MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the three and six months ended June 30, 2021.

This MD&A should be read in conjunction with Essential's June 30, 2021 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2020 Financial Report for the year ended December 31, 2020. 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. Readers should carefully read the sections regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective August 5, 2021 and was approved and authorized for issuance by the Board of Directors of the Company on August 5, 2021.

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares of the Company 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 or the Company's website at www.essentialenergy.ca.

SELECTED INFORMATION

(in thousands of dollars except per share and percentages)	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Revenue	**$ 22,441**	$ 10,955	**$ 52,591**	$ 52,378
Gross margin	**5,291**	876	**12,029**	9,294
Gross margin %	**24%**	8%	**23%**	18%
EBITDAS [(1)]	**3,429**	(492)	**8,317**	5,392
EBITDAS %	**15%**	(4%)	**16%**	10%
Net loss[(i)]	**$ (5,019)**	$ (6,030)	**$ (7,612)**	$ (11,055)
Per share - basic and diluted	**$ (0.04)**	$ (0.04)	**$ (0.05)**	$ (0.08)
Operating hours				
Coil tubing rigs	**7,414**	3,060	**16,043**	16,073
Pumpers	**9,647**	3,712	**21,250**	19,604

	As at June 30, 2021	2020
Working capital [(1)]	**$ 47,670**	$ 44,408
Cash	**11,627**	5,664
Long-term debt	**301**	665

(i) The six months ended June 30, 2020 includes an impairment of $10.3 million.

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

INDUSTRY OVERVIEW

During the second quarter of 2021, industry activity and commodity prices significantly improved compared to the second quarter of 2020. The year-over-year improvement was mainly due to the disruptive impact of the COVID-19 pandemic and lower oil prices in 2020, which severely impacted industry activity. While Canadian exploration and production ("E&P") companies have realized benefits from higher commodity prices, their incremental cash flow has generally not translated into significantly larger capital programs, which has limited improvement in oilfield service activity.

The price of West Texas Intermediate ("WTI") oil exceeded US$70 per barrel in the latter portion of the quarter, the highest prices since late 2018 and a significant improvement from US$28 per barrel, the average price during the second quarter of 2020. Canadian natural gas prices ("AECO") averaged $2.96 per gigajoule during the second quarter of 2021, pricing not seen since the end of 2014.

HIGHLIGHTS

Revenue for the three months ended June 30, 2021 was $22.4 million, $11.5 million higher than the second quarter of 2020 due to significantly higher activity as a result of improved industry conditions. The year-over-year improvement in second quarter activity was due, in large part, to improving activity after the devastating effect that the COVID-19 pandemic, and associated demand destruction, combined with low oil prices, had on activity in the second quarter of 2020.

Management is pleased to report second quarter EBITDAS(1) of $3.4 million, $3.9 million higher than negative $0.5 million EBITDAS(1) reported in the same prior year quarter. Significantly higher activity and a continued focus on cost management resulted in stronger EBITDAS(1) for the quarter. Essential received $2.1 million of benefits under the Canadian Emergency Wage Subsidy, Canadian Emergency Rent Subsidy, the Employee Retention Tax Credit program in the U.S., and the Paycheque Protection Program in the U.S. (collectively, "Government Subsidy Programs"), compared to $2.6 million included in the same prior year period. Second quarter EBITDAS(1) percentage improved to 15% compared to negative 4% in the second quarter of 2020.

For the six months ended June 30, 2021, Essential reported revenue of $52.6 million, relatively in-line with the same prior year period. For the six months ended June 30, 2021, EBITDAS(1) was $8.3 million, $2.9 million higher than the prior year, due to ongoing cost management and benefits received under Government Subsidy Programs.

<u>Cash and Working Capital</u>

At June 30, 2021, Essential was in a strong financial position with cash, net of long-term debt, of $11.3 million and working capital(1) of $47.7 million. On August 5, 2021 Essential had $10.0 million of cash, net of long-term debt.

OVERVIEW OF ESSENTIAL

Essential safely provides completion, production and wellsite restoration services to E&P companies primarily in western Canada. Services are offered through coil tubing, fluid and nitrogen pumping, and the sale and rental of downhole tools and equipment.

Essential Coil Well Service

Coil Tubing Rigs – Essential operates one of the largest coil tubing fleets in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are typically equipped to work with coil tubing ranging from 2 ⅜ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity using 2 ⅜ inch coil of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by their capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.

Coil tubing rigs are typically used in the completion and stimulation of a horizontal well in the following areas:

- Pre-Fracturing – Coil tubing is used to complete pre-fracturing confirmation runs and/or place the tools used to isolate a portion of the wellbore during fracture stimulation.
- Fracturing – Dependent on the design of the customer's fracturing program, coil tubing can be used to frac-thru-coil, complete annular fracturing, convey and actuate sliding-sleeve tool assemblies or perform tubing conveyed plug-and-perf operations in the well.
- Post-Fracturing – Once the fracturing has been completed, coil tubing is used to complete post-fracturing confirmation runs, clean-outs and mill-outs/drill-outs of ball & seat systems. Coil tubing can also be used for work-overs and to convey third party instrumentation and evaluation tools to confirm the results of the fracture treatment.

Pumpers – Coil tubing rigs are packaged with and supported by a fleet of fluid and nitrogen pumpers. Fluid pumpers are used to maintain downhole circulation, provide ancillary acid/solvent treatments and inject friction reducers and other chemicals into the wellbore. Fluid pumpers also perform stand-alone pump-down work independent of the coil tubing fleet. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coil tubing of fluids once the coil tubing work has been completed.

