

Q2 REPORT

Six Months Ended June 30, 2013

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the three and six month periods ended June 30, 2013.

This MD&A is an update to and should be read in conjunction with Essential's June 30, 2013 unaudited condensed interim consolidated financial statements, the March 31, 2013 unaudited condensed interim consolidated financial statements and MD&A, the audited consolidated financial statements and MD&A included in Essential's 2012 Financial Report to Shareholders for the financial year ended December 31, 2012 and the statement regarding forward-looking information in this report to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned annual MD&A. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective August 7, 2013.

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 can be found under Essential's profile on SEDAR at www.sedar.com.

SELECTED INFORMATION

(Thousands, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2013	2012*	2013	2012*
Revenue	\$ 38,417	\$ 50,870	\$ 158,936	\$ 169,052
Gross margin	\$ (1,310)	\$ 3,904	\$ 36,521	\$ 40,643
Gross margin %	(3)%	8%	23%	24%
EBITDA ⁽¹⁾ from continuing operations	\$ (5,171)	\$ (42)	\$ 28,254	\$ 32,713
EBITDA % ⁽¹⁾	(13)%	0%	18%	19%
Funds flow from continuing operations ⁽¹⁾	\$ (4,188)	\$ 1,603	\$ 25,089	\$ 30,662
Per share – basic ⁽¹⁾	\$ (0.03)	\$ 0.01	\$ 0.20	\$ 0.25
Per share – diluted ⁽¹⁾	\$ (0.03)	\$ 0.01	\$ 0.20	\$ 0.24
Total assets	\$ 380,728	\$ 393,377	\$ 380,728	\$ 393,377
Total long-term debt	\$ 14,592	\$ 41,198	\$ 14,592	\$ 41,198
Utilization				
Deep coil tubing rigs	18%	32%	64%	67%
Service rigs	28%	34%	48%	51%
Equipment fleet **				
Deep coil tubing rigs	25	25	25	25
Service rigs	56	53	56	53

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

** Fleet data represents the number of units at the end of a period.

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

HIGHLIGHTS - SECOND QUARTER 2013

Revenue for the second quarter of 2013 was \$38.4 million, a decrease of \$12.5 million compared to the second quarter of 2012.

- **Coil Well Service** – Essential's coil well service business experienced a decline in revenue relative to prior year due to abnormally wet conditions which extended spring break-up preventing equipment from returning to work. Deep coil tubing utilization was limited to 18% given the restrictions on moving heavy equipment due to road bans. In the comparative period of 2012, Essential also had two customer projects that did not recur in 2013.
- **Service Rigs** – Service rig revenue was relatively unchanged compared to prior year despite the wet conditions and the net addition of three service rigs to the fleet. Service rig utilization at 28% decreased from prior year. Demand continued for Essential's service rigs operating on steam-assisted gravity drainage ("SAGD") wells contributing to incremental revenue in 2013.
- **Downhole Tools & Rentals** – Revenue for downhole tools & rentals remained relatively flat during the second quarter of 2013 compared to prior year, performing well in a challenging industry environment in which drilling rig utilization decreased 18% ^(a) quarter-over-quarter.

EBITDA for the second quarter of 2013 was a loss of \$5.2 million, a decrease of \$5.1 million from 2012. The decrease was mainly attributable to lower utilization in the coil well service business and the greater impact on margins of operating costs incurred relative to revenue. Certain expenses associated with labour, maintaining equipment and service locations, infrastructure and administration have a fixed cost component, negatively impacting operating margins during periods of low activity. A portion of these operating costs normally incurred near the end of the first quarter were pushed into the second quarter of 2013 due to the extended winter season.

Capital Program - Essential's capital program remains on target. During the second quarter, Essential commissioned one mobile free standing, all period double service rig which is SAGD capable. Essential also took delivery of two nitrogen pumpers in the second quarter.

INDUSTRY OVERVIEW

The seasonal decline in activity associated with spring break-up was more pronounced in the second quarter of 2013 as activity in the Western Canadian Sedimentary Basin ("WCSB") was significantly below prior year levels. The second quarter of 2013 experienced particularly wet conditions due to melting of elevated snowpacks at the completion of the winter season and heavy rainfall throughout most of the second quarter. These factors impacted ground moisture, limiting access to well sites and delaying activity in June, when oilfield equipment typically returns to work.

Drilling rig utilization, number of wells drilled and well completion count, all indicators of overall activity in the WCSB, were down quarter-over-quarter compared to prior year as persistent wet conditions limited access to well sites. Compared to the second quarter 2012, drilling rig utilization decreased 18% ^(a), the number of wells drilled decreased by 13% ^(b) and well completion count decreased 20% ^(b).

^(a) Source: Canadian Association of Oilwell Drilling Contractors

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

RESULTS OF OPERATIONS

(Thousands , except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 38,417	\$ 50,870	\$ 158,936	\$ 169,052
Operating expenses	39,727	46,966	122,415	128,409
Gross margin	(1,310)	3,904	36,521	40,643
Gross margin %	(3)%	8%	23%	24%
General and administrative expenses	3,861	3,946	8,267	7,930
EBITDA ⁽¹⁾	(5,171)	(42)	28,254	32,713
EBITDA % ⁽¹⁾	(13)%	0%	18%	19%
Depreciation and amortization	6,006	6,120	13,050	13,199
Share-based compensation	269	444	612	935
Other expense (income)	187	23	53	(1,219)
Operating profit (loss)	(11,633)	(6,629)	14,539	19,798
Finance costs	402	558	778	1,191
Earnings (loss) before income taxes	(12,035)	(7,187)	13,761	18,607
Current income tax expense (recovery)	(969)	(1,248)	3,456	2,468
Deferred income tax expense (recovery)	(2,108)	(486)	58	1,770
Total income tax expense (recovery)	(3,077)	(1,734)	3,514	4,238
Net income (loss) from continuing operations	\$ (8,958)	\$ (5,453)	\$ 10,247	\$ 14,369
Net loss from discontinued operations	(2,678)	(554)	(3,285)	(1,645)
Net income (loss)	\$ (11,636)	\$ (6,007)	\$ 6,962	\$ 12,724
Net income (loss) from continuing operations	\$ (8,958)	\$ (5,453)	\$ 10,247	\$ 14,369
Net income (loss) from continuing operations per share				
Basic and diluted	\$ (0.07)	\$ (0.04)	\$ 0.08	\$ 0.11
Net income (loss) attributable to:				
Shareholders of Essential	\$ (11,501)	\$ (5,923)	\$ 7,126	\$ 12,971
Non-controlling interest	(135)	(84)	(164)	(247)
	\$ (11,636)	\$ (6,007)	\$ 6,962	\$ 12,724
Net income (loss) per share, attributable to Essential				
Basic and diluted	\$ (0.09)	\$ (0.05)	\$ 0.06	\$ 0.10

OVERVIEW OF ESSENTIAL

Well Servicing

Essential operates the largest coil well servicing fleet in the WCSB operating out of six service locations across western Canada. There are three distinct types of activities within Essential's coil well service operation.

- **Deep Coil Tubing** - Deep coil tubing includes both masthead and conventional coil tubing rigs that generally work in the depth range of 3,500 to 5,000 meters. The deep coil tubing rigs provide completion, stimulation and work-over services on long reach horizontal wells. The deep coil tubing rig fleet is primarily focused on providing services on horizontal oil and liquids-rich natural gas resource plays.
- **Other Coil Tubing** - Other coil tubing includes shallow/intermediate conventional coil tubing rigs that have a depth capacity of up to 2,500 meters. These rigs primarily provide work-over services on existing wells. The intermediate rigs are typically more oil focused while the shallow rigs are focused on natural gas.
- **Pumpers** - The coil tubing rigs are supported by a fleet of nitrogen pumpers and fluid pumpers. The pumpers provide circulation through coil tubing. A nitrogen and/or a fluid pumper is often required for jobs involving deep coil tubing rigs.

