

## **Q2 Second Quarter Report Three and Six Months Ended June 30, 2010**

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, 2010.

This MD&A is an update to, and should be read in conjunction with Essential's audited consolidated financial statements and MD&A included in its 2009 Annual Report to Unitholders for the financial year ended December 31, 2009 and the unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2010 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. This MD&A was prepared effective August 10, 2010.

### **FORWARD-LOOKING STATEMENTS**

*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 as to the benefits of the conversion to a corporation (the "Conversion"), plans of the Company following completion of the Conversion and the effect thereof, expectations regarding the implementation of legislation, expectations regarding capital spending and cost saving measures, expectations regarding the impact of recent equipment purchases, expectations regarding staffing, expectations regarding payment of income taxes, expectations regarding the conversion to IFRS, the sources of capital and uses of such capital, the services offered by the Company and the relocation of these services to different geographic areas, expectations of future cash flow and earnings, expectations regarding the Company's ability to access credit from its lenders, expectations with respect to the demand for and price of oil and natural gas including natural gas storage levels, expectations regarding the level and type of drilling and production activity in the Western Canadian Sedimentary Basin and expectations regarding the business, operations and revenues of the Company in addition to general economic conditions. Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Company can give no assurance that they 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 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 and environmental regulations, failure to realize the benefits of the Conversion, stock market volatility and the inability to access sufficient capital from external and internal sources and the inability to pay dividends. 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](http://www.sedar.com)) for each of Essential Energy Services Trust and 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.*

## SELECTED FINANCIAL INFORMATION

(\$ Thousands, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	<b>25,194</b>	15,974	<b>71,414</b>	58,172
Gross margin <sup>(1)</sup>	<b>3,034</b>	(888)	<b>16,287</b>	9,874
Gross margin % <sup>(1)</sup>	<b>12%</b>	(6%)	<b>23%</b>	17%
EBITDAS <sup>(1)</sup>	<b>302</b>	(3,400)	<b>10,625</b>	4,627
EBITDAS % <sup>(1)</sup>	<b>1%</b>	(21%)	<b>15%</b>	8%
Funds flow from (used in) operations <sup>(1)</sup>	<b>(3)</b>	(3,983)	<b>10,100</b>	3,802
Per share – basic and diluted	\$ -	\$ (0.07)	\$ <b>0.16</b>	\$ 0.06
Net loss	<b>(4,899)</b>	(10,972)	<b>(1,294)</b>	(5,410)
Per share – basic and diluted	\$ <b>(0.07)</b>	\$ (0.18)	\$ <b>(0.02)</b>	\$ (0.09)
Total assets	<b>168,422</b>	163,599	<b>168,422</b>	163,599
Total long term debt	-	9,755	-	9,755
Shareholders' equity	<b>156,776</b>	147,500	<b>156,776</b>	147,500

## OVERVIEW OF ESSENTIAL

Essential is a publicly traded oilfield services company incorporated under the Business Corporations Act (Alberta) (the "Act"). The Company was created in connection with the conversion of Essential Energy Services Trust (the "Trust") to a corporation pursuant to a Plan of Arrangement under the Act (the "Conversion") which was completed on April 29, 2010.

Upon closing of the Conversion, the Company became the operator of the business of the Trust and its subsidiaries and the existing management and board of directors of the Trust became the management and board of directors of the Company. The Conversion resulted in the unitholders of the Trust becoming shareholders of the Company with no changes to the underlying business operations. References herein to "Essential" relate to the Company after the Conversion and to the Trust prior to the Conversion.

Prior to the Conversion, the consolidated financial statements included the accounts of the Trust, its subsidiaries and partnerships, all of which were wholly owned. Subsequent to the Conversion, the consolidated financial statements include the accounts of the Company and its subsidiaries and partnerships, all of which are wholly owned. The Company is considered a continuation of the Trust and these consolidated financial statements follow the continuity of interests method of accounting. Under the continuity of interests method of accounting the transfer of assets, liabilities and equity from the Trust to the Company are recorded at their net book values as at April 29, 2010.

Essential Energy Services Ltd. is a growth-oriented corporation that provides oilfield services to oil and gas producers in western Canada for servicing producing wells and new drilling activity. Essential provides services through its Well Servicing and Downhole Services & Rentals divisions. With 51 service rigs, Essential is the 6<sup>th</sup> largest service rig provider in Canada. With 32 coil tubing rigs, Essential has the largest coil tubing well service fleet in Canada. Essential sells and services a full-range of downhole tools including its Tryton Multi-Stage Fracturing System and offers rental equipment. Essential also provides slickline, perforating and logging services with 20 wireline trucks.

The common shares of the Company trade on the Toronto Stock Exchange under the symbol ESN.

Additional information regarding Essential, including the 2009 Annual Report and the Annual Information Form for the year ended December 31, 2009, can be found under Essential's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

<sup>1</sup> Refer to "Non-GAAP Measures" section for further information.

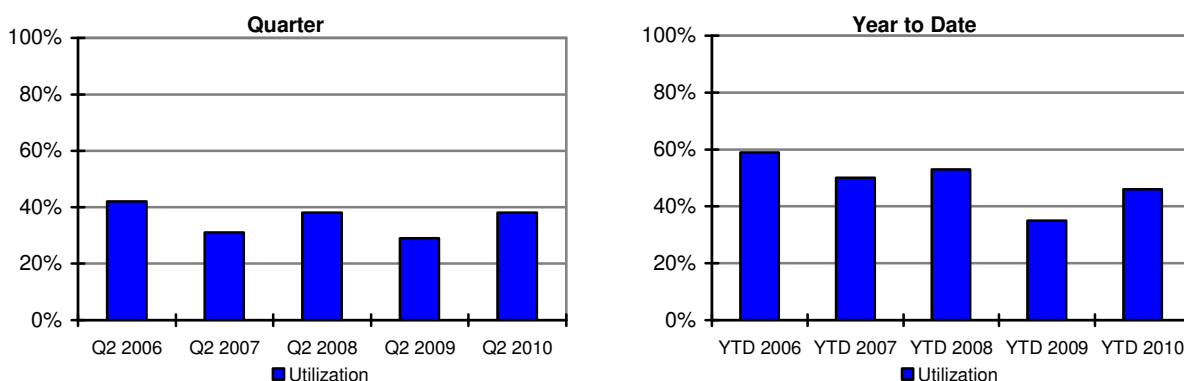
## BASIS OF PRESENTATION

The following MD&A and the consolidated financial statements as at and for the three and six months ended June 30, 2010 have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) except where otherwise indicated.