Tryton

Essential's Tryton segment provides a wide range of downhole tools and rental services across the WCSB and in the U.S. for completion, production and wellsite restoration of oil and natural gas wells, including:

- Tryton Multi-Stage Fracturing System ("MSFS®") – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously. Tryton offers a variety of MSFS® tools that provide customers with a choice of completion technologies to use on their horizontal well completion program. The completion technology selected will vary based on wellbore characteristics and client preference. Revenue and cost parameters of each completion technology vary depending on the nature of the tools used and the services provided:
  - Ball & Seat – Tryton's Ball & Seat system uses open hole packers and sleeves, which are opened in sequential order by dropping progressively larger balls through a liner, to isolate and fracture each zone along the non-cased horizontal leg of a well. The number of zones, or "stages", that can be fractured using a Ball & Seat system is limited by the size specifications of the balls and seats used.

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

- Composite Bridge Plug – Tryton's Composite Bridge Plug, typically used in "plug-and-perf" completion programs, provides customers the ability to fracture an unlimited number of stages in the horizontal leg. These plugs are relatively quick to mill-out post-fracturing.
- Hybrid MSFS® – Tryton's Hybrid MSFS® combines Tryton's Ball & Seat system, installed closer to the "toe" of the horizontal leg of a well, with Tryton's Composite Bridge Plug, installed towards the "heel" of the well. The Hybrid MSFS® enables customers to fracture an unlimited number of stages in the horizontal leg.

- Conventional Tools – Conventional downhole tools are used in production, abandonment and wellsite restoration activities. Tryton offers a wide range of products, including downhole packers, tubing anchors, bridge plugs, cement retainers and related accessories.
- Rentals – Tryton Rentals offers oilfield equipment, including specialty drill pipe and various other tools and handling equipment.

RESULTS OF OPERATIONS

(in thousands of dollars, except per share amounts)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Revenue	**$ 22,441**	$ 10,955	**$ 52,591**	$ 52,378
Operating expenses	**17,150**	10,079	**40,562**	43,084
Gross margin	**5,291**	876	**12,029**	9,294
General and administrative expenses	**1,862**	1,368	**3,712**	3,902
EBITDAS (1)	**3,429**	(492)	**8,317**	5,392
Depreciation and amortization	**4,448**	5,653	**9,261**	9,567
Share-based compensation expense (recovery)	**3,641**	615	**5,950**	(1,065)
Other expense (income)	**133**	516	**260**	(1,071)
Finance costs	**224**	454	**455**	848
Impairment loss	**-**	-	**-**	10,293
Loss before income taxes	**(5,017)**	(7,730)	**(7,609)**	(13,180)
Current income tax expense	**2**	1	**3**	2
Deferred income tax recovery	**-**	(1,701)	**-**	(2,127)
Income tax expense (recovery)	**2**	(1,700)	**3**	(2,125)
Net loss	**$ (5,019)**	$ (6,030)	**$ (7,612)**	$ (11,055)
Net loss per share				
Basic and diluted	**$ (0.04)**	$ (0.04)	**$ (0.05)**	$ (0.08)

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended June 30, 2021		For the three months ended June 30, 2020		For the six months ended June 30, 2021		For the six months ended June 30, 2020
Revenue	**$**	**13,355**	$	6,116	**$**	**29,211**	$ 30,655
Operating expenses		**10,028**		4,618		**22,175**	23,344
Gross margin	**$**	**3,327**	$	1,498	**$**	**7,036**	$ 7,311
Gross margin %		**25%**		24%		**24%**	24%
Operating hours							
Coil tubing rigs		**7,414**		3,060		**16,043**	16,073
Pumpers		**9,647**		3,712		**21,250**	19,604
Active equipment fleet (i)							
Coil tubing rigs		**12**		8		**12**	8
Fluid pumpers		**9**		8		**9**	8
Nitrogen pumpers		**4**		4		**4**	4
Total equipment fleet (i)							
Coil tubing rigs		**29**		29		**29**	29
Fluid pumpers		**17**		19		**17**	19
Nitrogen pumpers		**8**		8		**8**	8

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.

Essential Coil Well Service ("ECWS") revenue for the second quarter of 2021 was $13.4 million, an increase of $7.2 million compared to the same prior year period, due to significantly higher activity. Second quarter 2021 activity also benefited from drier weather conditions, compared to typical second quarter conditions where wet weather tends to limit activity. In comparison, second quarter 2020 results were impacted by a drastic reduction in activity as customers scaled back spending with the onset of COVID-19 and the decline of oil prices. Revenue per operating hour was lower than the same prior year period due to mix of work and competitive pricing pressure. On a sequential basis, revenue per operating hour was flat compared to the first quarter of 2021.

Gross margin for the second quarter of 2021 was $3.3 million, significantly higher than the same prior year period mainly due to increased activity and a continued focus on cost management. Second quarter 2020 also included severance costs. Gross margin in both the current quarter and prior year period was supported by benefits received under Government Subsidy Programs. Second quarter 2021 gross margin percentage was 25%, consistent with 24% in the second quarter of 2020.