Essential's mobile service rig fleet provides well servicing from nine service locations across western Canada including well completion and production/work-over services in all major resource plays across the WCSB. Service rigs are used primarily on oil wells which are typically more service intensive than natural gas wells. These rigs are deployed to work-over existing wells and perform completions on new wells. Essential also operates a fleet of rod rigs. Rod rigs are light service rigs that specialize in servicing pumping oil wells. They are smaller and lighter in weight than conventional service rigs with shorter rig up and rig down times and smaller crew requirements.

Downhole Tools & Rentals

Essential's downhole tools & rentals business focuses on oil and liquids-rich natural gas plays by providing production and completion tools and rentals for horizontal and vertical wells. Operations for this segment are well placed geographically across many of the active oil plays in the WCSB.

Essential provides a wide range of downhole tool and rental services to assist with the completion and production of oil and natural gas wells.

- **Tryton Multi-stage Fracturing System ("Tryton MSFS")** - The Tryton MSFS is used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously. This can be accomplished through the use of a "ball and seat" system or through the use of a coil tubing actuated sliding sleeve assembly.
- **Conventional Downhole Tools & Rentals** - The Tryton tool business also includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories. The rental business offers a broad range of oilfield equipment including specialty tubulars, blow out preventers, specialty equipment for SAGD wells, and various other tools and handling equipment.

FINANCIAL RESULTS

Revenue for the six months ended June 30, 2013 was \$158.9 million, a decrease of \$10.1 million compared to the same period in 2012. The decrease in revenue is mainly attributable to the disposal of the drilling rig and wireline operations in November 2012 and February 2012, respectively, which had contributed \$10.0 million of combined revenue in the prior year.

EBITDA for the six months ended June 30, 2012 was \$28.3 million, a decrease of \$4.5 million from the same period in 2012. The decline in EBITDA is a result of higher fixed costs being incurred relative to revenue and the disposal of the drilling rig operations in November 2012.

SEGMENT RESULTS - WELL SERVICING

(Thousands, except percentages)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue				
Coil Well Service ⁽ⁱ⁾	\$ 9,433	\$ 18,697	\$ 59,054	\$ 61,111
Service Rigs ⁽ⁱⁱ⁾	14,732	15,564	48,288	48,875
Other ⁽ⁱⁱⁱ⁾	-	1,069	-	8,275
Total revenue	24,165	35,330	107,342	118,261
Operating expenses	28,298	36,117	84,340	92,554
Gross margin	\$ (4,133)	\$ (787)	\$ 23,002	\$ 25,707
Gross margin %	(17)%	(2)%	21%	22%
Utilization ^(iv)				
Deep Coil Tubing Rigs				
Utilization	18%	32%	64%	67%
Operating hours	4,125	7,262	28,890	30,498
Service Rigs				
Utilization	28%	34%	48%	51%
Operating hours	14,234	16,183	48,598	51,371
Equipment fleet ^(v)				
Coil tubing rigs – deep	25	25	25	25
Coil tubing rigs – other	19	20	19	20
Service rigs	56	53	56	53
Nitrogen pumpers	15	10	15	10
Fluid pumpers	18	16	18	16
Rod rigs	14	14	14	14

(i) Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.

(ii) Includes revenue from service rigs and rod rigs. Comparative amounts have been reclassified to conform to current period's presentation.

(iii) Other revenue included revenue from Essential's hybrid drilling operation until it was disposed of in November 2012.

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

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

Coil well service revenue decreased during the second quarter of 2013 compared to the same period in the prior year due to persistent wet conditions in Alberta throughout most of the second quarter and the melting of heavy snowpacks at the end of the winter season. Deep coil tubing utilization, below prior year levels, shows a similar trend to the decline in industry drilling rig utilization and well completion count quarter-over-quarter. In the comparative period of 2012, Essential's coil well service revenue and deep coil tubing utilization also included two customer projects which accounted for more than half of the quarter-over-quarter revenue reduction. Revenue per hour for coil well service decreased from prior year due to a change in the mix of services provided.

Service rig operations performed well during the second quarter of 2013 compared to the prior year despite unfavourable industry conditions which saw a 20% ^(b) decrease in industry well completion activity. Production work opportunities were also adversely impacted by the wet conditions. Although wet conditions and lower activity negatively impacted many areas of the WCSB, revenue per hour in the second quarter of 2013 increased from prior year due to the mix of services provided, including an increase in SAGD revenue.

Well servicing revenue decreased on a year-to-date basis in 2013 compared to 2012 primarily due to the disposal of the drilling rig operations in November 2012.

Operating expenses were lower in the second quarter of 2013 compared to the same period in the prior year mainly as a result of lower variable operating costs which fluctuate based on activity. During the second quarter of 2013, Essential continued to incur fixed operating costs associated with retaining key personnel and maintaining

equipment and service locations. These costs tend to negatively impact operating margins during periods of low activity. In comparison to the second quarter of 2012, Essential absorbed higher repairs and maintenance costs as a result of the extended winter operating season in the first quarter of 2013 which delayed the start of its spring maintenance program until April 2013.

Operating expenses for the six months ended June 30, 2013 were lower compared to the prior year as a result of lower variable operating costs which fluctuate based on activity.

SEGMENT RESULTS - DOWNHOLE TOOLS & RENTALS

(Thousands, except percentages)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue				
Downhole Tools & Rentals	\$ 14,252	\$ 15,540	\$ 51,594	\$ 49,110
Other*	-	-	-	1,681
Total revenue	14,252	15,540	51,594	50,791
Operating expenses	10,641	10,277	35,015	34,015
Gross margin	\$ 3,611	\$ 5,263	\$ 16,579	\$ 16,776
Gross margin %	25%	34%	32%	33%
Downhole Tools & Rentals Revenue – % of total				
Tryton MSFS	40%	40%	54%	45%
Conventional Tools & Rentals	60%	60%	46%	55%

* Other revenue consists of Essential's wireline business which was disposed of in February 2012.

From a revenue perspective, the downhole tools & rentals segment performed well during the second quarter of 2013 compared to the same period in the prior year despite wet conditions which resulted in an 18%^(a) decrease in drilling rig utilization quarter-over-quarter. Revenue for the higher margin conventional tubular rentals business decreased quarter-over-quarter due to the decline in industry drilling rig activity.

Downhole tools & rentals revenue increased on a year-to-date basis in 2013 compared to 2012 as a result of first quarter Tryton MSFS activity which was much stronger during the busy winter drilling season.

Operating expenses increased on a quarter-over-quarter basis due in part to start-up costs related to the expansion of the downhole tools operations into the United States without any corresponding increase in revenue as the business is in the pre-operating phase.

GENERAL AND ADMINISTRATIVE

(Thousands of dollars, except percentages)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
General and administrative expenses	\$ 3,861	\$ 3,946	\$ 8,267	\$ 7,930
As a % of revenue	10%	8%	5%	5%

General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at the corporate and operation levels. General and administrative expenses in the second quarter of 2013 were comparable to 2012, although as a percentage of revenue, expenses increased due to lower activity in the second quarter of 2013. Year-over-year general and administrative expenses were higher due to increased staffing, professional fees and infrastructure costs.

