fourth quarter compared to the third quarter 2016, but due to the mix of work, coil tubing and pumping revenue per hour declined approximately 5%.

Demand for Essential's four Generation III coil tubing rigs continued to be strong with 93% utilization in the fourth quarter 2016. Relative to the beginning of the year, Essential's coil tubing activity improved, achieving the highest quarterly operating hours of 2016 in the fourth quarter. Coil tubing operating hours increased over third quarter 2016 due to stronger customer demand driven by improved commodity prices.

Pumping operating hours are generally correlated with Essential's coil tubing rig activity, as the pumpers and coil tubing rigs are often provided as a package to meet customer needs. Consistent with coil tubing, pumping activity improved in the fourth quarter 2016 as work with the coil tubing fleet and stand-alone pump-down work achieved their highest quarterly operating hours of 2016 in the fourth quarter.

ECWS gross margin as a percentage of revenue was 8% in the fourth quarter 2016, lower than the same period of 2015 due to lower revenue and higher operating expenses as a percentage of revenue. The increase in operating expenses as a percentage of revenue is due to higher wages and increased labour costs for training and equipment preparation. Repairs and maintenance expenses also increased in preparation for higher activity. Expense increases had not yet been reflected in customer pricing. This is expected as demand improves.

ECWS revenue in 2016 decreased 40% compared to the prior year. The prolonged industry downturn resulted in lower activity and pricing declines for ECWS, with particularly low activity in the first quarter, which is traditionally the busiest quarter of the year. ECWS maintained positive gross margin in 2016 with a second round of cost reductions implemented early in the year partially offsetting the year-over-year revenue decline. Revenue per hour declined between 5% and 10% year-over-year.

SEGMENT RESULTS - DOWNHOLE TOOLS & RENTALS

(in thousands of dollars, except percentages)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Revenue	\$ 15,655	\$ 11,278	\$ 44,383	\$ 58,268
Operating expenses	12,731	10,430	37,905	47,494
Gross margin	\$ 2,924	\$ 848	\$ 6,478	\$ 10,774
Gross margin %	19%	8%	15%	18%
Downhole Tools & Rentals revenue – % of revenue				
Tryton MSFS®	53%	24%	43%	33%
Conventional Tools & Rentals	47%	76%	57%	67%

DT&R revenue for the fourth quarter 2016 increased over the same prior year period due to strong Tryton MSFS® activity and increased rental revenue. With improved industry activity, all DT&R service lines experienced their highest revenue in 2016 in the fourth quarter. Compared to the fourth quarter 2015, Tryton MSFS® revenue increased due to work for key customers in the Montney region of the WCSB. Rental revenue increased with the expansion of rental assets with heavy weight drill pipe purchased in 2016.

DT&R gross margin was 19% of revenue for the fourth quarter 2016, higher than the same period of 2015. This was as a result of increased activity and cost reductions implemented in the Canadian and U.S. operations earlier in the year.

DT&R revenue in 2016 declined 24% compared to 2015 as a result of decreased activity after a slow start to the year and lower pricing. Gross margin declined year-over-year due to fixed costs representing a greater portion of revenue. Cost reductions implemented during the first half of 2016, including staff reductions in both Canada and the U.S., resulted in improved margins in the second half of the year.

ONEROUS LEASE CONTRACT

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Onerous lease contract expense	\$ 4,754	\$ -	\$ 4,754	\$ -

When the contractual obligations of a lease exceed the benefits expected to be received under it, International Financial Reporting Standards ("IFRS") require the present value of the minimum future contractual lease payments be recorded as an expense in the reporting period. For the three months ended December 31, 2016, Essential recognized an onerous lease expense related to Calgary office space that is no longer used following staff reductions and the sale of the service rig business. The Calgary office market is oversupplied following the downturn in the oil and gas industry and the ability to sub-lease this space is limited.

IMPAIRMENT LOSS

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Impairment loss	\$ 5,403	\$ 11,114	\$ 51,241	\$ 11,114

During the fourth quarter 2016, Essential recorded an impairment to the partially completed Generation IV coil tubing rigs of \$5.4 million, reducing the carrying values and previously paid deposits to their estimated net realizable values.