On a year-to-date basis, ECWS revenue was $29.2 million, $1.4 million lower than the same prior year period. Operating hours increased 5%, ahead of the 22%[a] decline in industry well completions. Activity in the first quarter of 2021 started off slow but significantly improved by the end of the second quarter of 2021. In contrast, 2020 started with stronger first quarter activity and ended with a historically slow second quarter. The result was year-to-date revenue being relatively in-line with the same prior year period. Gross margin was 24% in the current year, consistent with the comparative prior year period. Benefits received under Government Subsidy Programs and cost management, offset slightly by lower revenue per operating hour, preserved gross margin percentage of 24% in the current period.

(a) Source: Daily Oil Bulletin on August 4, 2021.

SEGMENT RESULTS – *TRYTON*

(in thousands of dollars, except percentages)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Revenue	**$ 9,086**	$ 4,839	**$ 23,380**	$ 21,723
Operating expenses	**6,884**	5,085	**17,990**	19,059
Gross margin	**$ 2,202**	$ (246)	**$ 5,390**	$ 2,664
Gross margin %	**24%**	(5%)	**23%**	12%
Tryton revenue - % of revenue				
Tryton MSFS®	**10%**	34%	**25%**	35%
Conventional Tools & Rentals	**90%**	66%	**75%**	65%

Second quarter 2021 Tryton revenue was $9.1 million, an increase of $4.2 million compared to the same prior year period due to an increase in conventional tool activity as a result of increased customer spending on production, abandonment and wellsite restoration activities. The second quarter of 2020 reflected a significant reduction in customers' capital spending due to the onset of COVID-19 and low oil prices. Canadian conventional tool activity also benefited in the current quarter from the federally funded site rehabilitation programs which were not active until the latter part of 2020. Second quarter 2021 MSFS® activity was below the prior year quarter due to delay in customer completion programs which resulted in reduced MSFS® revenue in the current quarter. Implications of customer spending patterns for MSFS® activities are more noticeable within discrete quarters. Pricing continued to be competitive.

Gross margin for the second quarter of 2021 was $2.2 million due to increased activity and a continued focus on cost management, significantly higher than the negative gross margin in the second quarter 2020. Second quarter 2020 also included severance costs. Gross margin in both quarters was supported by benefits received under Government Subsidy Programs. Second quarter 2021 gross margin percentage was 24%, a significant improvement from second quarter 2020 gross margin percentage of negative 5%.

On a year-to-date basis, Tryton revenue was $23.4 million, $1.7 million higher than the six months ended June 30, 2020 due to increased activity in the current year. Higher activity and benefits received under Government Subsidy Programs resulted in an increase in gross margin in the current year. As a percentage of revenue, gross margin improved to 23%, compared to 12% in the same prior year period.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
General and administrative expenses	**$ 1,862**	$ 1,368	**$ 3,712**	$ 3,902

General and administrative expenses ("G&A") primarily consist of wages, professional fees and other administrative costs. G&A for the three months ended June 30, 2021 increased compared to the same prior year period mainly due to the partial reinstatement of certain employee compensation programs that were temporarily suspended, or reduced, in the second quarter of 2020 for cost reduction purposes. As well, Essential recorded lower benefits under the Government Subsidy Programs in the second quarter of 2021 compared to the same prior year quarter.

On a year-to-date basis, G&A decreased compared to the same prior year period primarily due to reduced employee compensation costs in the first half of 2021. A portion of the wage and headcount reductions implemented in the second quarter of 2020 remained in place during the first six months of 2021 resulting in lower G&A expense in 2021 on a year-to-date basis.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Depreciation and amortization expense	**$ 4,448**	$ 5,653	**$ 9,261**	$ 9,567

Depreciation expense for the three and six months ended June 30, 2021 was lower than the same prior year period due to certain fixed assets becoming fully depreciated in previous periods as a result of the change in useful life estimates in the second quarter of 2020. In addition, the second quarter of 2020 included $0.5 million related to one-time charges for assets fully depreciated as a result of the useful life assumption changes effective April 1, 2020.

SHARE-BASED COMPENSATION

(in thousands of dollars)	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Share-based compensation expense (recovery)	**$ 3,641**	$ 615	**$ 5,950**	$ (1,065)

Essential's liability for share-based compensation fluctuates based on Essential's share price and the number of share-based units outstanding at period end. When Essential's share price increases (decreases), the estimated amount of future payments also increases (decreases) and results in higher (lower) share-based compensation expense. For the three and six months ended June 30, 2021, the increase to share-based compensation expense was due to the appreciation in Essential's share price and an increase to the number of units outstanding.

For the three months ended June 30, 2021, Essential's share price increased from $0.29 per share at March 31, 2021 to $0.42 per share at June 30, 2021, which resulted in share-based compensation expense of $3.6 million. During 2020, Essential's share price increased from $0.14 per share at March 31, 2020 to $0.16 per share at June 30, 2020, which resulted in a share-based compensation expense of $0.6 million.

For the six months ended June 30, 2021, Essential's share price increased from $0.22 per share at December 31, 2020 to $0.42 per share at June 30, 2021, which resulted in share-based compensation expense of $6.0 million. For the six months ended June 30, 2020, Essential's share price decreased from $0.38 per share at December 31, 2019 to $0.16 per share at June 30, 2020, which resulted in a share-based compensation recovery of $1.1 million.

OTHER EXPENSE (INCOME)

(in thousands of dollars)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Gain on disposal of assets	**$ (43)**	$ (96)	**$ (72)**	$ (264)
Realized foreign exchange loss (gain)	**6**	(8)	**-**	22
Unrealized foreign exchange loss (gain)	**195**	636	**370**	(805)
Other income	**(25)**	(16)	**(38)**	(24)
Other expense (income)	**$ 133**	$ 516	**$ 260**	$ (1,071)

For the three and six months ended June 30, 2021 and 2020, Essential realized a gain on disposal of assets related to the sale of surplus assets no longer used in operations.