## INDUSTRY OVERVIEW

Activity levels in the Western Canadian Sedimentary Basin (“WCSB”) are traditionally the slowest during the second quarter when wet weather restricts the ability to move equipment. Activity levels in the second quarter of 2010 showed improvement over 2009 as exploration and production companies continued to develop oil-based resource plays given the relatively higher and stable price of oil in 2010. While higher oil prices have led to an increase in oil-based activity, the persistent low price of natural gas hampered natural gas related activity in the WCSB. Compared to the prior year, service rig utilization improved during the second quarter and for the year to date, however, on a year to date basis utilization remained below historical levels.

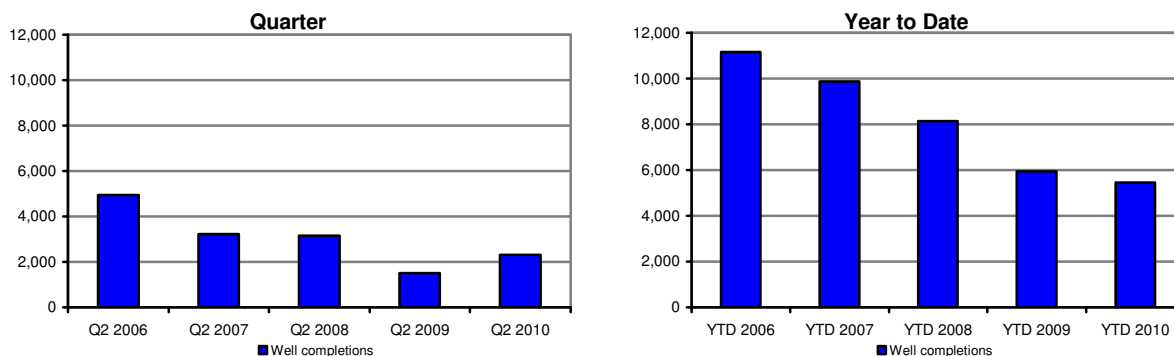
### Industry Service Rig Utilization



Source: Canadian Association of Oilwell Drilling Contractors

The increased focus on horizontal wells and the persistent low price of natural gas contributed to keeping the number of well completions in the WCSB at historically low levels. The increased depth and complexity of horizontal wells results in longer drilling times than in traditional vertical wells. This reduces the well count while increasing the rig time per well. These longer drilling times can create additional lead time before completion work is performed and may result in a backlog of completion work in future periods.

### Industry Well Completions



Source: Canadian Association of Oilwell Drilling Contractors

## OPERATING HIGHLIGHTS

Results for the second quarter reflected the seasonal activity decline that occurs in comparison to the first quarter, however, Essential continued to experience substantial improvement over the prior year as industry demand for oil-based services continued to stimulate activity across the WCSB. The quality, location and versatility of Essential's operations resulted in improved operating results across both segments during the second quarter. The Company's ability to service oil and liquids rich gas plays allowed it to achieve this improvement in spite of the continued uncertainty with respect to natural gas pricing and storage levels.

During the quarter, Essential saw improved activity levels and operating results across all its operations compared to 2009. The Well Servicing segment benefited from improved demand for its services as increased spending on ongoing maintenance work and greater horizontal drilling activity increased demand for Essential's service rig, coil tubing and nitrogen pumper fleets. Similarly, the Downhole Services & Rentals segment benefited from increased horizontal drilling activity, particularly with respect to the Tryton Multi-Stage Fracturing System ("Tryton MSFS") that was introduced in the second quarter of 2009.

The cost reduction initiatives implemented by management over the past year continued to generate substantial improvement in results compared to the prior year. Gross margin increased as a percentage of revenue in comparison to the prior year, on both a quarterly and year to date basis, despite lower service pricing in 2010 compared to 2009.

## FINANCIAL HIGHLIGHTS

- Revenue for the three and six months ended June 30, 2010 was \$25.2 million and \$71.4 million respectively, compared to \$16.0 million and \$58.2 million respectively, for the same periods ended June 30, 2009.
- Gross margin<sup>(1)</sup> and gross margin %<sup>(1)</sup> for the three months ended June 30, 2010 were \$3.0 million and 12%, compared to \$(0.9) million and (6)% for the same period ended June 30, 2009. Gross margin<sup>(1)</sup> and gross margin %<sup>(1)</sup> for the six months ended June 30, 2010 were \$16.3 million and 23%, compared to \$9.9 million and 17% for the same period ended June 30, 2009.
- EBITDAS<sup>(1)</sup> for the three and six months ended June 30, 2010 was \$0.3 million and \$10.6 million respectively, compared to \$(3.4) million and \$4.6 million respectively, for the same periods ended June 30, 2009.
- As at June 30, 2010, Essential had no long-term debt compared to long-term debt of \$9.8 million as at June 30, 2009.
- Essential had positive working capital of \$25.8 million as at June 30, 2010 compared to \$17.5 million as at June 30, 2009.

## RESULTS OF OPERATIONS

(Thousands, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 25,194	\$ 15,974	\$ 71,414	\$ 58,172
Operating expenses	22,160	16,862	55,127	48,298
Gross margin <sup>(1)</sup>	3,034	(888)	16,287	9,874
Gross margin % <sup>(1)</sup>	12%	(6%)	23%	17%
General and administrative	2,732	2,512	5,662	5,247
EBITDAS <sup>(1)</sup>	302	(3,400)	10,625	4,627
EBITDAS % <sup>(1)</sup>	1%	(21%)	15%	8%
Share-based compensation	271	291	623	679
Depreciation and amortization	4,525	5,001	8,957	9,904
Interest on long-term debt	305	583	525	825
(Gain) loss on disposal of assets	63	3,999	(75)	4,046
Earnings (loss) before income taxes	(4,862)	(13,274)	595	(10,827)
Future income tax expense (recovery)	37	(2,302)	1,889	(5,417)
Net loss	\$ (4,899)	\$ (10,972)	\$ (1,294)	\$ (5,410)
Net loss per share – basic and diluted	\$ (0.07)	\$ (0.18)	\$ (0.02)	\$ (0.09)

On both a quarterly and year to date basis, Essential has seen an improvement in activity and operating results in 2010. The year over year revenue improvement is due to increased utilization from existing service equipment and the introduction of new service offerings including the Tryton MSFS and a deep coil tubing rig which can service long reach horizontal wells in central and northern Alberta and northern British Columbia.

Throughout 2010, the Company continued to benefit from the cost management initiatives implemented in 2009. When combined with improved utilization levels, cost reductions and operating efficiencies, gross margins have improved to 12% and 23%, respectively, for the three and six month periods June 30, 2010 compared to (6%) and 17% for the same periods in 2009.

## Segment Results - Well Servicing

Essential provides well completion and production/workover services across western Canada primarily through its fleet of service rigs and coil tubing rigs. In addition, Essential provides services through a fleet of rod rigs, nitrogen pumpers, a cement & acid unit and other specialty equipment. Well Servicing generated revenue of \$15.7 million and \$46.4 million, respectively, for the three and six months ended June 30, 2010, compared to \$11.3 million and \$39.0 million, respectively, for the same periods in 2009.