On November 6, 2016 Essential signed a Settlement Agreement terminating its build contract with Option Industries Inc. ("Option"), the fabricator of its Generation IV coil tubing rigs and subsequently took delivery of the two partially completed rigs, components and parts. Option also committed to deliver parts and components for two deferred rigs on which \$2 million of deposits had been paid. The Settlement Agreement included reference to the deferred rigs and associated drawings, plans and certifications for all rigs. On November 9, 2016, Option filed a Notice of Intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada). Essential is in a legal dispute with Option and has not released \$0.4 million of funds held in trust as Option has not fulfilled the terms of the Settlement Agreement.

Essential conducted an evaluation of the equipment, parts and components, which included verification and valuation of items received, assessment of the percentage of completion, estimate of remaining costs to complete and a timeline to complete the two Generation IV coil tubing rigs. Essential considered the status of the legal dispute, the precarious financial condition of Option, Essential's recent acquisition of four Generation III coil tubing rigs in December 2016 and near-term industry demand. As a result, Essential deferred completion of one rig to a future date when market demand warrants. The second rig's usable components will be redeployed amongst its existing fleet or future rig builds. The second rig and remaining parts were written down to their net realizable value. The deposits on the two deferred rigs were written down to \$0.3 million as Option has not credibly demonstrated that they have the ability or intention to deliver the remaining items that were committed to in the Settlement Agreement.

IFRS requires the Company to assess the carrying value of assets in cash generating units ("CGUs"). Essential completed an impairment assessment at the end of the fourth quarter 2016 and determined that except for the \$5.4 million impairment loss discussed above, no further impairment loss was required to be recognized, since the fair value of Essential's assets did not exceed their carrying value.

At the end of the first quarter 2016 when financial results were much lower than expected and the outlook for the industry had deteriorated, Essential completed an impairment assessment. That assessment determined that the

fair value of ECWS's CGU was less than its carrying value and the Company recognized an impairment charge in the first quarter 2016 of \$28.5 million on property and equipment and \$17.3 on intangible assets (2015 – \$11.1 million on goodwill related to ECWS).

DISCONTINUED OPERATIONS

In December 2016, Essential sold its service rig business for total consideration of \$28.2 million. Sale of the service rig business included all service rigs, ancillary equipment and transfer of employees. The results of operations have been restated to present discontinued operations separately from continuing operations for the years ended December 31, 2016, 2015 and 2014.

Net loss from discontinued operations related to the service rig business was as follows:

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Revenue	\$ 4,135	\$ 7,516	\$ 15,950	\$ 37,049
Expenses	4,958	9,110	17,460	33,675
Depreciation and amortization	678	1,019	3,051	4,556
Impairment loss	-	2,100	15,814	2,100
Loss before income tax	(1,501)	(4,713)	(20,375)	(3,282)
Income tax expense (recovery)	1,083	(1,370)	(5,363)	169
Loss from discontinued operations, net of tax	(2,584)	(3,343)	(15,012)	(3,451)
Loss on sale of discontinued operations	(17,758)	-	(17,758)	-
Income tax recovery on loss on sale of discontinued operations	4,763	-	4,763	-
Net loss from discontinued operations	\$ (15,579)	\$ (3,343)	\$ (28,007)	\$ (3,451)

FINANCIAL RESOURCES AND LIQUIDITY

CREDIT FACILITY

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

The Credit Facility includes an equity cure provision where proceeds from equity offerings may be applied to the calculation of Bank EBITDA⁽¹⁾ in the funded debt⁽¹⁾ to Bank EBITDA⁽¹⁾ covenant, the minimum cumulative Bank EBITDA⁽¹⁾ covenant and the fixed charge coverage⁽¹⁾ covenant. In October 2016, Essential received gross proceeds of \$10.4 million for 16,019,883 shares issued at \$0.65 per share from an equity offering that the Company applied as an equity cure to its fourth quarter 2016 Bank EBITDA⁽¹⁾ calculation under the Credit Facility. Due to the trailing 12 month nature of the covenants, the proceeds from the equity offering will increase Bank EBITDA⁽¹⁾ for the first, second and third quarter 2017 covenants as well.