During the three months ended June 30, 2021 and 2020, the strengthening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange loss for each period.

During the six months ended June 30, 2021, the strengthening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange loss. In comparison, for the same prior year period, the weakening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange gain.

IMPAIRMENT LOSS

(in thousands of dollars)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Impairment loss	**$ -**	$ -	**$ -**	$ 10,293

During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American E&P companies' drilling and completion programs. As a result, Essential completed an impairment assessment at March 31, 2020 which determined that the recoverable amounts of the ECWS and Tryton segments were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on goodwill.

FINANCE COSTS

(in thousands of dollars)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Finance costs	**$ 224**	$ 454	**$ 455**	$ 848

Finance costs primarily consist of interest expense related to lease liabilities, interest on long-term debt and amortization of deferred financing costs incurred to amend or issue new credit facilities. For the three and six months ended June 30, 2021, finance costs decreased compared to the same prior year periods as deferred financing costs related to the 2018 credit facility were written-off during the second quarter of 2020, as a result of the Company entering into an amended Credit Facility (as described below).

INCOME TAXES

(in thousands of dollars)	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Current income tax expense	**$ 2**	$ 1	**$ 3**	$ 2
Deferred income tax recovery	**-**	(1,701)	**-**	(2,127)
Income tax expense (recovery)	**$ 2**	$ (1,700)	**$ 3**	$ (2,125)

For the three and six months ended June 30, 2021, Essential did not recognize any amounts related to deferred income tax expense or recovery.

As at June 30, 2021, Essential was in an unrecognized deferred income tax asset position. An assessment was performed, which determined that Essential did not meet the criteria to recognize a deferred tax asset. For the three and six months ended June 30, 2020 Essential recognized a deferred income tax recovery due to losses recorded in those periods.

FINANCIAL RESOURCES AND LIQUIDITY

NET CASH PROVIDED BY OPERATING ACTIVITIES

(in thousands of dollars)	For the three months ended June 30, 2021	2020	For the six months ended June 30, 2021	2020
Funds flow [(1)]	**$ (387)**	$ (1,465)	**$ 1,987**	$ 7,673
Changes in non-cash working capital [(1)]	**7,641**	14,782	**8,482**	6,113
Net cash provided by operating activities	**$ 7,254**	$ 13,317	**$ 10,469**	$ 13,786

WORKING CAPITAL

(in thousands of dollars, except ratios)	**As at June 30, 2021**	As at December 31, 2020
Current assets	**$ 64,625**	$ 61,890
Current liabilities	**(16,955)**	(14,388)
Working capital [(1)]	**$ 47,670**	$ 47,502
Working capital ratio	**3.8:1**	4.3:1

Working capital[(1)] is comprised primarily of cash, accounts receivable and inventory, net of accounts payable and current portion of lease liability. As required, Essential uses its Credit Facility (as described below) to meet the variable nature of its working capital[(1)] requirements for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees.

CREDIT FACILITY

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility matures on June 30, 2022, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date.

The commitment is the lesser of: i) $25.0 million, ii) the Borrowing Base (as defined in the Credit Facility, if applicable), and iii) $15.0 million during the Covenant Relief Period (as described below).

The covenant relief period is available until December 31, 2021 (the "Covenant Relief Period") and provides for the following:

- the amount that can be drawn under the Credit Facility during the Covenant Relief Period is the lesser of $15.0 million and a Borrowing Base calculation;
- the funded debt[1] to capitalization[1] ratio cannot exceed 20%;
- the funded debt[1] to bank EBITDA[1] ratio and the fixed charge coverage ratio covenants will not be tested; and
- the trailing 12 month bank EBITDA[1] cannot be lower than negative $10.0 million.

The financial covenants after the Covenant Relief Period include the following:

- the funded debt[1] to capitalization[1] ratio cannot exceed 50%;
- the funded debt[1] to bank EBITDA[1] ratio cannot exceed 3.5x; and
- the fixed charge coverage ratio must not be less than 1.25x.

The Credit Facility also contains a number of positive and negative covenants, including restrictions on Essential's ability to change its primary business; incur certain types of debt outside of the Credit Facility; incur liens on assets; acquire new assets; enter into a consolidation, amalgamation or merger; or dispose of assets. In addition, Essential cannot distribute cash in the form of dividends or implement a normal course issuer bid.

As at June 30, 2021 there were no amounts outstanding under the Credit Facility and $15.0 million was available. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities.

Financial Covenants

As at June 30, 2021, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

(in millions of dollars, except percentages)	Covenant Threshold		As at June 30, 2021
Funded debt [1] to capitalization [1]	≤ 20%		**N/A**
Trailing 12 month bank EBITDA [1]	≥ $(10.0)	$	**12.3**

EQUIPMENT EXPENDITURES

(in thousands of dollars)	For the three months ended June 30,				For the six months ended June 30,			
		2021		2020		**2021**		2020
ECWS	**$**	**979**	$	71	**$**	**3,159**	$	810
Tryton		**227**		12		**291**		578
Corporate		**14**		30		**14**		30
Total equipment expenditures		**1,220**		113		**3,464**		1,418
Less proceeds on disposal of equipment	**$**	**(283)**	$	(833)	**$**	**(586)**	$	(1,311)
Net equipment expenditures (proceeds) [1]	**$**	**937**	$	(720)	**$**	**2,878**	$	107

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

(in thousands of dollars)	For the three months ended June 30, **2021**	2020	For the six months ended June 30, **2021**	2020
Growth capital [(1)]	**$ 331**	$ -	**$ 1,994**	$ -
Maintenance capital [(1)]	**889**	113	**1,470**	1,418
Total equipment expenditures	**$ 1,220**	$ 113	**$ 3,464**	$ 1,418

For the first six months of 2021, the majority of Essential's capital spending related to the acquisition of two quintuplex pumpers, which are currently being refurbished and expected to go into service by end of the third quarter of 2021. The remaining equipment expenditures were focused on maintenance activities.