DEPRECIATION AND AMORTIZATION

(Thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Depreciation and amortization expense	\$ 6,006	\$ 6,120	\$ 13,050	\$ 13,199

During the second quarter of 2013, and on a year-to-date basis, depreciation and amortization expense decreased slightly compared to 2012 due to the sale of the hybrid drilling assets in November 2012, offset by additional depreciation charges related to assets commissioned in the latter part of 2012 and the first six months of 2013 as part of Essential's capital program.

SHARE-BASED COMPENSATION

(Thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Share-based compensation expense	\$ 269	\$ 444	\$ 612	\$ 935

Share-based compensation expense decreased over the prior year as a result of fewer share options issued in 2013.

FINANCE COSTS

(Thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Finance costs	\$ 402	\$ 558	\$ 778	\$ 1,191

During the second quarter of 2013, and on a year-to-date basis, finance costs decreased compared to the same period in the prior year due to a decline in the average long-term debt balance. The Company had an average long-term debt balance outstanding during the three and six months ended June 30, 2013 of \$22.0 million and \$28.8 million, respectively, compared to \$47.0 million and \$51.9 million, respectively, for the same periods in 2012.

INCOME TAXES

(Thousands of dollars)	Three month ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Current income tax expense (recovery)	\$ (969)	\$ (1,248)	\$ 3,456	\$ 2,468
Deferred income tax expense (recovery)	(2,108)	(486)	58	1,770
Total income tax expense (recovery)	\$ (3,077)	\$ (1,734)	\$ 3,514	\$ 4,238

During the second quarter of 2013, income tax recovery increased compared to 2012 due to a higher reported loss before income taxes in the current quarter compared to the prior year. For the six months ended June 30, 2013, income tax expense decreased compared to the prior year due to lower comparable reported earnings before income tax.

DISCONTINUED OPERATIONS

Essential committed to a plan to seek buyers for its Colombian operations in December 2012. This resulted in a reclassification of revenue and expenses, as well as the assets and liabilities, of the Colombian operations to "Discontinued Operations".

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

(Thousands of dollars, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue	\$ 863	\$ 1,463	\$ 1,863	\$ 2,862
Expenses	1,008	2,073	2,390	3,987
Disposal costs	160	-	385	-
Loss on revaluation of discontinued operations	2,373	-	2,373	-
Loss before income taxes	(2,678)	(610)	(3,285)	(1,125)
Deferred income tax expense (recovery)	-	(56)	-	520
Net loss from discontinued operations	\$ (2,678)	\$ (554)	\$ (3,285)	(1,645)
Net loss per share from discontinued operations				
Basic and diluted	\$ (0.02)	\$ (0.00)	\$ (0.03)	\$ (0.01)

Essential ceased operating activities in Colombia in early July 2013, with the conclusion of its final contractual obligations. During the second quarter of 2013, Essential re-assessed the estimated net realizable value of oilfield service equipment in Colombia, and a further \$2.4 million loss on revaluation was taken. This loss reflects the deterioration in the Colombian oilfield services market. As of August 7, 2013, Essential has received \$1.1 million in cash proceeds from the sales of Colombian assets to date.

(Thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net cash flows from (incurred by) discontinued operations:				
Operating	\$ (29)	\$ (28)	\$ (195)	\$ 108
Investing	84	(87)	(35)	(445)
Financing	-	(11)	-	(777)
	\$ 55	\$ (126)	\$ (230)	\$ (1,114)

The following balances have been reclassified on the consolidated balance sheet as discontinued operations. Property and equipment is comprised primarily of oilfield service equipment that Essential imported into Colombia in 2010.

(Thousands of dollars)	As at June 30, 2013	As at December 31, 2012
Discontinued operations assets:		
Cash	\$ 31	\$ 261
Trade and other receivables	718	868
Inventories	149	153
Prepayments	358	273
Property and equipment	3,735	6,585
	\$ 4,991	\$ 8,140
Discontinued operations liabilities:		
Trade and other payables	1,071	1,731
	\$ 1,071	\$ 1,731

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS⁽¹⁾

(Thousands of dollars, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net cash flows from operating activities	\$ 34,822	\$ 26,683	\$ 41,894	\$ 37,900
Add:				
Changes in non-cash working capital	(39,010)	(25,080)	(16,805)	(7,238)
Funds flow from operations ⁽¹⁾	\$ (4,188)	\$ 1,603	\$ 25,089	\$ 30,662
Per share – basic	\$ (0.03)	\$ 0.01	\$ 0.20	\$ 0.25
Per share – diluted	\$ (0.03)	\$ 0.01	\$ 0.20	\$ 0.24

WORKING CAPITAL⁽¹⁾

(Thousands of dollars, except ratios)	As at June 30, 2013	As at December 31, 2012
Current assets	\$ 68,063	\$ 95,840
Current liabilities, excluding current portion of long-term debt	(30,116)	(37,594)
Working capital	\$ 37,947	\$ 58,246
Working capital ratio	2.3:1	2.5:1

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 lender's consent. The revolving term loan facility matures on May 30, 2014, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two

year period based on a three year amortization schedule. At June 30, 2013, the maximum of \$100 million was available to Essential.

The following table outlines the term loan repayments, excluding interest, in the event that the Credit Facility is not renewed.

	As at June 30 2013	As at December 31 2012
Repayments are required as follows:		
Within one year	\$ -	\$ -
Between one and two years	5,168	7,210
Between two and three years	9,424	11,917
Between three and four years	-	16,436
	\$ 14,592	\$ 35,563

As at June 30, 2013, all financial debt covenants were satisfied and all banking requirements were up to date. Essential does not anticipate any financial resource or liquidity issues to restrict its future operating, investing or financing activities. On August 7, 2013, Essential had long-term debt outstanding of \$29.1 million.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

(Thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Well Servicing	\$ 10,365	\$ 11,731	\$ 16,508	\$ 20,634
Downhole Tools & Rentals	1,297	400	1,741	1,222
Corporate	218	245	455	710
Total equipment expenditures	11,880	12,376	18,704	22,566
Less proceeds on disposal of property and equipment	(186)	(797)	(726)	(8,115)
Net equipment expenditures ⁽¹⁾	\$ 11,694	\$ 11,579	\$ 17,978	\$ 14,451

During the three and six months ended June 30, 2013, Essential's equipment expenditures of \$11.9 million and \$18.7 million, respectively, were primarily progress payments for the 2013 capital builds and maintenance capital expenditures.

During the six months ended June 30, 2013, Essential commissioned the following assets to its fleet:

- Two mobile free standing, all period double service rigs which are SAGD capable, one in each of the first and second quarters, respectively, and;
- Two nitrogen pumpers in the second quarter.

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

(Thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Growth capital ⁽¹⁾	\$ 8,576	\$ 9,545	\$ 13,352	\$ 15,633
Maintenance capital ⁽¹⁾	3,304	2,831	5,352	6,933
Total equipment expenditures	\$ 11,880	\$ 12,376	\$ 18,704	\$ 22,566

Essential's 2013 capital spending budget of \$45 million is comprised of \$32 million of growth ⁽¹⁾ capital and \$13 million of maintenance ⁽¹⁾ capital. Capital spending remains on track for 2013.

As previously disclosed, Essential has commitments to build three deep Generation III coil tubing rigs with a fabrication company that has been having significant issues meeting delivery deadlines. When Essential announced its 2013 capital budget, one of those deep coil tubing rigs was included in the delivery expectations for 2013 and two were not. The first rig is currently in the final stages of commissioning and is expected to be ready for work in September 2013. Unfortunately, the fabricator is still unable to provide firm delivery timing for the other two rigs. Deposits on these remaining two rigs are approximately \$3.6 million. Essential continues to work with the fabricator to determine the outcome of these two rigs.