As at December 31, 2016, Essential had a consolidated funded debt⁽¹⁾ balance of \$11.3 million, consisting of long-term debt plus deferred financing fees, net of cash. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On March 8, 2017, Essential had \$14.6 million of debt outstanding.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Essential Coil Well Service	\$ 353	\$ 3,180	\$ 7,788	\$ 13,735
Downhole Tools & Rentals	1,393	109	2,769	801
Corporate	37	167	70	790
Total equipment expenditures	1,783	3,456	10,627	15,326
Less proceeds on disposal of property and equipment	(1,550)	(418)	(3,569)	(1,460)
Net equipment expenditures ⁽¹⁾	\$ 233	\$ 3,038	\$ 7,058	\$ 13,866

Essential classifies its equipment expenditures as growth capital⁽¹⁾ and maintenance capital⁽¹⁾:

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
Growth capital ⁽¹⁾	\$ 1,386	\$ 1,926	\$ 7,761	\$ 11,826
Maintenance capital ⁽¹⁾	397	1,530	2,866	3,500
Total equipment expenditures	\$ 1,783	\$ 3,456	\$ 10,627	\$ 15,326

2016 growth capital spending related to the Generation IV coil tubing rig build program and purchase of heavy weight rental drill pipe. Two Generation IV coil tubing rigs were added to the coil tubing rig fleet in 2016. The Generation III and IV rigs have the capability to work on complex long-reach horizontal wells in the Montney, Bakken and Duvernay regions. With a coil diameter of 2 3/8", the Generation III rigs can reach 6,500 meters and the Generation IV rigs can reach 7,900 meters. As at December 31, 2016, the Company had eight Generation III and four Generation IV coil tubing rigs in its fleet.

Essential's 2017 capital budget of \$11 million is comprised of \$4 million of growth capital and \$7 million of maintenance capital. Growth capital consists primarily of pumping support equipment, the cost to recertify and prepare for work the four coil tubing rigs and four pumpers acquired in December 2016 and the purchase of rental drill pipe for the Company's DT&R segment. The increase in maintenance capital compared to 2016 reflects expectations that the fleet will be more active in 2017.

PATENT LITIGATION

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

Essential believes the Packers Plus Claim is without merit and filed a Statement of Defence and Counterclaim on November 22, 2013. The Statement of Defence denies infringement and pleads further that the patent is invalid because the methodology and equipment claimed in the patent were in use in the oil and natural gas industry prior to the patent's effective filing date of November 19, 2001 or represent nothing more than obvious variations over what was already known in the industry at the time. This position is supported by the existence of similar products, articles and other patents prior to the effective filing date of the patent.

A trial took place in February and into early March 2017. There were two parts to the trial:

- Validity – The validity portion of the trial focused on whether or not the patent is valid. Given the fact that Packers Plus has asserted infringement of the same patent against Essential and three other defendants, Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies

Inc., and all of the defendants filed counterclaims seeking a declaration that the patent is invalid, the Federal Court directed that the counterclaims be consolidated into a single trial (the “Joint Validity Trial”). During the Joint Validity Trial the four defendants asserted their common position that the patent is invalid.

- Infringement – The infringement portion of the trial focused on whether or not Essential has infringed the Packers Plus patent. The infringement portions of the Baker Hughes Canada Company, Weatherford Canada Ltd. and Resource Well Completion Technologies Inc. trials were not consolidated with the infringement portion of the Essential case since each infringement action, by its nature, deals with tools, designs and business activities specific to each company.

The Court is expected to render its decision on both validity and infringement within six months from the end of the trial. The Court must find that the Packers Plus patent is both valid and infringed. Given the appeal rights of the parties, and if applicable, the process to quantify damages, final determination of the implications to Essential will most likely not be known for another 16 months to two years.

The Packers Plus Claim 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.