Essential's 2021 capital budget remains unchanged at $5.4 million. The 2021 capital budget is expected to be funded with cash and operational cash flow.

SHARE CAPITAL

As at August 5, 2021, there were 141,856,813 common shares and 1,479,000 share options ("Share Options") outstanding. Of the 1,479,000 Share Options, 1,329,332 were exercisable of which 299,332 were "in-the-money".

COMMITMENTS

Leases

Essential has entered into leases for office and shop premises that provide for contractual undiscounted lease payments as follows:

(in thousands of dollars)	**As at June 30, 2021**	As at December 31, 2020
Less than one year	**$ 4,887**	**$** 4,678
One to five years	**7,318**	8,305
	$ 12,205	**$** 12,983

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and 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 reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual, interim or other reports are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Essential reported on disclosure controls and procedures as part of its 2020 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2020, which is available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to the Company's disclosure controls and procedures in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Essential reported on ICFR as part of its 2020 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2020, which is available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to ICFR in the current period that have materially affected, or are reasonably likely to affect, the Company's ICFR.

RISKS AND UNCERTAINTIES

For a complete discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form ("AIF") for the year ended December 31, 2020, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

OUTLOOK

The price of WTI and AECO continued their upward trajectory in the second quarter and the forward curves for each is encouraging through the remainder of 2021 and into 2022. Commodity price-driven E&P company cash flow increases have been significant but have generally been applied to debt reduction and returning cash to shareholders through dividends and share repurchases. This is expected to continue in the foreseeable future. E&P capital reinvestment ratios in Canada (capital spending as a percentage of cash flow) are setting up to be much lower in 2021 than the past ten years.

The oilfield service industry is expected to improve in the second half of the year and more significantly into 2022. Although cash flows are improving for E&P companies, these companies have expressed reluctance to agree to improved pricing for oilfield service companies. Current oilfield service pricing may not be adequate to support the expansion of crews and active equipment for oilfield services that will be required if E&P companies choose to significantly increase their capital budgets and activity. In a recovery market, specialized service fleets, including the deep coil tubing industry fleet in western Canada where Essential is a leading service provider, could quickly see service demand outpace supply under these challenging pricing conditions.

Essential anticipates activity improvement in the second half of 2021, but E&P and competitor responses will likely preclude implementation of meaningful service price increases until at least early 2022. As the post-COVID-19 economic recovery continues, inflation and cost increases for wages, recruiting, fuel and inventory will increase Essential's cost structure in the second half of 2021. Further, the benefit of Essential's COVID-19-related government subsidies is expected to be significantly reduced in the back half of 2021, compared to that experienced since the pandemic began in early 2020.

ECWS entered the third quarter of 2021 with the industry's largest active and total deep coil tubing fleet. This includes ECWS's eight coil tubing rigs with capacity greater than 6,500 meters, which the Company estimates is more than one third of the Canadian industry fleet for this specialized completions equipment. With the addition of two quintuplex fluid pumpers by the end of the third quarter of 2021, ECWS's active fleet will include 12 coil tubing rigs and 11 fluid pumpers. ECWS is not currently crewing this entire active fleet and is recruiting and striving to retain existing employees to build crewing capacity in a tight and challenged labor market. Maintenance of an active fleet above what is currently crewed allows customers to have access to preferred, efficient equipment for differing completion techniques and formation/well pad needs.

In the second half of 2021, Tryton expects to experience activity improvement in its MSFS® completion products, primarily through its ball & seat and Composite Bridge Plug (for “Plug & Perf”) technologies. Conventional downhole tool activity in Tryton’s Canadian and U.S. operations are expected to continue to demonstrate gradual improvement. Canadian abandonment and restoration activity related to the government site rehabilitation programs is expected to become less significant to Tryton as customers redirect their well restoration to specific Alberta policy-driven programs that are outside of Tryton’s service offerings.

Essential is well-positioned to benefit from the anticipated upcoming industry recovery cycle. Essential’s strengths include its well-trained workforce, industry leading coil-tubing fleet and value-adding downhole tool technologies. As industry activity improves, Essential will focus on important environmental, social and governance (“ESG”) initiatives, maintaining its strong financial position and development of its cash flow generating businesses. On August 5, 2021, cash, net of long-term debt, was $10.0 million. The value and importance of Essential’s ongoing cash positive position is a strategic advantage as the industry transitions into a period of expected growth. Essential’s net cash position is expected to provide sufficient liquidity and financial flexibility to fund its 2021 capital budget and allow the Company to meet financial commitments through the end of 2021.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity is directly impacted by seasonality. Activity is traditionally lowest in the second quarter. With the onset of spring, melting snow and thawing ground frost renders many roadways incapable of supporting heavy equipment. In addition, certain areas in western Canada are typically only accessible during the winter months.