The following table shows the expected in-service dates of the major equipment being built over the remainder of 2013:

	Quantity	Expected In-Service Date 2013
Deep mastod coil tubing rigs	4	Q3(1),Q4(3)
Deep coil tubing rig converted from intermediate	1	Q3
Double rod rig	1	Q3
Double service rigs – mobile free standing, all-period (one is SAGD capable)	2	Q3(2)

SHARE CAPITAL

As at August 7, 2013, there were 125,218,999 shares and 6,034,835 share options outstanding. Of the 6,034,835 share options, 3,068,645 were exercisable and "in-the-money".

NORMAL COURSE ISSUER BID ("NCIB")

On March 20, 2013 the Company received approval from the TSX to implement an NCIB for Essential's common shares ("Shares"). Any Share purchases by Essential pursuant to the NCIB will be for cancellation. The NCIB commenced on March 25, 2013 and will terminate on March 24, 2014 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 12,182,508 of its issued and outstanding Shares on the open market through the facilities of the TSX. As required by TSX policy, the maximum number of Shares that may be purchased in one day may not exceed 56,113 Shares, which is 25 percent of the six month average daily trading volume of Shares on the TSX, at February 28, 2013. The price which Essential will pay for any Shares purchased will be the prevailing market price of such Shares on the TSX at the time of purchase.

Essential entered into an Automatic Share Purchase Plan with a broker for the purpose of buying Shares through Essential's regularly scheduled blackout periods. Such purchases are determined by the broker in its sole discretion, based on parameters that are established by Essential prior to any blackout period. All other purchases under the NCIB are at the discretion of Essential.

For the six months ended June 30, 2013, a total of 200,900 Shares were acquired and cancelled under the NCIB at an average cost of \$2.09 per Share. 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.

OUTLOOK

After a very slow second quarter, Canadian oilfield services demand has returned to levels normal for this time of year and similar to last year. With horizontal well development continuing to lead drilling activity, Essential expects to benefit from demand for its growing fleet of deep coil tubing rigs and its downhole tool business. There continues to be longer-term optimism with investment focused on the Montney, Horn River and the Duvernay natural gas basins to develop the reserves to provide gas to the proposed liquefied natural gas ("LNG") export facilities in British Columbia. Such development would increase the demand for Essential's oilfield services to complete these wells.

The expansion of Essential's deep mastod coil tubing fleet is on track with one deep mastod coil tubing rig expected in service in the third quarter and three in the fourth quarter. These state-of-the-art deep rigs are well-suited for work in the Montney, Horn River and the Duvernay basins, which again are the primary basins to provide feedstock for the anticipated LNG export facilities.

Essential is in the process of organically expanding its downhole tool operations into the United States. Pre-operating activities remain on track and operations are expected to commence in the third quarter.

Essential has a very strong balance sheet with \$29.1 million of debt outstanding on August 7, 2013 and debt to EBITDA of 0.4x. Early in 2012, Essential implemented a quarterly dividend of \$0.025 per quarter. Reflecting the Company's financial strength and positive view of the future, the dividend has been increased by 20% to \$0.03 per quarter, effective with the third quarter dividend, payable in October.

SUMMARY OF QUARTERLY DATA

(Thousands, except per share amounts)	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011
Well Servicing:								
Coil Well Service	9,433	49,621	41,228	33,857	18,697	42,414	43,945	36,349
Service Rigs	14,732	33,556	26,012	20,552	15,564	33,311	28,118	23,939
Other*	-	-	786	2,762	1,069	7,206	4,677	4,178
Total well servicing	24,165	83,177	68,026	57,171	35,330	82,931	76,740	64,466
Downhole Tools & Rentals**	14,252	37,342	27,989	26,342	15,540	35,251	32,115	33,316
Total revenue	38,417	120,519	96,015	83,513	50,870	118,182	108,855	97,782
Gross margin	(1,310)	37,832	27,039	23,012	3,904	36,740	35,498	31,203
Gross margin %	(3)%	31%	28%	28%	8%	31%	33%	32%
EBITDA ⁽¹⁾	(5,171)	33,426	22,368	19,261	(42)	32,755	31,733	27,570
EBITDA % ⁽¹⁾	(13)%	28%	23%	23%	0%	28%	29%	28%
Continuing operations								
Net income (loss)	(8,958)	19,205	8,050	8,343	(5,453)	19,823	17,082	14,020
Per share – basic and diluted	\$(0.07)	\$0.15	\$0.06	\$0.07	\$(0.04)	\$0.16	\$0.14	\$0.11
Net income (loss) attributable to shareholders of Essential	(11,501)	18,627	678	8,660	(5,923)	18,893	17,559	13,678
Per share – basic and diluted	\$(0.09)	\$0.15	\$0.01	\$0.07	\$(0.05)	\$0.15	\$0.14	\$0.11
Total assets	380,728	436,301	406,853	415,653	393,377	430,674	421,500	411,204
Total long-term debt	14,592	35,603	35,563	50,474	41,198	57,238	63,486	79,230
Utilization ***								
Coil tubing rigs – deep	18%	110%	95%	79%	32%	102%	111%	104%
Coil tubing rigs – other	7%	15%	16%	15%	7%	25%	30%	25%
Pumpers	14%	73%	57%	50%	33%	69%	71%	50%
Service rigs	28%	69%	54%	45%	34%	68%	59%	54%
Operating Hours								
Coil tubing rigs – deep	4,125	24,765	22,777	18,301	7,262	23,236	23,524	21,938
Coil tubing rigs – other	1,185	2,511	2,757	2,819	1,596	5,494	6,778	5,813
Pumpers	4,241	20,481	15,328	11,919	7,504	13,865	13,008	9,594
Service rigs	14,234	34,364	27,310	22,632	16,183	35,188	31,005	28,201
Downhole Tools & Rentals - revenue % of total								
Tryton MSFS	40%	60%	51%	52%	40%	47%	47%	54%
Conventional Tools & Rentals	60%	40%	49%	48%	60%	53%	53%	46%
Equipment fleet ****								
Canada								
Coil tubing rigs - deep	25	25	27	26	25	25	25	23
Coil tubing rigs - other	19	19	19	19	20	24	24	25
Service rigs	56	56	55	55	53	58	57	57
Nitrogen pumpers	15	13	13	10	10	10	10	9
Fluid pumpers	18	18	18	16	16	15	15	12
Rod rigs	14	14	14	14	14	14	14	14

* Other revenue included revenue from Essential's hybrid drilling operation until it was disposed of in November 2012.

** Revenue for Downhole Tools & Rentals included revenue from Essential's wireline business which was disposed of in February 2012.

*** Utilization is calculated using a 10 hour day.

**** Fleet data represents the number of units at the end of the period.

During the second quarter of 2013, Essential retired one double service rig as the working condition of this rig was no longer adequate. During the first quarter, Essential removed two masted coil tubing rigs from service which were the last of their kind and among the first coil tubing rigs built for use in the WCSB.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including expectations regarding capital spending, in-service timing of new equipment, demand for new equipment, expectations of future cash flow and earnings, expectations with respect to the demand for and price of oil and liquids-rich natural gas, expectations regarding the future areas of development in the WCSB, the level and type of drilling activity, completion activity, work-over activity, production activity and required oilfield services in the WCSB, expectations regarding the business, operations and revenues of the Company in addition to general economic conditions, expectations regarding Essential's ability to meet the changing needs of the WCSB market, expectations regarding the capital spending programs of E&P companies, expectations for Essential's positioning for the future, expectations related to infrastructure uncertainties, expectations that development of possible LNG projects on the west coast will increase the demand for oilfield services, anticipated proceeds from asset sales in Colombia, anticipated shut-down and disposal costs of Colombian operations, expectations of the net realizable value of the Colombian assets, and expectations of the opportunity for growth through expansion into the United States and the timing to commence operations.

Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Company can give no assurance that such statements and information will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: 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 other unforeseen conditions associated with the sale of the Colombian business; 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 reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive.

Additional information on these and other factors that could affect the Company's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) for the Company. The forward-looking statements and information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

⁽¹⁾Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net earnings and net earnings per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments 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 earnings and net earnings per share as calculated in accordance with IFRS.

EBITDA^(a) (Earnings before finance costs, income taxes, depreciation, amortization, transaction costs, non-controlling interest earnings, losses or gains on disposal of equipment, results of discontinued operations and share-based compensation) – This measure is considered an indicator of Essential's ability to generate funds flow in order to fund required working capital, service debt and fund capital programs.

EBITDA %^(a) – This measure is considered an indicator of Essential's ability to generate funds flow as calculated by EBITDA^(a) divided by revenue.

Funds flow or funds flow from operations^(b) – This measure is an indicator of Essential's ability to generate funds flow^(b) in order to fund working capital, principal debt repayments and capital programs. 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.

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

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 revenues and funds flow to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired equipment less proceeds on the disposal of retired 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^(c) – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to assess net cash flows related to the financing of Essential's oilfield services equipment.

^a EBITDA is reconciled to the IFRS measure, loss from continuing operations before income taxes, in the table "Results of Operations".

^b Funds flow is reconciled to the IFRS measure, cash flow from operations, in the table "Funds Flow from Operations".

^c Net equipment expenditures is calculated from the IFRS measures, equipment expenditures and proceeds on disposal of equipment, in the table "Equipment Expenditures".

C O R P O R A T E I N F O R M A T I O N

Directors

James A. Banister, Chairman²

Garnet K. Amundson³

Michael J. Black²

Robert T. German^{1,3}

Nicholas G. Kirton^{1,2}

Robert B. Michaleski¹

Andrew B. Zaleski³

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

Olympia Trust Company

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, Corporate

Kevin W. Job
Senior Vice President, Operations

Karen Perasalo
Vice President, Investor Relations & Corporate
Secretary

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Unaudited Condensed Interim Consolidated Financial Statements

Essential Energy Services Ltd.

June 30, 2013

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)

<i>(Thousands)</i>	As at June 30 2013	As at December 31 2012
Assets		
Current		
Trade and other receivables <i>(note 4)</i>	\$ 40,386	\$ 71,835
Inventories <i>(note 5)</i>	24,917	20,699
Prepayments	2,760	3,306
	68,063	95,840
Non-current		
Property and equipment <i>(note 6)</i>	219,107	211,304
Intangible assets	33,553	36,555
Goodwill	55,014	55,014
	307,674	302,873
Assets held for sale <i>(note 3)</i>	4,991	8,140
Total assets	\$ 380,728	\$ 406,853
Liabilities		
Current		
Bank indebtedness	\$ 1,338	\$ 1,835
Trade and other payables <i>(note 7)</i>	25,652	32,354
Dividends payable <i>(note 8)</i>	3,126	3,100
Income taxes payable	-	305
	30,116	37,594
Non-current		
Long-term debt <i>(note 9)</i>	14,592	35,563
Deferred tax liabilities <i>(note 10)</i>	29,618	29,560
	44,210	65,123
Liabilities held for sale <i>(note 3)</i>	1,071	1,731
Total liabilities	75,397	104,448
Commitments and contingencies <i>(note 16)</i>		
Equity		
Share capital <i>(note 11)</i>	261,180	258,772
Retained earnings	39,175	38,276
Other reserves	5,154	5,363
Equity attributable to shareholders of Essential	305,509	302,411
Non-controlling interest <i>(note 12)</i>	(178)	(6)
Total equity	305,331	302,405
Total liabilities and equity	\$ 380,728	\$ 406,853

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME
(unaudited)

	For the three months ended June 30		For the six months ended June 30	
<i>(Thousands, except per share amounts)</i>	2013	2012	2013	2012
Revenue	\$ 38,417	\$ 50,870	\$ 158,936	\$ 169,052
Operating expenses	39,727	46,966	122,415	128,409
Gross margin	(1,310)	3,904	36,521	40,643
General and administrative expenses	3,861	3,946	8,267	7,930
	(5,171)	(42)	28,254	32,713
Depreciation and amortization <i>(note 6)</i>	6,006	6,120	13,050	13,199
Share-based compensation <i>(note 14)</i>	269	444	612	935
Other (income) expense	187	23	53	(1,219)
Operating profit (loss) from continuing operations	(11,633)	6,629	14,539	19,798
Finance costs <i>(note 13)</i>	402	558	778	1,191
Earnings (loss) before income taxes from continuing operations	(12,035)	(7,187)	13,761	18,607
Income taxes				
Current expense (recovery)	(969)	(1,248)	3,456	2,468
Deferred expense (recovery)	(2,108)	(486)	58	1,770
Total income tax expense (recovery) <i>(note 10)</i>	(3,077)	(1,734)	3,514	4,238
Net income (loss) from continuing operations	\$ (8,958)	\$ (5,453)	\$ 10,247	\$ 14,369
Net loss from discontinued operations, net of tax <i>(note 3)</i>	(2,678)	(554)	(3,285)	(1,645)
Net Income (loss)	\$ (11,636)	\$ (6,007)	\$ 6,962	\$ 12,724
Unrealized foreign exchange gain (loss) on discontinued operations	(156)	(2)	(187)	1,007
Other comprehensive income (loss) from discontinued operations <i>(note 3)</i>	(156)	(2)	(187)	1,007
Comprehensive income (loss)	\$ (11,792)	\$ (6,009)	\$ 6,775	\$ 13,731
Net income (loss) attributable to:				
Shareholders of Essential	\$ (11,501)	\$ (5,923)	\$ 7,126	\$ 12,971
Non-controlling interest <i>(note 12)</i>	(135)	(84)	(164)	(247)
	\$ (11,636)	\$ (6,007)	\$ 6,962	\$ 12,724
Comprehensive income (loss) attributable to:				
Shareholders of Essential	\$ (11,650)	\$ (5,913)	\$ 6,947	\$ 13,846
Non-controlling interest <i>(note 12)</i>	(142)	(96)	(172)	(115)
	\$ (11,792)	\$ (6,009)	\$ 6,775	\$ 13,731
Net income (loss) per share from continuing operations <i>(note 15)</i>				
Basic and diluted, attributable to shareholders of Essential	\$ (0.07)	\$ (0.04)	\$ 0.08	\$ 0.11
Net income (loss) per share <i>(note 15)</i>				
Basic and diluted, attributable to shareholders of Essential	\$ (0.09)	\$ (0.05)	\$ 0.06	\$ 0.10
Comprehensive income (loss) per share <i>(note 15)</i>				
Basic and diluted, attributable to shareholders of Essential	\$ (0.09)	\$ (0.05)	\$ 0.06	\$ 0.11