OUTLOOK

To date in the first quarter of 2017, improved commodity prices and a more positive industry outlook have resulted in higher oilfield service activity. Much of this activity is focused on horizontal well completions in key basins like the Montney, Bakken and Duvernay where Essential is active. Quarter to date, the WCSB drilling rig count has been approximately 46% higher than the same period in 2016. Due to significant layoffs and cost reductions in the past two years of industry downturn, the ability for oilfield service companies to provide equipment has become constrained due to a shortage of qualified field staff. This relatively quick change in industry sentiment is changing the dynamic between oilfield service companies and E&P companies. As E&P companies seek to secure oilfield services for their completion programs, the undersupply of efficient, crewed equipment has initiated new discussions about work scheduling, service pricing, safety and efficiency. Based on 2017 E&P company capital budgets announced to date, oilfield service activity for 2017 is expected to be considerably stronger than 2016. The Petroleum Services Association of Canada has projected a 26% increase in wells drilled (rig released) in Canada in 2017.

With the largest coil tubing fleet in Canada, associated pumping services, and an established downhole tool and rental operation, Essential is well positioned to benefit from this increase in demand and long-standing relationships with its customers. Essential has seen activity improve in all of its operations from year end 2016 into the first quarter of 2017. Although pricing increases have been moderate, incremental revenue from increased activity is expected to generate improved margins as fixed costs are absorbed by a larger revenue base. Higher revenue and the flattening of Essential’s organization structure will generate greater positive EBITDAS in 2017. Although the first two months of the first quarter have shown improved activity, the timing of spring break up and the operational performance in the month of March is still an important unknown factor. Beyond the first quarter 2017, early indications from customers suggest that the second quarter 2017 could see demand for Essential’s services increase over the second quarter 2016, provided weather and road conditions allow operations to proceed. Some of Essential’s completion work is on multi-well pad locations which can continue in the second quarter if the equipment is able to reach the well pad.

ECWS is experiencing strong customer demand for coil tubing and pumping. During the first quarter ECWS has experienced days where demand has exceeded crewed equipment, resulting in some customer requests being declined. To date in the quarter ECWS has operated up to 13 coil tubing rigs and associated pumps on peak days. ECWS’s crewed equipment supply is constrained by the ability to recruit and train qualified employees. Although an active recruiting program commenced in late 2016, competition for skilled and experienced field personnel is intense. Increased activity and constrained crewed equipment supply have naturally led to pricing discussions with

customers and implementation of pricing increases of up to 10%. Higher pricing is required to achieve reasonable margins and offset increases in variable input costs including costs to retain, attract and train employees.

The acquisition of incremental coil tubing and pumping assets in December 2016 has proven to be well timed. Essential added four Generation III coil tubing rigs and three associated fluid pumpers to its fleet. The equipment is in good working order with typical capital spending required to re-certify and prepare the equipment for service. One acquired coil tubing rig and one fluid pumper have been put into service in the first quarter. The remaining acquired coil tubing rigs and pumpers are expected to be in service for the start of the third quarter. Essential's Generation III coil tubing rigs continue to experience high customer demand in the first quarter 2017.

DT&R is also experiencing increased activity in the first quarter of 2017, primarily with its Tryton MSFS® products in Canada. In addition to its ball and seat MSFS® product, modifications to the Tryton Viking shifting sleeve product have resulted in successes in the oil plays in southern Saskatchewan. DT&R has successfully expanded its labor pool by 30% since the third quarter 2016. January 2017 revenue was the best month for DT&R since January 2015 due to MSFS® and rental revenue driven by increased industry activity. Similar to ECWS, although activity is increasing, pricing remains a challenge.

Final arguments in the Packers Plus lawsuit will be heard this week and the judge is expected to render his decision within the next six months. Given the appeal rights of the parties, and if applicable, the process to quantify damages, final determination of the implications to Essential will most likely not be known for another 16 months to two years. Essential continues to believe that the case is without merit.

As the industry recovers, Essential is financially well positioned to meet the anticipated incremental cash flow demands for operating and capital spending. Essential's 2017 capital budget of \$11 million is primarily maintenance capital to refresh and expand the in-service fleet. Working capital⁽¹⁾ and debt is expected to grow in the short term as we incur costs to hire and train new personnel and carry customer receivables from services provided. Essential has a unique advantage with its low debt position on March 8, 2017 of \$14.6 million.