The unprecedented economic and industry downturn has disrupted typical historic oilfield services seasonal and quarterly patterns in western Canada as E&P companies prioritize cash flow spending decisions in addition to weather and access issues.

The following table provides the Company's quarterly information for the past eight quarters:

(in thousands of dollars, except per share amounts, percentages, hours and fleet data)	**June 30, 2021**	Mar 31, 2021	Dec 31, 2020	Sept 30, 2020	**June 30, 2020**	Mar 31, 2020	Dec 31, 2019	Sept 30, 2019
Essential Coil Well Service	**13,355**	15,856	13,059	9,909	**6,116**	24,539	14,278	22,609
Tryton	**9,086**	14,294	11,495	9,332	**4,839**	16,884	13,045	16,669
Total revenue	**22,441**	30,150	24,554	19,241	**10,955**	41,423	27,323	39,278
Gross margin	**5,291**	6,738	5,810	5,314	**876**	8,418	3,016	8,873
Gross margin %	**24%**	22%	24%	28%	**8%**	20%	11%	23%
EBITDAS (1)(i)	**3,429**	4,888	4,105	4,033	**(492)**	5,884	1,729	6,294
Bank EBITDA (1)	**2,217**	3,836	3,038	3,193	**(691)**	4,687	498	4,943
Net (loss) income (i)	**(5,019)**	(2,593)	(4,226)	(1,529)	**(6,030)**	(5,025)	(3,161)	1,555
Per share - basic and diluted	**(0.04)**	(0.02)	(0.03)	(0.01)	**(0.04)**	(0.04)	(0.02)	0.01
Total assets	**157,616**	161,283	159,863	163,188	**161,531**	183,999	191,395	202,503
Cash	**11,627**	6,251	6,082	6,625	**5,664**	959	846	1,020
Long-term debt	**301**	53	53	145	**665**	8,544	6,563	10,782
Operating hours								
Coil tubing rigs	**7,414**	8,629	7,047	5,348	**3,060**	13,013	7,110	11,098
Pumpers	**9,647**	11,603	9,242	7,131	**3,712**	15,892	9,894	13,449
Tryton - % of revenue								
Tryton MSFS®	**10%**	34%	33%	40%	**34%**	35%	17%	29%
Conventional Tools & Rentals	**90%**	66%	67%	60%	**66%**	65%	83%	71%

(i) The quarter ended March 31, 2020 includes an impairment loss of $10.3 million.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words “expects”, “anticipates”, “believes”, “focus”, “typically”, “maintain”, “intends”, “estimates”, “continues”, “future”, “outlook” and similar expressions, or are events or conditions that “will”, “would”, “may”, “likely”, “could”, “should”, “can”, “typically”, “traditionally” or “tends to” occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities; the carrying values of Essential’s assets and liabilities; Essential’s capital spending budget, expectations of how it will be funded and in-service timing; the current and potential impacts of the COVID-19 pandemic and the Government Subsidy Programs; general economic activity; oil and natural gas industry and oilfield services sector activity and outlook; the impact of E&P cashflow increases, the deployment of incremental cash flow, the potential for E&P capital spending increases and the potential benefits to Essential; oilfield service pricing, including the possible implications of current pricing on future growth, the potential for improvement in pricing, the timing and implications; the Company’s capital management strategy and financial position; the impact of Company measures implemented in response to the COVID-19 pandemic; Essential’s strengths, focus, outlook, activity levels, cost structure, active and inactive equipment, market share, recruiting efforts and crew counts; the government funded site rehabilitation programs and the decreased significance to Tryton; and Essential’s liquidity and ability to meet its financial commitments through the end of 2021.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Essential including, without limitation: the potential impact of the COVID-19 pandemic on Essential; oil and natural gas industry exploration and development and the geographic region of such activity; that Essential will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Essential's capital and operating requirements as needed; and certain cost assumptions.

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

Actual performance and results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: known and unknown risks, including those set forth in the Company’s AIF (a copy of which can be found under Essential’s profile on SEDAR at www.sedar.com); a significant expansion of COVID-19 pandemic and the impacts thereof; the risks associated with the oilfield services sector, including 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, market 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 including those in the event of an epidemic, natural disaster or other event; global economic events; changes to Essential’s financial position and cash flow, and the higher degree of uncertainty related to the estimates and judgements made in the preparation of financial statements; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; potential industry developments; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive and should refer to “Risk Factors” set out in the AIF.

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

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

[1]Non-IFRS Measures

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

Funds Flow – Funds flow is generally defined as net cash provided by operating activities before changes in non-cash operating working capital. Funds flow is presented on the Consolidated Statements of Cash Flows.

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt, including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash. It does not include the lease liability.

Capitalization – Capitalization is defined in Essential's Credit Facility as the aggregate of its funded debt and equity.

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, excluding severance costs ("Permitted Adjustments") and excluding the impact of IFRS 16.

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

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

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands of dollars)	**2021**	2020	**2021**	2020
Bank EBITDA	**$ 2,217**	$ (691)	**$ 6,053**	$ 3,996
Impact of lease accounting under IFRS	**(1,229)**	(1,076)	**(2,310)**	(2,301)
Permitted adjustments	**17**	877	**46**	905
EBITDAS	**$ 3,429**	$ (492)	**$ 8,317**	$ 5,392
Share-based compensation expense (recovery)	**3,641**	615	**5,950**	(1,065)
Other expense (income)	**133**	516	**260**	(1,071)
EBITDA	**$ (345)**	$ (1,623)	**$ 2,107**	$ 7,528
Impairment loss	**-**	-	**-**	10,293
Depreciation and amortization	**4,448**	5,653	**9,261**	9,567
Finance costs	**224**	454	**455**	848
Loss before income tax	**$ (5,017)**	$ (7,730)	**$ (7,609)**	$ (13,180)
Income tax expense (recovery)	**2**	(1,700)	**3**	(2,125)
Net loss	**$ (5,019)**	$ (6,030)	**$ (7,612)**	$ (11,055)

Growth capital – Growth capital is capital spending which is intended to result in incremental revenue.