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

	For the six months ended June 30	
<i>(Thousands)</i>	2013	2012
<u>Equity attributable to shareholders of Essential:</u>		
<u>Share capital</u>		
Balance, January 1	\$ 258,772	\$ 257,775
Exercise of options <i>(note 11)</i>	2,827	739
Shares repurchased in normal course issuer bid <i>(note 11)</i>	(419)	-
Balance, June 30	\$ 261,180	\$ 258,514
<u>Retained earnings</u>		
Balance, January 1	\$ 38,276	\$ 28,651
Net income	7,126	12,971
Dividends <i>(note 8)</i>	(6,227)	(6,190)
Equity transferred	-	(5)
Balance, June 30	\$ 39,175	\$ 35,427
<u>Other Reserves</u>		
Balance, January 1	\$ 5,363	\$ 2,402
Other comprehensive income (loss)	(178)	877
Share based compensation	612	935
Exercise of options	(643)	(218)
Balance, June 30	\$ 5,154	\$ 3,996
Total equity attributable to shareholders of Essential	\$ 305,509	\$ 297,937
<u>Equity attributable to non-controlling interest:</u>		
Balance, January 1	\$ (6)	\$ 75
Net loss	(164)	(246)
Other comprehensive income (loss)	(8)	131
Equity transferred	-	5
Balance, June 30	\$ (178)	\$ (35)
Total equity	\$ 305,331	\$ 297,902

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

	For the six months ended	
	June 30	
<i>(Thousands)</i>	2013	2012
Operating activities:		
Net income from continuing operations	\$ 10,247	\$ 14,369
Non-cash adjustments to reconcile net income to net cash flow:		
Depreciation and amortization <i>(note 6)</i>	13,050	13,199
Deferred income tax expense <i>(note 10)</i>	58	1,770
Share-based compensation <i>(note 14)</i>	612	935
Provision (recovery) for impairment of trade receivables <i>(note 4)</i>	280	(312)
Finance costs <i>(note 13)</i>	778	1,191
(Gain) loss on disposal of assets <i>(note 6)</i>	64	(490)
Operating cash flow before changes in working capital	25,089	30,662
Changes in working capital:		
Decrease in trade and other receivables before provision	31,326	35,924
Increase in inventories	(4,218)	(3,494)
(Increase) decrease in prepayments	547	(1,038)
Decrease in income taxes payable	(1,374)	(5,927)
Decrease in trade and other accounts payables	(9,476)	(18,227)
Net cash flows from operating activities	41,894	37,900
Investing activities:		
Purchase of property and equipment & intangibles <i>(note 6)</i>	(18,704)	(22,566)
Non-cash investing working capital in trade and other accounts payable	2,774	186
Proceeds on disposal of equipment <i>(note 6)</i>	726	8,115
Net cash flows used in investing activities	(15,204)	(14,265)
Financing activities:		
Repayment of long-term debt	(20,971)	(21,615)
Dividends paid	(6,227)	(3,094)
Issuance of share capital, net of costs	2,187	520
Repurchase of shares	(421)	-
Finance costs <i>(note 13)</i>	(778)	(1,191)
Net cash flows used in financing activities	(26,210)	(25,380)
Foreign exchange gain (loss) on cash held in a foreign currency	17	(20)
Net increase (decrease) in cash	497	(1,765)
Net decrease in cash, discontinued operations <i>(note 3)</i>	-	(1,114)
Cash, beginning balance, discontinued operations <i>(note 3)</i>	-	1,269
Bank indebtedness, beginning of period	(1,835)	(1,105)
Bank indebtedness, end of period	\$ (1,338)	\$ (2,715)
Supplemental cash flow information		
Cash taxes paid	\$ 4,830	\$ 8,516
Cash interest and standby fees paid	645	1,020

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS***As at and for the periods ended June 30, 2013 and 2012**(All tabular amounts in thousands unless otherwise stated, except for per share amounts)***1. AUTHORIZATION OF FINANCIAL STATEMENTS & STATEMENT OF COMPLIANCE WITH IFRS**

The unaudited condensed interim consolidated financial statements ("Interim Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the three and six month periods ended June 30, 2013 and 2012 were authorized by the Board of Directors on August 7, 2013. Essential is a publicly traded oilfield services company governed by the laws of the province of Alberta. Essential is listed on the Toronto Stock Exchange and trades under the symbol "ESN".

Based in Calgary, Essential provides oilfield services to oil and gas producers in western Canada for servicing producing wells and new drilling activity.

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's Annual Consolidated Financial Statements as at December 31, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements for the three and six month periods ended June 30, 2013 and 2012 were prepared in accordance with IAS 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these Interim Financial Statements as were followed in the presentation of the Annual Financial Statements for the year ended December 31, 2012. Accordingly, these Interim Financial Statements for the three and six month periods ended June 30, 2013 and 2012 should be read in conjunction with the Annual Consolidated Financial Statements for the year ended December 31, 2012. Essential adopted IFRS 10, 11, 12, 13 and IAS 19 on January 1, 2013. There was no material impact to the Company's interim consolidated financial statements as a result of the adoption of these standards.

3. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

Essential has committed to a plan to divest of its Colombian operations. The sale of the Colombian assets is expected to be completed within this fiscal year. At December 31, 2012, the Colombian assets and liabilities were classified as held for sale and treated as a discontinued operation.

The following table represents the balances that have been reclassified on the consolidated balance sheet as assets and liabilities held for sale:

	As at June 30 2013	As at December 31 2012
Assets held for sale:		
Cash	\$ 31	\$ 261
Trade and other receivables	718	868
Inventories	149	153
Prepayments	358	273
Property and equipment	3,735	6,585
	\$ 4,991	\$ 8,140
Liabilities held for sale:		
Trade and other payables	\$ 1,071	\$ 1,731
	\$ 1,071	\$ 1,731

Losses from discontinued operations related to Colombia are as follows:

<i>(Thousands, except per share amounts)</i>	For the three months ended		For the six months ended	
	2013	June 30 2012	2013	June 30 2012
Revenue	\$ 863	\$ 1,463	\$ 1,863	\$ 2,862
Expenses	1,008	2,073	2,390	3,987
Disposal costs	160	-	385	-
Loss on revaluation of discontinued operations	2,373	-	2,373	-
Loss before income taxes	(2,678)	(610)	(3,285)	(1,125)
Deferred income tax expense (recovery)	-	(56)	-	520
Net Loss from discontinued operations, net of tax	(2,678)	(554)	(3,285)	(1,645)
Unrealized foreign exchange gain (loss) on discontinued operations	(156)	(2)	(187)	1,007
Comprehensive loss from discontinued operations, net of tax	(2,834)	\$ (556)	\$ (3,472)	\$ (638)
Comprehensive loss from discontinued operations attributable to:				
Shareholders of Essential	(2,692)	(460)	\$ (3,300)	\$ (523)
Non-controlling interest	(142)	(96)	(172)	(115)
	(2,834)	(556)	\$ (3,472)	\$ (638)
Net loss from discontinued operations	(2,678)	(554)	\$ (3,285)	\$ (1,645)
Net loss per share from discontinued operations				
Basic and dilutive	\$ (0.02)	\$ (0.00)	\$ (0.03)	\$ (0.01)
Net cash flows incurred by discontinued operations:				
Operating	\$ (29)	\$ (28)	\$ (195)	\$ 108
Investing	84	(87)	(35)	(445)
Financing	-	(11)	-	(777)
	\$ 55	(126)	\$ (230)	\$ (1,114)

4. TRADE AND OTHER RECEIVABLES

	As at June 30 2013	As at December 31 2012
Trade receivables, net of provision	\$ 38,877	\$ 69,271
Other receivables	1,509	2,564
	\$ 40,386	\$ 71,835

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

Canadian Dollar	\$ 38,159	\$ 68,118
United States Dollar	718	1,153
	\$ 38,877	\$ 69,271

The aging analysis of trade receivables is as follows:

	As at June 30 2013	As at December 31 2012
< 31 days	\$ 17,989	\$ 30,955
31-60 days	7,899	26,187
61-90 days	3,165	7,585
>90 days	9,824	4,544
	\$ 38,877	\$ 69,271

Trade receivables are non-interest bearing, generally due on 30-90 day terms and are shown net of a provision for impairment. Other accounts receivables are non-interest bearing. The allowance of doubtful accounts receivable is \$0.4 million (December 31, 2012 – \$0.3 million) which is included in the amount over 90 days balance. The movements in the provision during the period were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	2013	2012
Balance, beginning of the period	\$ 522	\$ 958	\$ 314	\$ 1,642
Provision for receivables impairment	30	30	280	30
Receivables written off during the period as uncollectible	(110)	(75)	(152)	(417)
Unused amount reversed	-	-	-	(342)
Balance, end of the period	\$ 442	\$ 913	\$ 442	\$ 913

The creation and release of the provision for impairment of receivables has been included in operating expenses in the consolidated statement of net income and comprehensive income. Amounts included in the provision are generally written off when there is no expectation of recovering additional cash.