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue				
Service rigs	\$ 8,392	\$ 6,089	\$ 27,728	\$ 23,233
Coil tubing rigs	4,026	2,227	9,790	8,301
Other	3,324	2,986	8,866	7,484
Total revenue	15,742	11,302	46,384	39,018
Operating expenses	14,175	11,398	35,203	32,349
Gross margin	\$ 1,567	\$ (96)	\$ 11,181	\$ 6,669
Gross margin %	10%	(1%)	24%	17%
Service Rigs				
Number of rigs*	51	51	51	51
Number of operating hours	12,259	8,343	37,402	27,515
Utilization	26%	17%	41%	29%
Coil Tubing Rigs				
Number of rigs*	32	28	32	28
Number of operating hours	7,712	4,900	18,710	16,093
Utilization	28%	18%	36%	28%

\* Fleet data represents the number of rigs at the end of the period.

The increase in oil-based activity in the WCSB continued to stimulate activity for service rig equipment during the second quarter and, as a result, utilization improved substantially from the prior year. Service rig utilization improved compared to the prior year as exploration and production companies continued to work on the backlog of maintenance, abandonment and completion work that was created when capital programs were curtailed in 2009.

The quarterly and year to date results for the coil tubing fleet benefitted from the intermediate and deep coil tubing rigs working on horizontal wells in the resource plays of the Bakken, Viking, Cardium and Montney regions. In addition, utilization of the Company's nitrogen fleet has increased throughout 2010 from increased demand for nitrogen in coil tubing applications.

In response to the increased demand for coil tubing rigs and use of nitrogen, Essential completed two strategic asset acquisitions late in the second quarter to expand the fleet. Essential acquired five coil tubing rigs and support equipment for \$2.3 million in May 2010 and three nitrogen pumpers and related equipment for \$1.7 million in June 2010. While not contributing to operating results of the segment during the quarter, these acquisitions will enable the Company to further expand coil and nitrogen operations in future periods.

Essential completed the re-branding of its service rig operations as "Essential Well Service" effective August 1, 2010. The Company expects the re-branding will provide operational efficiencies and allow Essential to compete for sizable well servicing projects and take advantage of its position as the 6<sup>th</sup> largest well servicing operation in Canada.

## Segment Results - Downhole Services & Rentals

Essential offers downhole tools and equipment rentals in addition to electric wireline (“e-line”) and slickline services through the Downhole Services & Rentals business segment. Downhole Services & Rentals generated revenue of \$9.5 million and \$25.0 million, respectively, for the three and six months ended June 30, 2010, compared to \$4.9 million and \$19.2 million for the same periods in 2009.

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue				
Downhole tools & rentals	\$ 8,141	\$ 4,144	\$ 19,552	\$ 12,928
Wireline services	1,311	798	5,478	6,226
Total revenue	9,452	4,942	25,030	19,154
Operating expenses	7,712	5,326	18,325	15,103
Gross margin	\$ 1,740	\$ (384)	\$ 6,705	\$ 4,051
Gross margin %	18%	(8%)	27%	21%

The downhole tools and rentals operations continued to be a strong contributor to this segment in the second quarter of 2010. Revenue from the traditional downhole tools and rentals operations increased on both a quarterly and year to date basis. Essential also benefited from increased demand for the Tryton MSFS which was first introduced in the second quarter of 2009. The increasing focus by the industry on multi-stage fracturing applications to stimulate wells continued to benefit Essential during the quarter and the first half of 2010.

Wireline continued to be negatively impacted by reduced conventional gas drilling throughout the WCSB and reduced activity in the shallow gas resource plays of southern Alberta.

## General and Administrative

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
General and administrative expenses	\$ 2,732	\$ 2,512	\$ 5,662	\$ 5,247
As a % of revenue	11%	16%	8%	9%

General and administrative expenses were \$2.7 million and \$5.7 million, respectively, for the three and six months ended June 30, 2010, compared to \$2.5 million and \$5.2 million, respectively for the same periods in 2009. These costs are comprised of wages, professional fees, office space and other administrative costs incurred at the corporate and business unit level.

The general and administrative costs in the first half of 2010 include \$0.6 million related to converting to a corporation and ongoing costs related to the implementation of International Financial Reporting Standards (“IFRS”), neither of which were incurred in 2009.

## Share-based Compensation

Essential recorded a non-cash expense related to share-based compensation for the three and six months ended June 30, 2010 of \$0.3 million and \$0.6 million, respectively, compared to \$0.3 million and \$0.7 million, respectively, for the same periods in 2009.

## Depreciation and Amortization

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Depreciation and amortization	\$ 4,525	\$ 5,001	\$ 8,957	\$ 9,904

Depreciation and amortization expense was \$4.5 million and \$9.0 million, respectively, for the three and six months ended June 30, 2010, compared to \$5.0 million and \$9.9 million, respectively, for the same periods in 2009. The decrease in depreciation is due to the lower carrying value of assets in comparison to the prior year.

## Interest on Long-term Debt

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Interest on long-term debt	\$ 305	\$ 583	\$ 525	\$ 825

Interest expense was \$0.3 million and \$0.5 million, respectively, for the three and six months ended June 30, 2010, compared to \$0.6 million and \$0.8 million, respectively, for the same periods in 2009. The interest expense in the current period related entirely to standby fees and credit facility renewal costs.

The Company had no long-term debt outstanding during the three months ended June 30, 2010 and an average long-term debt outstanding for the six months ended June 30, 2010 of \$8.1 million. In comparison, the Company had an average of \$13.6 million and \$19.1 million, respectively, for the same periods ended June 30, 2009.

## Income Taxes

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Future income tax expense (recovery)	\$ 37	\$ (2,302)	\$ 1,889	\$ (5,417)

Future income tax expense was \$0.0 million and \$1.9 million, respectively, for the three and six months ended June 30, 2010, compared to future income tax recovery of \$2.3 million and \$5.4 million, respectively, for the same periods in 2009.

Essential does not anticipate current taxes prior to 2012 as its tax pools should be sufficient to shelter any taxable income.