Maintenance capital – Maintenance capital is capital spending that is incurred in order to refurbish, replace or extend the life of existing equipment.

Net equipment expenditures[i] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to managing Essential's property and equipment.

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

(i) Net equipment expenditures is calculated from the IFRS measures, total equipment expenditures less proceeds on disposal of equipment, in the table "Equipment Expenditures".

Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

June 30, 2021

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

(in thousands of dollars)		**As at June 30, 2021**		As at December 31, 2020
Assets				
Current				
Cash	**$**	**11,627**	$	6,082
Trade and other accounts receivable *(note 4)*		**18,642**		22,026
Inventory *(note 5)*		**31,506**		32,157
Prepayments and deposits		**2,850**		1,625
		64,625		61,890
Non-current				
Property and equipment *(note 6)*		**84,883**		89,460
Right-of-use lease asset *(note 9)*		**8,108**		8,513
		92,991		97,973
Total assets	**$**	**157,616**	$	159,863
Liabilities				
Current				
Trade and other accounts payable *(note 7)*	**$**	**10,702**	$	8,905
Share-based compensation *(note 12)*		**1,904**		1,369
Income taxes payable		**-**		25
Current portion of lease liability *(note 9)*		**4,349**		4,089
		16,955		14,388
Non-current				
Share-based compensation *(note 12)*		**6,784**		3,443
Long-term debt *(note 8)*		**301**		53
Long-term lease liability *(note 9)*		**6,861**		7,801
		13,946		11,297
Total liabilities		**30,901**		25,685
Equity				
Share capital *(note 10)*		**272,732**		272,732
Deficit		**(152,822)**		(145,210)
Other reserves *(note 11)*		**6,805**		6,656
Total equity		**126,715**		134,178
Total liabilities and equity	**$**	**157,616**	$	159,863

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

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

	For the three months ended June 30,				For the six months ended June 30,			
(in thousands of dollars, except per share amounts)		**2021**		2020		**2021**		2020
Revenue *(note 16)*	**$**	**22,441**	$	10,955	**$**	**52,591**	$	52,378
Operating expenses *(note 2)*		**17,150**		10,079		**40,562**		43,084
Gross margin		**5,291**		876		**12,029**		9,294
General and administrative expenses *(note 2)*		**1,862**		1,368		**3,712**		3,902
Depreciation and amortization *(notes 6 and 9)*		**4,448**		5,653		**9,261**		9,567
Share-based compensation expense (recovery) *(note 12)*		**3,641**		615		**5,950**		(1,065)
Impairment loss *(note 6)*		**-**		-		**-**		10,293
Other expense (income)		**133**		516		**260**		(1,071)
Operating loss		**(4,793)**		(7,276)		**(7,154)**		(12,332)
Finance costs		**224**		454		**455**		848
Loss before taxes		**(5,017)**		(7,730)		**(7,609)**		(13,180)
Current income tax expense		**2**		1		**3**		2
Deferred income tax recovery		**-**		(1,701)		**-**		(2,127)
Income tax expense (recovery)		**2**		(1,700)		**3**		(2,125)
Net loss		**(5,019)**		(6,030)		**(7,612)**		(11,055)
Unrealized foreign exchange gain (loss) *(note 11)*		**78**		212		**144**		(57)
Comprehensive loss	**$**	**(4,941)**	$	(5,818)	**$**	**(7,468)**	$	(11,112)
Net loss per share *(note 13)*								
Basic and diluted	**$**	**(0.04)**	$	(0.04)	**$**	**(0.05)**	$	(0.08)
Comprehensive loss per share *(note 13)*								
Basic and diluted	**$**	**(0.03)**	$	(0.04)	**$**	**(0.05)**	$	(0.08)

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

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	For the six months ended June 30,	
(in thousands of dollars)	**2021**	2020
Equity:		
Share Capital		
Balance, January 1 and June 30 *(note 10)*	**$ 272,732**	$ 272,732
Deficit		
Balance, January 1	**$ (145,210)**	$ (128,400)
Net loss	**(7,612)**	(11,055)
Balance, June 30	**$ (152,822)**	$ (139,455)
Other reserves		
Balance, January 1	**$ 6,656**	$ 6,339
Other comprehensive gain (loss)	**144**	(57)
Share-based compensation *(note 12)*	**5**	11
Balance, June 30	**$ 6,805**	$ 6,293
Total equity	**$ 126,715**	$ 139,570