The Company's trade accounts receivable balance are with customers in the oil and gas industry and are subject to normal industry credit risks. These balances represented the Company's total credit exposure. During the six month period ended June 30, 2013, the Company earned revenues from more than 420 customers (2012 – 400 customers) with five of these customers representing approximately 27% of revenue (2012 – 25%). As at June 30, 2013, approximately 25% of the total accounts receivable balance was due from five companies (2012 – 29%).

5. INVENTORIES

	As at June 30 2013	As at December 31 2012
Downhole tools	\$ 17,957	\$ 13,632
Coil tubing products	6,960	7,067
	\$ 24,917	\$ 20,699

Inventory charged through operating expenses in the consolidated statement of net income and comprehensive income for the three and six month periods ended June 30, 2013 was \$6.1 million and \$23.9 million, respectively (2012 - \$5.7 million and \$20.0 million, respectively).

6. PROPERTY AND EQUIPMENT

As at June 30, 2013	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	\$ 126,282	\$ 29,589	\$ 96,693
Coil tubing rigs and equipment	92,083	15,361	76,722
Oilfield equipment	37,981	14,253	23,728
Vehicles	24,711	7,059	17,652
Office and computer equipment	3,622	1,845	1,777
Land	482	-	482
Other	4,261	2,206	2,053
	\$ 289,422	\$ 70,315	\$ 219,107

As at December 31, 2012	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	\$ 116,719	\$ 25,646	\$ 91,073
Coil tubing rigs and equipment	92,540	13,601	78,939
Oilfield equipment	32,606	12,799	19,807
Vehicles	23,010	5,986	17,024
Office and computer equipment	3,364	1,555	1,809
Land	482	-	482
Other	4,100	1,930	2,170
	\$ 272,821	\$ 61,517	\$ 211,304

Included in service rigs and equipment, coil tubing rigs and equipment and oilfield equipment is \$22.2 million (December 31, 2012 - \$25.9 million) of assets under construction which will not be depreciated until they are ready for their intended use.

Included in coil tubing rigs and equipment are deposits of approximately \$3.6 million with a fabrication company for two deep Generation III coil tubing rigs. The fabrication company has been having significant issues meeting delivery deadlines and is unable to provide firm delivery timing. The Company continues to work with the fabricator to determine the outcome of these two rigs.

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	2013	2012
Net book value, beginning of the period	\$ 212,215	\$ 211,413	\$ 211,304	\$ 211,764
Additions	11,775	12,255	18,538	22,761
Disposals	(293)	(1,431)	(790)	(7,625)
Depreciation	(4,590)	(4,781)	(9,945)	(10,489)
Currency translation adjustment	-	57	-	1,102
Net book value, end of the period	\$ 219,107	\$ 217,513	\$ 219,107	\$ 217,513

7. TRADE AND OTHER PAYABLES

	As at June 30 2013	As at December 31 2012
Trade accounts payable	\$ 16,001	\$ 17,409
Accrued payables	3,296	4,920
Payroll	5,771	9,879
Other	584	146
	\$ 25,652	\$ 32,354

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

	As at June 30 2013	As at December 31 2012
Canadian dollar	\$ 15,571	\$ 17,084
United States dollar	430	325
	\$ 16,001	\$ 17,409

8. DIVIDENDS PAYABLE

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

2013 Dividends	Record date	Dividend date	Amount per share
First quarter	March 28, 2013	April 15, 2013	\$ 0.025
Second quarter	June 28, 2013	July 15, 2013	\$ 0.025

9. LONG-TERM DEBT

	As at June 30 2013	As at December 31 2012
Term loan	\$ 14,752	\$ 35,811
Deferred financing costs	(160)	(248)
	\$ 14,592	\$ 35,563

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a \$100 million revolving term loan facility with a \$35 million accordion feature available on lender's consent. The \$100 million revolving term loan facility matures on May 30, 2014, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule.

As at June 30, 2013, all financial debt covenants were satisfied and all banking requirements were up to date.

The fair value of the term loan approximates the carrying amount. The following table outlines the term loan repayments, excluding interest, in the event that the Credit Facility is not renewed.

	As at June 30 2013	As at December 31 2012
Repayments are required as follows:		
Within one year	\$ -	\$ -
Between one and two years	5,168	7,210
Between two and three years	9,424	11,917
Between three and four years	-	16,436
	\$ 14,592	\$ 35,563

10. INCOME TAXES

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

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	2013	2012
Operating profits (loss) from continuing operations	\$ (12,035)	\$ (7,187)	\$ 13,761	\$ 18,607
Statutory tax rate	25%	25%	25%	25%
Expected income tax expense (recovery)	\$ (3,009)	\$ (1,797)	\$ 3,440	\$ 4,652
Increase (decrease) resulting from:				
Share-based compensation	67	111	153	234
Items not deductible for tax	28	70	87	127
Adjustment in respect to prior years	(166)	-	(166)	-
Other	3	(118)	-	(775)
Income tax expense (recovery)	\$ (3,077)	\$ (1,734)	\$ 3,514	\$ 4,238

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

	As at June 30 2013	As at December 31 2012
<u>Deferred tax liabilities</u>		
Property and equipment	\$ (21,396)	\$ (20,648)
Intangible assets	(5,432)	(6,069)
Losses carry forwards	520	929
Deferred partnership income	(2,547)	(3,293)
Share issue costs	286	354
Other	(1,049)	(833)
	\$ (29,618)	\$ (29,560)

11. SHARE CAPITAL

Authorized

Authorized share capital consists of an unlimited number of common 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.

Issued

	Number of Common Shares	Amount
As at January 1, 2012	123,439	\$ 257,775
Shares issued on exercise of options	552	997
As at December 31, 2012	123,991	\$ 258,772
Shares issued on exercise of options	1,268	2,827
Shares repurchased in normal course issuer bid	(201)	(419)
As at June 30, 2013	125,058	\$ 261,180

On March 20, 2013 the Company received approval from the Toronto Stock Exchange ("TSX") to implement a Normal Course Issuer Bid ("NCIB") for Essential common shares ("Shares"). Any Share purchases by Essential pursuant to the NCIB are for cancellation. The NCIB commenced on March 25, 2013 and will terminate on March

24, 2014 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 12,182,508 of its issued and outstanding shares on the open market. Purchases are made at the discretion of management at prevailing market prices, through the facilities of the TSX. For the period ended June 30, 2013 a total of 200,900 Shares were acquired and cancelled under the NCIB at an average cost of \$2.09 per share. Any excess amount paid for these shares, relative to their carrying amount was transferred to contributed surplus.