## SUMMARY OF QUARTERLY DATA

<i>(\$Thousands, except per unit amounts)</i>	<b>Jun 30, 2010</b>	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008
Revenue	<b>25,194</b>	46,220	30,108	23,442	15,974	42,198	43,842	43,891
Gross margin <sup>(1)</sup>	<b>3,034</b>	13,253	6,764	2,841	(888)	10,762	12,086	11,238
Gross margin % of revenue <sup>(1)</sup>	<b>12%</b>	29%	22%	12%	(6%)	26%	28%	26%
EBITDAS <sup>(1)</sup>	<b>302</b>	10,323	4,586	808	(3,400)	8,027	8,219	8,621
EBITDAS % of revenue <sup>(1)</sup>	<b>1%</b>	22%	15%	3%	(21%)	19%	19%	20%
Net earnings (loss) *	<b>(4,889)</b>	3,605	(1,409)	(2,661)	(10,972)	5,562	(15,950)	8,400
Per share – basic and diluted	<b>(0.07)</b>	0.06	(0.02)	(0.04)	(0.18)	0.09	(0.27)	0.14
Total assets	<b>168,422</b>	175,447	169,380	167,574	163,599	189,998	192,035	215,556
Total long term debt	-	-	16,600	14,302	9,755	18,928	17,525	22,063
Shareholders' equity	<b>156,776</b>	161,368	143,367	144,506	147,500	158,780	154,824	173,540
Equipment fleet **								
Service rigs	<b>51</b>	51	51	51	51	55	53	55
Coil tubing rigs	<b>32</b>	30	29	29	28	32	32	32
Rod rigs	<b>23</b>	23	23	23	23	27	27	26
E-line trucks	<b>14</b>	14	14	14	14	14	13	13
Slickline trucks	<b>6</b>	6	6	6	6	7	7	7

\* Net loss for the period ended December 31, 2008 includes a goodwill impairment charge of \$17.9 million. Net loss for the period ended June 30, 2009 includes a loss on assets held for sale of \$4.0 million.

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

During the past two years Essential has modernized its fleet through the acquisition of new equipment and ongoing modifications to the existing fleet. During that same period, the Company assessed its fleet and took out of service equipment that no longer met its operational requirements or future business plans. As a result of this continued fleet refurbishment, Essential's equipment remains well suited to meet the changing needs of the WCSB market.

## FINANCIAL RESOURCES AND LIQUIDITY

### Funds Flow from Operations<sup>(1)</sup>

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	<b>2010</b>	2009	<b>2010</b>	2009
Cash flow from operations	\$ <b>11,913</b>	\$ 11,858	\$ <b>14,235</b>	\$ 15,871
Add:				
Changes in non-cash working capital	<b>(11,916)</b>	(15,841)	<b>(4,135)</b>	(12,069)
Funds flow from (used in) operations	\$ <b>(3)</b>	\$ (3,983)	\$ <b>10,100</b>	\$ 3,802
Per share – basic and diluted	\$ -	\$ (0.07)	\$ <b>0.16</b>	\$ 0.06

Funds flow from (used in) operations<sup>(1)</sup> was \$nil and \$10.1 million, respectively, for the three and six months ended June 30, 2010, compared to \$(4.0) million and \$3.8 million, respectively, for the same periods in 2009.

## Working Capital <sup>(1)</sup>

(Thousands)	June 30, 2010	June 30, 2009
Current assets	\$ 37,468	\$ 25,011
Current liabilities, excluding current portion of long-term debt	(11,646)	(7,559)
Working capital	\$ 25,822	\$ 17,452
Working capital ratio	3.2:1	3.3:1

Working capital at June 30, 2010 was \$25.9 million compared to \$17.5 million at June 30, 2009. The increase in working capital is a result of improved operating results over the prior year, the continued success of cash flow management initiatives implemented during 2009 and the net proceeds from the equity financing of \$13.8 million in March 2010.

## Credit Facility

At June 30, 2010, Essential's credit facility (the "Credit Facility") of \$50 million consisted of a \$10 million revolving operating loan and a \$40 million revolving term loan facility. The \$10 million revolving operating loan matures on May 31, 2011, is renewable annually with lenders consent and is limited to 75% of Essential's accounts receivable less specific items. The \$40 million revolving term loan facility matures on May 31, 2011, is renewable annually with lenders consent and is limited to 60% of Essential's carrying value of property and equipment less certain indebtedness as defined in the Credit Facility agreement. 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. The Credit Facility has an accordion feature that allows Essential to increase the revolving term loan by \$25 million at a future date, subject to certain terms and conditions, including lenders consent. At June 30, 2010, a maximum of \$50 million was available to Essential.

As at June 30, 2010, all financial debt covenants were satisfied and all banking requirements were up to date. Essential does not anticipate any financial resources or liquidity issues to restrict its future operating, investing or financing activities. On August 10, 2010, Essential had no long-term debt outstanding and a positive cash balance of \$2.3 million.

## Equipment Expenditures

(Thousands)	Three months ended		Six months ended	
	June 30, 2010	2009	June 30, 2010	2009
Equipment expenditures				
Well Servicing	\$ 5,705	\$ 1,659	\$ 6,595	\$ 3,633
Downhole Services & Rentals	405	208	686	584
Corporate	462	153	629	423
	6,572	2,020	7,910	4,640
Less proceeds on disposal of property and equipment	(431)	(145)	(770)	(355)
Net equipment expenditures <sup>(1)</sup>	\$ 6,141	\$ 1,875	\$ 7,140	\$ 4,285

Net equipment expenditures<sup>(1)</sup> for the three and six months ended June 30, 2010 were \$6.1 million and \$7.1 million, respectively, compared to \$1.9 million and \$4.3 million, respectively, for the same periods in 2009.

Essential completed two strategic asset acquisitions during the quarter comprised of \$2.3 million for five coil tubing rigs and support equipment and \$1.7 million for three nitrogen pumpers and related equipment. The purchase price for both asset acquisitions was at a discount to replacement cost. Essential plans to use two of the coil tubing rigs to upgrade its existing fleet and convert three of the coil tubing rigs to

intermediate depth over the next several months. These steps will modernize and further increase the depth capacity of the Company's existing coil tubing rig fleet. The acquired nitrogen pumpers complement the coil tubing rigs and will be deployed to further grow Essential's operations in central and southern Alberta and southeast Saskatchewan.

Essential classifies its equipment expenditures as growth capital and maintenance capital; the latter category includes information systems, operational facilities and leasehold improvements. Comparative equipment expenditures are as follows:

(Thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Equipment expenditures				
Growth capital	\$ 5,015	\$ 1,035	\$ 5,685	\$ 2,599
Maintenance capital	1,557	985	2,225	2,041
	\$ 6,572	\$ 2,020	\$ 7,910	\$ 4,640

### Share capital

On conversion to a corporation, Essential Energy Services Trust unitholders received one common share of Essential Energy Services Ltd. in exchange for every trust unit held on the effective date of the Conversion. As at August 10, 2010, there were 71,399,963 shares and 4,921,333 share options outstanding. Of the 4,921,333 share options, 2,221,741 were exercisable of which 491,151 were "in-the-money".