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

The Management's Discussion and Analysis and Financial Statements are available on Essential's website at www.essentialenergy.ca and on SEDAR at www.sedar.com.

SUMMARY OF QUARTERLY DATA

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

The basis of presentation for coil tubing utilization and operating hours in this table has changed from previous quarters. Both metrics now include all coil tubing rigs. Previous reporting included only the masted coil tubing fleet.

(in thousands of dollars, except per share amounts, percentages and fleet data)	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	Mar 31, 2015
Essential Coil Well Service	17,564	13,896	6,422	15,756	23,833	24,432	9,887	31,976
Downhole Tools & Rentals	15,655	12,256	5,583	10,889	11,278	15,919	7,460	23,611
Inter-segment eliminations	(176)	(139)	(90)	(89)	(147)	(209)	(182)	(194)
Total revenue	33,043	26,013	11,915	26,556	34,964	40,142	17,165	55,393
Gross margin	4,148	3,899	(1,578)	1,318	5,952	10,121	(819)	12,346
Gross margin %	13%	15%	(13)%	5%	17%	25%	(5)%	22%
EBITDAS ⁽¹⁾ from continuing operations ⁽ⁱ⁾	(4,161)	1,418	(4,224)	(2,202)	3,366	6,956	(3,957)	8,331
Adjusted EBITDAS ⁽¹⁾ from continuing operations	1,141	1,418	(4,208)	(469)	3,510	6,994	(3,845)	10,015
Bank EBITDA ⁽¹⁾	11,541	1,418	(4,208)	(469)	3,510	6,994	(3,845)	10,015
Continuing operations								
Net (loss) income ⁽ⁱ⁾⁽ⁱⁱ⁾	(9,832)	(3,253)	(7,159)	(42,378)	(14,739)	3,843	(10,370)	2,232
Per share – basic and diluted	(0.07)	(0.03)	(0.06)	(0.34)	(0.12)	0.03	(0.08)	0.02
Net income (loss) ⁽ⁱ⁾⁽ⁱⁱ⁾	(25,411)	(3,814)	(7,486)	(53,918)	(18,082)	2,996	(10,495)	3,096
Per share – basic and diluted	(0.18)	(0.03)	(0.06)	(0.43)	(0.14)	0.02	(0.08)	0.02
Total assets	209,270	242,781	238,450	246,713	317,244	346,564	337,299	371,496
Long-term debt	11,250	31,781	26,894	27,053	25,543	34,738	27,027	39,817
Utilization ⁽ⁱⁱⁱ⁾								
Coil tubing rigs	46%	32%	16%	34%	48%	49%	20%	59%
Pumpers	48%	38%	16%	37%	55%	57%	23%	61%
Operating hours								
Coil tubing rigs	11,119	7,662	3,848	9,677	13,817	13,493	5,429	19,000
Pumpers	12,341	10,127	4,336	10,218	15,049	15,747	6,381	17,586
Equipment fleet ^(iv)								
Coil tubing rigs	31	26	26	32	31	30	30	36
Fluid pumpers	21	18	18	18	18	18	18	18
Nitrogen pumpers	11	10	12	12	12	12	12	14
Downhole Tools & Rentals - % of revenue								
Tryton MSFS®	53%	45%	15%	40%	24%	40%	16%	38%
Conventional Tools & Rentals	47%	55%	85%	60%	76%	60%	84%	62%

(i) The quarter ended December 31, 2016 includes an onerous lease contract expense of \$4.8 million.

(ii) The quarters ended December 31, 2016, March 31, 2016 and December 31, 2015 include an impairment loss of \$5.4 million, \$45.8 million and \$11.1 million, respectively.

(iii) Utilization is calculated using a 10 hour day.

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

⁽¹⁾**Non-IFRS Measures**

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

Adjusted EBITDAS – This measure is EBITDAS adjusted for onerous lease contract expense and severance costs. This measure is considered relevant as it provides EBITDAS without the impact of non-recurring items.