12. NON-CONTROLLING INTEREST

	As at June 30 2013	As at December 31 2012
Balance, January 1	\$ (6)	\$ 75
Contribution	-	294
Loss attributed to non-controlling interest	(164)	(445)
Other comprehensive income (loss)	(8)	70
Balance, June 30 and December 31, respectively	\$ (178)	\$ (6)

Essential established a subsidiary pursuant to the terms of an agreement with a private Colombian group (the "Partner") under the name of Essential Energy Services S.A. ("Essential Colombia"). Under the terms of the agreement, Essential owns 95% and the Partner owns 5% of Essential Colombia and earnings are allocated accordingly.

13. FINANCE COSTS

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	2013	2012
Interest on bank borrowings	\$ 402	\$ 558	\$ 778	\$ 1,191

14. SHARE-BASED COMPENSATION

Under the Company's Share Option Plan certain key personnel of the Company are eligible to receive options to acquire Essential shares, with terms not to exceed five years from the date of the grant. The exercise price is the weighted-average price of the 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 of the Company at the time of the grant. The options currently granted vest over three years with one-third of the options exercisable on each anniversary date from the date of the original grant.

The maximum number of share options issuable under the Share Option Plan may not exceed 9% of the sum of the Company's outstanding shares, which at June 30, 2013 totaled 11,255,265 (2012 – 12,383,890) share options.

	For the six months ended June 30 2013		For the six months ended June 30 2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	7,374	\$ 1.91	6,271	\$ 2.04
Issued	698	2.21	2,310	2.08
Exercised	(1,268)	1.78	(400)	1.32
Expired	-	-	(199)	8.91
Forfeited	(155)	2.12	(394)	2.02
Outstanding, end of period	6,649	\$ 1.97	7,588	\$ 1.91
Exercisable, end of period	3,619	\$ 1.85	3,558	\$ 1.95

The fair value of share options issued during the period were between \$0.53 – \$0.76 per option (2012 - \$0.58 - \$1.10) estimated using the Black-Scholes option pricing model using the following underlying assumptions:

	2013	2012
Risk-free interest rate	1.1 – 1.4%	0.9 – 1.2%
Expected volatility	45.9 – 58.5%	50.9 – 72.2%
Expected term	2.7 – 4.1 years	2.8 – 4.4 years
Expected forfeiture rate	7.9 – 18.1%	8.0 – 19.2%
Dividend yield	4.29 – 4.35%	nil – 4.7%

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 expected term of the grant. The expected forfeiture rate is calculated based on historical forfeitures of grants issued.

15. EARNINGS PER SHARE

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

In calculating diluted earnings per share, share options outstanding and other potential common shares have been taken into account where the impact of these is dilutive.

	For the three months ended June 30		For the six months ended June 30	
	2013	2012	2013	2012
Basic, weighted average number of shares	124,156	123,792	124,091	123,682
Dilutive common shares from share options	1,423	1,406	1,187	1,628
Diluted, weighted average number of shares	125,579	125,198	125,278	125,310

Net income (loss) attributable to Essential from on continuing operations	\$ (8,958)	\$ (5,453)	\$ 10,247	\$ 14,369
Net Income (loss) attributable to Essential	\$ (11,501)	\$ (5,923)	\$ 7,126	\$ 12,971
Comprehensive income (loss) attributable to Essential	\$ (11,650)	\$ (5,913)	\$ 6,947	\$ 13,846

Net income (loss) per share from continuing operations					
Basic and diluted, attributable to shareholders of Essential	\$	(0.07)	\$	(0.04)	\$ 0.11
Net income (loss) per share					
Basic and diluted, attributable to shareholders of Essential	\$	(0.09)	\$	(0.05)	\$ 0.10
Comprehensive income (loss) per share					
Basic and diluted, attributable to shareholders of Essential	\$	(0.09)	\$	(0.05)	\$ 0.11

16. COMMITMENTS AND CONTINGENCIES

In addition to the required payments on long-term debt (note 9), Essential has entered into operating leases for office and shop premises and equipment that provide for minimum annual lease payments as follows:

	Amount
Within one year	\$ 5,048
In the second year to fifth years inclusive	14,685
After five years	8,732
	\$ 28,465

In addition to the above, Essential entered into agreements to build certain assets for \$19.4 million which are expected to be paid over 2013 and 2014.

The Company, through the performance of its services and business arrangements, is sometimes named as a defendant in litigation. The outcome of such claims against the Company is not determinable at this time; however, their ultimate resolution is not expected to have a material adverse effect on the Company.

17. 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 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 and fourth quarters of the year and lower in the second and third quarters.

18. SEGMENTED INFORMATION

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

a) Well Servicing

The Well Servicing segment provides well completion, production and workover service throughout the Western Canadian Sedimentary Basin. The Well Servicing segment is comprised of a fleet of coil tubing rigs, service rigs, ancillary equipment and drilling rigs prior to its disposal in November 2012.

b) Downhole Tools and Rentals

The Downhole Tools and Rentals segment is comprised of downhole tools, tubular rentals and wireline service prior to its disposal in February 2012.

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

As at and for the three months ended June 30, 2013

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	\$ 24,165	\$ 14,252	\$ -	\$ 38,417
Net income (loss) before income taxes	\$ (10,493)	\$ 2,676	\$ (4,218)	\$ (12,035)
Depreciation and amortization	\$ 5,108	\$ 644	\$ 254	\$ 6,006
Total assets	\$ 324,415	\$ 48,106	\$ 3,216	\$ 375,737
Total liabilities	\$ 44,620	\$ 4,992	\$ 24,714	\$ 74,326
Equipment expenditures	\$ 10,365	\$ 1,297	\$ 218	\$ 11,880

As at and for the three months ended June 30, 2012

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	\$ 35,330	\$ 15,540	\$ -	\$ 50,870
Net income (loss) before income taxes	\$ (7,466)	\$ 4,358	\$ (4,079)	\$ (7,187)
Depreciation and amortization	\$ 5,007	\$ 729	\$ 324	\$ 6,120
Total assets	\$ 340,432	\$ 45,157	\$ 7,788	\$ 393,377
Total liabilities	\$ 33,986	\$ 2,789	\$ 58,700	\$ 95,475
Equipment expenditures	\$ 11,731	\$ 400	\$ 245	\$ 12,376

As at and for the six months ended June 30, 2013

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	\$ 107,342	\$ 51,594	\$ -	\$ 158,936
Net income (loss) before income taxes	\$ 9,415	\$ 14,935	\$ (10,589)	\$ 13,761
Depreciation and amortization	\$ 11,109	\$ 1,359	\$ 582	\$ 13,050
Total assets	\$ 324,415	\$ 48,106	\$ 3,216	\$ 375,737
Total liabilities	\$ 44,620	\$ 4,992	\$ 24,714	\$ 74,326
Equipment expenditures	\$ 16,508	\$ 1,741	\$ 455	\$ 18,704

As at and for the six months ended June 30, 2012

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	\$ 118,262	\$ 50,790	\$ -	\$ 169,052
Net income (loss) before income taxes	\$ 12,069	\$ 15,585	\$ (9,805)	\$ 18,609
Depreciation and amortization	\$ 10,855	\$ 1,703	\$ 641	\$ 13,199
Total assets	\$ 340,432	\$ 45,157	\$ 7,788	\$ 393,377
Total liabilities	\$ 33,986	\$ 2,789	\$ 58,700	\$ 95,475
Equipment expenditures	\$ 20,634	\$ 1,222	\$ 710	\$ 22,566

19. COMPARATIVE AMOUNTS

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