### DISCLOSURE CONTROLS AND PROCEDURES

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

Essential reported on these as part of the 2009 reporting (please refer to the management discussion and analysis for the year ended December 31, 2009 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Essential's website at [www.essentialenergy.ca](http://www.essentialenergy.ca)). There have been no significant changes to disclosure controls in the current period.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Essential reported on these as part of the 2009 reporting (please refer to the management discussion and analysis for the year ended December 31, 2009 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Essential's website at [www.essentialenergy.ca](http://www.essentialenergy.ca)). There have been no significant changes to the design of internal controls over financial reporting in the current period.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Essential will be required to report its results in accordance with IFRS beginning with the three month period ending March 31, 2011. Essential continues to be on schedule with the IFRS transition activities,

and expects that the adoption of IFRS in 2011 will not have a significant impact or influence on Essential's business, operations or strategies.

The IFRS accounting policies that Essential expects to use have not changed from those described in Essential's MD&A for the year ended December 31, 2009. Essential continues to monitor any new or amended IFRSs issued by the International Accounting Standards Board that could affect the choices of accounting policies, such as the new joint ventures standard that is expected to be published later in 2010.

Essential is currently preparing its IFRS opening balance sheet and considering the specific optional exemptions within IFRS 1, "First-time Adoption of International Financial Reporting Standards". The most significant exemption that Essential expects to elect will be to have the fair value as the deemed cost of certain property and equipment at the date of transition.

In terms of education and financial reporting expertise, the transition plan incorporates the tasks that are necessary to establish appropriate IFRS knowledge at all levels of Essential's business. Essential has been working with key finance and operational staff since 2009, and will continue to do so throughout 2010 and 2011. The IFRS education activities have also included an IFRS awareness session with Essential's Board and Audit Committee in 2009, which included the timeline for implementation, the implications of IFRS standards to the business and an overview of the potential impact to the financial statements. Management will continue to provide updates to the Audit Committee each quarter throughout 2010 and 2011.

## **OUTLOOK**

Looking forward, the optimism for oilfield service activity in the WCSB that was generated in the first half of 2010 continues but may be somewhat tempered by recent global economic recovery concerns and low natural gas prices. However, unlike 2009, there has been a rapid increase in activity after spring break-up as producers carry on with their projects. At the end of July, according to industry sources, drilling rig utilization and service rig utilization was significantly higher than the same time last year.

With 80% of its service rigs, coil tubing operations and the Tryton MSFS focused on servicing oil-related and liquids-rich gas activity, the Company is well-positioned to meet anticipated demand for its services in the last half of 2010. The Cardium and Viking are exciting resource plays in Alberta and Essential expects to continue to benefit from increasing activity in these areas, which are located in the heart of Essential's operations. In addition, the Company anticipates that service rigs will continue to be active with ongoing maintenance and abandonment work on existing wells.

Essential is making strategic enhancements to the fleet through acquisitions and capital spending. The Company acquired coil tubing and nitrogen assets in the second quarter of 2010 for \$4 million. These assets modernize and increase the depth capacity of the coil tubing fleet. As previously announced, a new deep coil tubing rig is expected to go into service in the fourth quarter of 2010.

While activity is increasing in the WCSB, Essential continues to believe in the long-term benefit of geographic diversification and is evaluating opportunities to expand into Colombia. In the first half of 2010, the Company investigated several business opportunities in Colombia. Looking into the last half of the year, management remains optimistic that it will establish an operating base in Colombia before the end of the year.

With no debt outstanding, Essential is well-positioned to deal with industry evolution and respond quickly to growth opportunities that may present themselves. While natural gas pricing concerns remain, activity in the WCSB has been improving. With the quality, location and versatility of Essential's operations, management expects the Company will benefit from continued development of the WCSB.

<sup>(1)</sup>Non-GAAP Measures

Throughout this MD&A, certain terms that are not specifically defined in Canadian Generally Accepted Accounting Principles (“GAAP”) are used to analyze the operations. In addition to the primary measures of net earnings and net earnings per share in accordance with GAAP, Essential believes that certain measures not recognized under GAAP 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. These non-GAAP measures are not recognized measures under GAAP. As a result, the method of calculation may not be comparable with other companies or trusts. These measures should not be considered alternatives to net earnings and net earnings per share as calculated in accordance with GAAP.

Gross margin<sup>(2)</sup> – This measure is considered a primary indicator of operating performance as calculated by revenue less operating expenses.

Gross margin %<sup>(2)</sup> – This measure is considered a primary indicator of operating performance as calculated by gross margin divided by revenue.

EBITDAS<sup>(3)</sup> (Earnings before interest, income taxes, depreciation, amortization, non-controlling interest earnings, losses or gains on disposal of equipment, results of discontinued operations, impairment of goodwill 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, pay current income taxes and fund capital programs.

EBITDAS %<sup>(3)</sup> – This measure is considered an indicator of Essential’s ability to generate funds flow as calculated by EBITDAS<sup>(3)</sup> divided by revenue.

Funds flow or funds flow from (used in) operations<sup>(4)</sup> – This measure is an indicator of Essential’s ability to generate funds flow<sup>(4)</sup> 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.

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<sup>(5)</sup> – 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.

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<sup>2</sup> Gross margin and gross margin % are reconciled to the GAAP measures, revenue and operating costs, in the table “Results of Operations”.

<sup>3</sup> EBITDAS and EBITDAS % are reconciled to the GAAP measure, loss from continuing operations before income taxes, in the table “Results of Operations”.

<sup>4</sup> Funds flow is reconciled to the GAAP measure, cash flow from operations, in the table “Funds Flow from Operations”.

<sup>5</sup> Net equipment expenditures is calculated from the GAAP measures, equipment expenditures and proceeds on disposal of equipment, in the table “Equipment Expenditures”



## **Consolidated Financial Statements**

Essential Energy Services Ltd.

June 30, 2010

**ESSENTIAL ENERGY SERVICES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
*(unaudited)*

<i>(Thousands)</i>	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
<b>Assets</b> <i>(note 6)</i>		
Current assets		
Cash	\$ 5,436	\$ 1,080
Accounts receivable	20,104	22,855
Inventory <i>(note 3)</i>	9,387	9,194
Prepaid expenses and deposits	2,541	1,897
	<b>37,468</b>	<b>35,026</b>
Property and equipment <i>(note 4)</i>	124,534	125,704
Assets held for sale	1,002	1,215
Intangible assets <i>(note 5)</i>	3,494	3,853
Future income tax asset <i>(note 10)</i>	1,924	3,582
	<b>\$ 168,422</b>	<b>\$ 169,380</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 11,646	\$ 9,413
Current portion of long-term debt <i>(note 6)</i>	-	3,228
	<b>11,646</b>	<b>12,641</b>
Long-term debt <i>(note 6)</i>	-	13,372
	<b>11,646</b>	<b>26,013</b>
Commitments <i>(note 12)</i>		
<b>Shareholders' Equity</b>		
Share capital <i>(note 7)</i>	279,671	-
Unitholders' capital <i>(note 7)</i>	-	265,573
Contributed surplus <i>(note 8)</i>	7,327	6,722
Accumulated deficit	(130,222)	(128,928)
	<b>156,776</b>	<b>143,367</b>
	<b>\$ 168,422</b>	<b>\$ 169,380</b>