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

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

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

(in thousands of dollars)	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Bank EBITDA	\$ 11,541	\$ 3,510	\$ 8,282	\$ 16,674
Equity cure	10,400	-	10,400	-
Adjusted EBITDAS from continuing operations	\$ 1,141	\$ 3,510	\$ (2,118)	\$ 16,674
Severance costs	548	144	2,297	1,978
Onerous lease contract expense	4,754	-	4,754	-
EBITDAS from continuing operations	\$ (4,161)	\$ 3,366	\$ (9,169)	\$ 14,696
Share-based compensation	1,238	191	2,758	839
Other expense	406	789	2,510	77
EBITDA from continuing operations	\$ (5,805)	\$ 2,386	\$ (14,437)	\$ 13,780
Depreciation and amortization	3,747	5,271	17,110	21,168
Impairment loss	5,403	11,114	51,241	11,114
Finance costs	323	211	1,263	1,340
Loss before income tax from continuing operations	\$ (15,278)	\$ (14,210)	\$ (84,051)	\$ (19,842)
Total income tax (recovery) expense	(5,446)	529	(21,429)	(808)
Net loss from continuing operations	\$ (9,832)	\$ (14,739)	\$ (62,622)	\$ (19,034)

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 deferred financing costs and bank indebtedness, net of cash.

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

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

Net equipment expenditures – 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.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in thousands of dollars)</i>	As at December 31,	
	2016	2015
Assets		
Current		
Cash	\$ 143	\$ 1,042
Trade and other accounts receivable	29,300	28,460
Inventories	27,077	30,609
Income taxes receivable	8,119	3,791
Prepayments and deposits	1,774	2,697
	66,413	66,599
Non-current		
Property and equipment	137,039	225,479
Intangible assets	2,132	21,347
Goodwill	3,686	3,799
	142,857	250,625
Total assets	\$ 209,270	\$ 317,224
Liabilities		
Current		
Trade and other accounts payable	\$ 19,312	\$ 14,528
Share based compensation	689	515
Dividends payable	-	378
Current portion of onerous lease contract	612	-
	20,613	15,421
Non-current		
Long-term onerous lease contract	4,142	-
Share based compensation	2,179	423
Long-term debt	11,250	25,543
Deferred tax liabilities	7,519	31,279
	25,090	57,245
Total liabilities	45,703	72,666
Equity		
Share capital	272,732	262,977
Deficit	(114,602)	(23,595)
Other reserves	5,437	5,176
Total equity	163,567	244,558
Total liabilities and equity	\$ 209,270	\$ 317,224

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

	For the years ended December 31,	
<i>(in thousands of dollars, except per share amounts)</i>	2016	2015
Revenue	\$ 97,527	\$ 147,664
Operating expenses	89,740	120,064
Gross margin	7,787	27,600
General and administrative expenses	12,202	12,904
Onerous lease contract expense	4,754	-
Depreciation and amortization	17,110	21,168
Share-based compensation	2,758	839
Impairment loss	51,241	11,114
Other expenses	2,510	77
Operating loss from continuing operations	(82,788)	(18,502)
Finance costs	1,263	1,340
Loss before income taxes from continuing operations	(84,051)	(19,842)
Current income tax recovery	(6,780)	(3,460)
Deferred income tax (recovery) expense	(14,649)	2,652
Income tax recovery	(21,429)	(808)
Net loss from continuing operations	(62,622)	(19,034)
Loss from discontinued operations, net of tax	(15,012)	(3,451)
Loss on sale of discontinued operations, net of tax	(12,995)	-
Net loss from discontinued operations	(28,007)	(3,451)
Net loss	(90,629)	(22,485)
Unrealized foreign exchange (loss) gain from continuing operations	(40)	418
Unrealized foreign exchange loss from discontinued operations	(39)	-
Other comprehensive (loss) income	(79)	418
Comprehensive loss	\$ (90,708)	\$ (22,067)
Net loss per share from continuing operations		
Basic and diluted	\$ (0.48)	\$ (0.15)
Net loss per share		
Basic and diluted	\$ (0.70)	\$ (0.18)
Comprehensive loss per share		
Basic and diluted	\$ (0.70)	\$ (0.18)