See accompanying notes to unaudited interim consolidated financial statements

**ESSENTIAL ENERGY SERVICES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND ACCUMULATED DEFICIT**

*(unaudited)*

<i>(Thousands, except per share amounts)</i>	For the three months ended		For the six months ended	
	2010	June 30, 2009	2010	June 30, 2009
Revenue	\$ 25,194	\$ 15,974	\$ 71,414	\$ 58,172
Operating expenses	22,160	16,862	55,127	48,298
	3,034	(888)	16,287	9,874
Expenses				
General and administrative	2,732	2,512	5,662	5,247
Share-based compensation <i>(note 9)</i>	271	291	623	679
Depreciation and amortization	4,525	5,001	8,957	9,904
Interest on long-term debt	305	583	525	825
(Gain) loss on disposal of assets	63	3,999	(75)	4,046
Earnings (loss) before income taxes	(4,862)	(13,274)	595	(10,827)
Income tax expense (recovery)				
Future <i>(note 10)</i>	37	(2,302)	1,889	(5,417)
Net loss and comprehensive loss	(4,899)	(10,972)	(1,294)	(5,410)
Accumulated deficit, beginning of period	(125,323)	(112,689)	(128,928)	(116,257)
Distributions to unitholders	-	(599)	-	(2,593)
Accumulated deficit, end of period	\$ (130,222)	\$ (124,260)	\$ (130,222)	\$ (124,260)
Net loss per share <i>(note 11)</i>				
Basic and diluted	\$ (0.07)	\$ (0.18)	\$ (0.02)	\$ (0.09)

*See accompanying notes to unaudited interim consolidated financial statements*

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

<i>(Thousands)</i>	For the three months ended		For the six months ended	
	2010	June 30, 2009	2010	June 30, 2009
Operating activities:				
Net loss	\$ (4,899)	\$ (10,972)	\$ (1,294)	\$ (5,410)
Items not affecting cash:				
Depreciation and amortization	4,525	5,001	8,957	9,904
Future income tax expense (recovery)	37	(2,302)	1,889	(5,417)
Share-based compensation	271	291	623	679
(Gain) loss on disposal of assets	63	3,999	(75)	4,046
	(3)	(3,983)	10,100	3,802
Changes in non-cash working capital	11,916	15,841	4,135	12,069
	11,913	11,858	14,235	15,871
Financing activities:				
Issuance of shares, net of costs <i>(note 7)</i>	-	-	13,813	-
Proceeds on exercise of share options	37	-	37	-
Decrease in long-term debt	(209)	(9,785)	(16,600)	(8,232)
Distributions paid	-	(198)	-	(2,892)
Changes in non-cash working capital	(175)	-	-	-
	(347)	(9,983)	(2,750)	(11,124)
Investing activities:				
Property and equipment	(6,572)	(2,020)	(7,910)	(4,640)
Proceeds on disposal of equipment	431	145	770	355
Changes in non-cash working capital	11	-	11	(462)
	(6,130)	(1,875)	(7,129)	(4,747)
Change in cash	5,436	-	4,356	-
Cash, beginning of the period	-	-	1,080	-
Cash, end of the period	\$ 5,436	\$ -	\$ 5,436	\$ -
Supplementary cash flow information:				
Interest paid	\$ 98	\$ 179	\$ 323	\$ 441

*See accompanying notes to unaudited interim consolidated financial statements*

**ESSENTIAL ENERGY SERVICES LTD.**  
**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*As at and for the periods ended June 30, 2010 and 2009*

*(All tabular amounts in thousands unless otherwise stated, except for per share amounts)*

**1. NATURE OF THE ORGANIZATION**

Essential Energy Services Ltd. (“Essential” or the “Company”) is a publicly traded oilfield services company incorporated under the Business Corporations Act (Alberta) (the “Act”). The Company was created in connection with the conversion of Essential Energy Services Trust (the “Trust”) to a corporation pursuant to a Plan of Arrangement under the Act (the “Conversion”). The Conversion was completed on April 29, 2010.

Upon closing of the Conversion, the Company became the operator of the business of the Trust and its subsidiaries and the existing management and board of directors of the Trust became the management and board of directors of the Company. The Conversion resulted in the unitholders of the Trust becoming shareholders of the Company with no changes to the underlying business operations.

Prior to the Conversion, the consolidated financial statements included the accounts of the Trust, its subsidiaries and partnerships, all of which were wholly owned. Subsequent to the Conversion, the consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The Company is considered a continuation of the Trust and these consolidated financial statements were prepared using the continuity of interests method of accounting. Under the continuity of interests method of accounting the transfer of assets, liabilities and equity from the Trust to the Company are recorded at their net book values as at April 29, 2010.

The common shares of the Company trade on the Toronto Stock Exchange under the symbol ESN.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of Essential Energy Services Trust for the year ended December 31, 2009. These unaudited interim consolidated financial statements do not include all disclosures provided in the December 31, 2009 financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2009. Certain information has been condensed or omitted where it is not material or where there has been no material change from the consolidated annual financial statements.

**3. INVENTORY**

	<b>As at June 30, 2010</b>	<b>As at December 31, 2009</b>
Downhole service tools	\$ 7,949	\$ 7,848
Coil tubing and wireline products	1,438	1,346
	<b>\$ 9,387</b>	<b>\$ 9,194</b>

For the three months and six months ended June 30, 2010, inventory recorded through operating expenses was \$3.2 million and \$7.5 million, respectively (2009 – \$1.0 million and \$2.9 million, respectively).

#### 4. PROPERTY AND EQUIPMENT

As at June 30, 2010	Cost	Accumulated Depreciation	Net Book Value
Well servicing rigs and equipment	\$ 138,991	\$ 42,841	\$ 96,150
Oilfield equipment	30,119	10,384	19,735
Vehicles	6,532	2,906	3,626
Other	7,692	2,669	5,023
	<b>\$ 183,334</b>	<b>\$ 58,800</b>	<b>\$ 124,534</b>

As at December 31, 2009	Cost	Accumulated Depreciation	Net Book Value
Well servicing rigs and equipment	\$ 132,873	\$ 37,543	\$ 95,330
Oilfield equipment	30,414	8,518	21,896
Vehicles	5,866	2,547	3,319
Other	7,113	1,954	5,159
	<b>\$ 176,266</b>	<b>\$ 50,562</b>	<b>\$ 125,704</b>

#### 5. INTANGIBLE ASSETS

As at June 30, 2010	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 5,464	\$ 2,349	\$ 3,115
Favourable leases	576	293	283
Trade names	382	286	96
	<b>\$ 6,422</b>	<b>\$ 2,928</b>	<b>\$ 3,494</b>

As at December 31, 2009	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 5,464	\$ 2,118	\$ 3,346
Favourable leases	576	228	348
Trade names	382	223	159
	<b>\$ 6,422</b>	<b>\$ 2,569</b>	<b>\$ 3,853</b>

#### 6. LONG-TERM DEBT

	As at June 30, 2010	As at December 31, 2009
Term loan	\$ -	\$ 16,600
Less: current portion of long-term debt	-	(3,228)
	<b>\$ -</b>	<b>\$ 13,372</b>

At June 30, 2010, Essential's credit facility (the "Credit Facility") of \$50 million consisted of a \$10 million revolving operating loan and a \$40 million revolving term loan facility. The \$10 million revolving operating loan matures on May 31, 2011, is renewable annually with lenders consent and is limited to 75% of Essential's accounts receivable less specific items. The \$40 million revolving term loan facility matures on May 31, 2011, is renewable annually with lenders consent and is limited to 60% of Essential's carrying value of property and equipment less certain indebtedness as defined in the Credit Facility agreement. 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. The Credit Facility has an accordion feature that allows Essential to increase the revolving term loan by \$25 million at a future date, subject to certain terms and conditions, including lenders consent.

As at June 30, 2010, all financial debt covenants were satisfied and all banking requirements were up to date. A maximum of \$50 million was available to the Company as at June 30, 2010.

## 7. SHARE CAPITAL

### Authorized

Pursuant to the Plan of Arrangement discussed in Note 1, Essential unitholders received one common share of Essential Energy Services Ltd. in exchange for every trust unit held on the effective date of the Conversion.

Authorized capital consists of an unlimited number of common and preferred shares. Common shares are without par value, 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 Trust Units	Amount
Balance, December 31, 2009	59,853	\$ 265,573
Units issued on equity financing	11,500	14,044
Units issued on exercise of options	5	8
Converted into common shares	(71,358)	(279,625)
Balance, June 30, 2010	-	\$ -

	Number of Common Shares	Amount
Balance, December 31, 2009	-	\$ -
Converted from trust units	71,358	279,625
Shares issued on exercise of options	29	46
Balance, June 30, 2010	71,387	\$ 279,671

On March 31, 2010, the Trust completed a bought deal equity financing (the "Offering"). Pursuant to the Offering, the Trust issued a total of 11,500,000 trust units (the "Trust Units"), of which 1,500,000 Trust Units were issued pursuant to the exercise in full of the over-allotment option granted to the underwriters. All of the Trust Units were issued at \$1.30 per Trust Unit, for gross proceeds of \$14,950,000 (net proceeds of \$14,043,579 after deducting issuance costs, net of tax, of \$906,421).

## 8. CONTRIBUTED SURPLUS

	As at June 30, 2010	As at December 31, 2009
Balance, beginning of period	\$ 6,722	\$ 5,508
Share-based compensation	623	1,214
Exercise of options	(18)	-
Balance, end of period	\$ 7,327	\$ 6,722

## 9. SHARE OPTIONS AND SHARE-BASED COMPENSATION

	Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,737	\$ 3.49
Issued	1,040	1.15
Exercised	(34)	1.08
Expired	(419)	10.11
Forfeited	(280)	3.56
Outstanding, end of period	5,044	\$ 2.97
Exercisable, end of period	1,729	\$ 5.58

The Company recorded share-based compensation expense in respect of the option plan of \$0.3 million and \$0.6 million for the three and six months ended June 30, 2010 (2009 - \$0.3 million and \$0.7 million, respectively) with a corresponding increase to contributed surplus.

The fair value of share options issued during the period was estimated using the Black-Scholes option pricing model using the following underlying assumptions:

Risk-free interest rate	2.7%
Expected volatility	72.6%
Expected term	5 years
Distribution yield	nil
Fair value per option issued	\$0.75

In connection with the Conversion (*see note 1*), Essential established a Share Option Plan to replace the Unit Option Plan of the Fund. Holders of options to purchase trust units of the Fund granted pursuant to the Unit Option Plan as at April 29, 2010 exchanged their unit options for share options with substantially similar terms.

The following table summarizes information about the share options outstanding as at June 30, 2010:

### As at June 30, 2010

Exercise Prices	Share Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Fair Value of Share Options (per unit)	Number of options exercisable
\$0.84 – \$1.50	2,639	3.98	\$0.61	392
\$1.51 – \$4.00	1,666	2.99	\$1.11	598
\$4.01 – \$15.54	739	1.17	\$1.63	739
	5,044	3.24	\$1.13	1,729

## 10. INCOME TAXES

Essential converted from a publicly traded income trust to a publicly traded corporation on April 29, 2010 (*see note 1*). Accordingly, Essential's calculation of current and future income taxes for the six months ended June 30, 2010 is based on the conversion to a corporate structure, whereas the calculation of current and future income taxes for the six months ended June 30, 2009 is based on Essential being a publicly traded income trust.

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, 2010		For the six months ended June 30, 2009	
Earnings (loss) before income taxes	\$ (4,862)	\$ (13,274)	\$ 595	\$ (10,827)
Effective tax rate	28%	0%	28%	0%
Expected income tax expense (recovery)	\$ (1,362)	\$ -	\$ 166	\$ -
Increase (decrease) resulting from:				
Share based compensation	76	-	174	-
Permanent items	111	-	240	-
Future tax rate reductions	100	-	(79)	-
Adjustment on conversion to Corporation	1,387	-	1,387	-
Other	(275)	-	1	-
Effective tax law changes and future tax rate deductions	-	(2,302)	-	(5,417)
Future income tax expense (recovery)	\$ 37	\$ (2,302)	\$ 1,889	\$ (5,417)

The future income tax asset consists of temporary differences between the carrying values for accounting versus tax:

	As at June 30, 2010	As at December 31, 2009
Tangible assets	\$ (2,625)	\$ (657)
Net operating losses	2,981	3,008
Goodwill and Intangible assets	2,763	2,657
Equity issuance costs	702	471
Valuation allowance	(953)	(953)
Other	(944)	(944)
Future income tax asset	\$ 1,924	\$ 3,582

## 11. PER SHARE AMOUNTS

The weighted average number of shares outstanding for the three and six months ended June 30, 2010 were 71,364,463 and 65,640,514, respectively (2009 – 59,852,965). For the three and six months ended June 30, 2010 and 2009, options convertible to shares are not included in the per share calculation as their effect is anti-dilutive.