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
<i>(in thousands of dollars)</i>	2016	2015
Operating activities:		
Net loss from continuing operations	\$ (62,622)	\$ (19,034)
Non-cash adjustments to reconcile net loss for the period to operating cash flow:		
Onerous lease contract expense	4,754	-
Depreciation and amortization	17,110	21,168
Deferred income tax (recovery) expense	(14,649)	2,652
Share-based compensation	340	363
Provision for impairment of trade accounts receivable	682	883
Finance costs	1,263	1,340
Impairment loss	51,241	11,114
Loss on disposal and write-down of assets	2,151	1,727
Operating cash flow before changes in non-cash operating working capital	270	20,213
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	(3,531)	38,646
Inventories	(118)	5,382
Income taxes receivable	(3,256)	(3,867)
Prepayments	443	237
Trade and other accounts payable	4,230	(10,020)
Share based compensation	1,930	(140)
Net cash provided by operating activities from continuing operations	(32)	50,451
Investing activities:		
Purchase of property, equipment and intangible assets	(10,627)	(15,326)
Non-cash investing working capital in trade and other accounts payable	(772)	(3,662)
Proceeds on disposal of equipment	3,569	1,460
Net cash used in investing activities from continuing operations	(7,830)	(17,528)
Financing activities:		
Decrease in long-term debt	(14,293)	(29,710)
Issuance of shares	9,575	-
Proceeds from exercise of options	-	68
Dividends paid	(756)	(13,211)
Finance costs	(1,263)	(1,340)
Net cash used in financing activities from continuing operations	(6,737)	(44,193)
Foreign exchange (loss) gain on cash held in a foreign currency	(28)	362
Net (decrease) increase in cash	(14,627)	(10,908)
Net increase (decrease) in cash, discontinued operations	13,728	12,941
Cash (bank indebtedness), beginning of period	1,042	(991)
Cash, end of period	\$ 143	\$ 1,042
Supplemental cash flow information		
Cash taxes (received) paid	\$ (3,668)	\$ 339
Cash interest and standby fees paid	\$ 1,065	\$ 1,253

FORWARD-LOOKING STATEMENTS AND INFORMATION

This news release 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 news release 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 claim is without merit and the length of time it will take to resolve the claim, including the timing for the Court to render a decision and potential appeals; the impact of the Company’s legal dispute with Option; expense increases being reflected in customer pricing as demand increases; focus of growth capital spending; oilfield service activity for 2017 is expected to be considerably stronger than 2016; the dynamic between oilfield service companies and E&P companies is changing and the focus of new discussions; Essential is well-positioned to benefit from increased demand and long-standing relationships with customers; expectations for increased activity, increased demand for Essential’s services, incremental revenue and improved margins; greater positive EBITDAS in 2017; certain industry activity can continue in the second quarter; pricing discussions with customers; implementation of pricing increases of up to 10% in the first quarter 2017; assets acquired in December 2016 require typical capital spending; in-service dates for acquired equipment; Essential has a unique advantage with its low debt and is financially well-positioned to meet anticipated incremental cash flow demands for operating and capital spending; and expectations for working capital and debt to grow in the short term.

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 news release 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 news release 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.

2016 FOURTH QUARTER AND YEAR END RESULTS CONFERENCE CALL AND WEBCAST

Essential has scheduled a conference call and webcast at 10:00 am MT (12:00 pm ET) on March 9, 2017.

The conference call dial in numbers are 416-340-2217 or 866-696-5910, passcode 9845626.

An archived recording of the conference call will be available approximately one hour after completion of the call until March 23, 2017 by dialing 905-694-9451 or 800-408-3053, passcode 9251556.

A live webcast of the conference call will be accessible on Essential's website at www.essentialenergy.ca by selecting "Investors" and "Events and Presentations". Shortly after the live webcast, an archived version will be available for approximately 30 days.

ABOUT ESSENTIAL

Essential provides oilfield services to oil and natural gas producers, primarily in western Canada. Essential offers completion, production and abandonment services to a diverse customer base. Services are offered with coil tubing, fluid and nitrogen pumping and the sale and rental of downhole tools and equipment. Essential offers the largest coil tubing fleet in Canada. Further information can be found at www.essentialenergy.ca.

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The TSX has neither approved nor disapproved the contents of this news release.