## 12. COMMITMENTS

The Company has entered into operating leases for office and shop premises and equipment that provide for minimum annual lease payments as follows:

	Amount
For the year ended:	
2010	\$ 2,222
2011	3,450
2012	2,377
2013	1,442
2014	687
Thereafter	1,178
	\$ 11,356

## 13. CAPITAL DISCLOSURE

The Company considers its capital structure to include shareholders' equity, long-term debt and working capital. Essential makes adjustments to its capital structure based on changes in economic conditions and the Company's planned requirements. Essential has the ability to adjust its capital structure by

issuing new equity or debt, controlling the amount of dividends issued to shareholders, if any, and making adjustments to its capital expenditure program. Essential is subject to externally imposed capital requirements associated with its Credit Facility, including financial covenants that incorporate funded debt, EBITDA (as defined by the Credit Facility agreement) and total capitalization. As at June 30, 2010, the Company is in good standing with respect to these covenants.

## **14. FINANCIAL INSTRUMENTS**

### **a) Designation and valuation of financial instruments**

Essential has classified its accounts receivable as loans and receivables. Accounts payable and accrued liabilities is classified as other financial liabilities.

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

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their estimated fair values due to their short terms to maturity.

### **b) Risks**

Exposure to credit risk and interest rate risk arises in the normal course of the Company's business. Essential currently does not use derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting its operations.

#### **(i) Credit risk**

As at June 30, 2010, accounts receivable are aged as follows: 58% - current; 18% - 31-60 days; 11% - 61-90 days; and 13% - over 90 days (2009 - 53% - current; 20% - 31-60 days; 6% - 61-90 days; and 21% - over 90 days). Essential utilizes an allowance for doubtful accounts, based on specific receivables, to record potential credit losses associated with its trade receivables. As at June 30, 2010, the Company's allowance for doubtful accounts is \$0.7 million (2009 - \$0.8 million) and for the six month period then ended had a bad debt expense of \$0.1 million (2009 - \$0.2 million). As at June 30, 2010, approximately 22% of the total accounts receivable balance was due from five companies (2009 - 33%).

#### **(ii) Interest rate risk**

Essential is exposed to interest rate risk with respect to its Credit Facility that bears interest at floating market rates. As the Company does not have an amount drawn on its Credit Facility at June 30, 2010, interest rate risk is nominal.

#### **(iii) Liquidity risk**

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

## **15. SEASONALITY OF OPERATIONS**

Essential's operations are carried out 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.

## 16. SEGMENTED INFORMATION

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

### a) Well Servicing

The Well Servicing segment provides well completion and production/workover services throughout Alberta, in northeastern British Columbia and southeastern Saskatchewan. The Well Servicing segment is comprised of a fleet of service rigs, coil tubing rigs and nitrogen pumpers and rod rigs.

### b) Downhole Services & Rentals

The Downhole Services & Rentals segment is comprised of downhole tools, equipment rentals and wireline services. The Downhole Services & Rentals segment provides a variety of products and services including downhole tools, drilling-related rental equipment and wireline services, including electric line and slickline.

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

	<b>As at and for the three months ended June 30, 2010</b>			
	<b>Well Servicing</b>	<b>Downhole Services &amp; Rentals</b>	<b>Corporate</b>	<b>Consolidated</b>
<b>Revenue</b>	\$ 15,742	\$ 9,452	\$ -	\$ 25,194
<b>Earnings (loss) before income taxes</b>	\$ (2,202)	\$ 137	\$ (2,797)	\$ (4,862)
<b>Depreciation and amortization</b>	\$ 3,012	\$ 1,234	\$ 279	\$ 4,525
<b>Total assets</b>	\$ 117,778	\$ 40,845	\$ 9,799	\$ 168,422
<b>Assets held for sale</b>	\$ 1,002	\$ -	\$ -	\$ 1,002
<b>Equipment expenditures</b>	\$ 5,705	\$ 405	\$ 462	\$ 6,572

	<b>As at and for the three months ended June 30, 2009</b>			
	<b>Well Servicing</b>	<b>Downhole Services &amp; Rentals</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 11,032	\$ 4,942	\$ -	\$ 15,974
Loss before income taxes	\$ (8,384)	\$ (2,189)	\$ (2,701)	\$ (13,274)
Depreciation and amortization	\$ 3,387	\$ 1,457	\$ 157	\$ 5,001
Total assets	\$ 117,466	\$ 41,089	\$ 5,044	\$ 163,599
Assets held for sale	\$ 1,215	\$ -	\$ -	\$ 1,215
Equipment expenditures	\$ 1,659	\$ 208	\$ 153	\$ 2,020

<b>As at and for the six months ended June 30, 2010</b>				
	<b>Well Servicing</b>	<b>Downhole Services &amp; Rentals</b>	<b>Corporate</b>	<b>Consolidated</b>
<b>Revenue</b>	\$ 46,384	\$ 25,030	\$ -	\$ 71,414
<b>Earnings (loss) before income taxes</b>	\$ 3,764	\$ 3,754	\$ (6,923)	\$ 595
<b>Depreciation and amortization</b>	\$ 5,928	\$ 2,487	\$ 542	\$ 8,957
<b>Total assets</b>	\$ 117,778	\$ 40,845	\$ 9,799	\$ 168,422
<b>Assets held for sale</b>	\$ 1,002	\$ -	\$ -	\$ 1,002
<b>Equipment expenditures</b>	\$ 6,595	\$ 686	\$ 629	\$ 7,910

<b>As at and for six months ended June 30, 2009</b>				
	<b>Well Servicing</b>	<b>Downhole Services &amp; Rentals</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 39,018	\$ 19,154	\$ -	\$ 58,172
Earnings (loss) before income taxes	\$ (5,469)	\$ 444	\$ (5,802)	\$ (10,827)
Depreciation and amortization	\$ 6,734	\$ 2,857	\$ 313	\$ 9,904
Total assets	\$ 117,466	\$ 41,089	\$ 5,044	\$ 163,599
Assets held for sale	\$ 1,215	\$ -	\$ -	\$ 1,215
Equipment expenditures	\$ 3,633	\$ 584	\$ 423	\$ 4,640

## 17. COMPARATIVE AMOUNTS

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

## **CORPORATE INFORMATION**

### **Directors**

James A. Banister<sup>2,3</sup>, Chairman

Garnet K. Amundson

Michael J. Black<sup>2</sup>

William T. Lynch<sup>1,3</sup>

Nicholas G. Kirton<sup>1,2</sup>

Jeffrey J. Scott<sup>1,3</sup>

1. Audit Committee

2. Compensation & Governance Committee

3. Health, Safety & Environment Committee

### **Auditors**

Ernst & Young LLP

### **Bankers**

National Bank of Canada

Toronto Dominion Bank

Bank of Montreal

Canadian Western Bank

### **Legal Counsel**

Heenan Blaikie LLP

### **Transfer Agent**

Olympia Trust Company

### **Management**

Garnet K. Amundson  
President & Chief Executive Officer

Jeff B. Newman  
Chief Financial Officer & VP, Finance

Kevin W. Job  
VP, Operations

Don A. K. Webster  
VP, Operations

### **Stock Exchange Listing**

TSX: ESN

### **Calgary Office**

Livingston Place West

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