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

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
(in thousands of dollars)	**2021**	2020
Operating Activities:		
Net loss	**$ (7,612)**	$ (11,055)
Non-cash adjustments to reconcile net loss to operating cash flow:		
Depreciation and amortization *(notes 6 and 9)*	**9,261**	9,567
Deferred income tax recovery	**-**	(2,127)
Share-based compensation *(note 12)*	**5**	11
(Recovery) provision for impairment of trade receivable *(note 4)*	**(50)**	400
Finance costs	**455**	848
Impairment loss *(note 6)*	**-**	10,293
Gain on disposal of assets	**(72)**	(264)
Funds flow	**1,987**	7,673
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**3,603**	13,115
Inventory	**607**	2,416
Income taxes payable	**(25)**	(34)
Prepayments and deposits	**(1,225)**	(609)
Trade and other accounts payable	**1,646**	(6,538)
Share-based compensation	**3,876**	(2,237)
Net cash provided by operating activities	**10,469**	13,786
Investing Activities:		
Purchase of property, equipment and intangible assets *(note 6)*	**(3,464)**	(1,418)
Non-cash investing working capital in trade and other accounts payable	**151**	(278)
Proceeds on disposal of equipment	**586**	1,311
Net cash used in investing activities	**(2,727)**	(385)
Financing Activities:		
Increase (decrease) in long-term debt *(note 8)*	**248**	(6,085)
Finance costs paid	**(123)**	(208)
Payments of lease liability *(note 9)*	**(2,310)**	(2,301)
Net cash used in financing activities	**(2,185)**	(8,594)
Foreign exchange (loss) gain on cash held in a foreign currency	**(12)**	11
Net increase in cash	**5,545**	4,818
Cash, beginning of period	**6,082**	846
Cash, end of period	**$ 11,627**	$ 5,664

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

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the three and six months ended June 30, 2021 and 2020 were approved by the Board of Directors of Essential ("Board of Directors") on August 5, 2021.

Based in Calgary, Alberta, Essential provides oilfield services to oil and natural gas exploration and production companies primarily in western Canada. Essential is publicly traded, was incorporated under the *Business Corporations Act* (Alberta), and is listed under the symbol ESN on the Toronto Stock Exchange. The address of the registered office is 3400, 350 – 7 Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements as at and for the three and six months ended June 30, 2021 were prepared in accordance with IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Financial Statements as were followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2020. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020.

Government Grants

Government grants of $1.5 million and $2.6 million (2020 – $2.6 million and $2.6 million) related to the Canadian Emergency Wage Subsidy program have been included in the condensed consolidated interim statements of net loss and comprehensive loss for the three and six months ended June 30, 2021, respectively. For the three and six months ended June 30, 2021, $1.3 million and $2.2 million (2020 – $2.1 million and $2.1 million), respectively, have been recorded as a reduction of operating expenses, and $0.2 million and $0.4 million (2020 – $0.5 million and $0.5 million), respectively, have been recorded as a reduction of general and administrative expenses.

Government grants of $0.5 million and $0.8 million (2020 – $nil and $nil) related to the Canadian Emergency Rent Subsidy program have been included in the condensed consolidated interim statements of net loss and comprehensive loss for the three and six months ended June 30, 2021, respectively. For the three and six months ended June 30, 2021, $0.4 million and $0.6 million (2020 – $nil and $nil), respectively, have been recorded as a reduction of operating expenses, and $0.1 million and $0.2 million (2020 – $nil and $nil), respectively, have been recorded as a reduction of general and administrative expenses.

Government grants of $0.1 million and $0.2 million (2020 – $nil and $nil) related to the U.S. Employment Retention Tax Credit program have been included in the condensed consolidated interim statements of net loss and comprehensive loss for the three and six months ended June 30, 2021, respectively. For the three and six months ended June 30, 2021, $0.1 million and $0.2 million (2020 – $nil and $nil), respectively, have been recorded as a reduction of operating expenses.

As at June 30, 2021, Essential had $0.3 million (June 30, 2020 - $0.7 million) of Paycheck Protection Plan Loans ("PPP Loans") outstanding. The PPP Loans are used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they are incurred. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. For the three and six months ended June 30, 2021, $0.2 million and $0.2 million (2020 - $nil and $nil), respectively, in forgivable amounts were recorded as a reduction of operating expenses in the consolidated statements of net loss and comprehensive loss.

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

3. RISKS AND UNCERTAINTIES

The significant estimates and judgements used in the preparation of these condensed consolidated interim financial statements remain unchanged from those disclosed in the Company's consolidated audited annual financial statements for the year ended December 31, 2020. As described in note 4 of the consolidated audited annual financial statements for the year ended December 31, 2020, due to the outbreak of COVID-19 and the resulting impact on the economy and in particular the prices of oil and natural gas, the estimates and judgements used to prepare these Financial Statements were subject to a higher degree of measurement uncertainty.

4. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at June 30, 2021	As at December 31, 2020
Trade accounts receivable, net of provision	**$ 17,303**	$ 21,616
Other receivables	**1,339**	410
	$ 18,642	$ 22,026

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

Trade accounts receivable include accrued receivables which primarily relate to Essential's rights to consideration for work completed but not invoiced at the reporting date.

The aging analysis of trade accounts receivable is as follows:

	As at June 30, 2021	As at December 31, 2020
0-30 days	**$ 10,802**	$ 7,635
31-60 days	**3,471**	7,907
61-90 days	**1,492**	4,568
> 90 days	**1,538**	1,506
	$ 17,303	$ 21,616

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

Essential considers a trade accounts receivable balance past due when it exceeds normal customer payment terms, which can range from 30 days to greater than 90 days. The provision for impairment of trade accounts receivable is included in the amounts over 90 days and has been included in operating expenses in the consolidated interim statements of net loss and comprehensive loss. Uncollectable amounts included in the provision are written off against the provision when there is no expectation of recovery. The movements in the provision during the period were as follows:

	For the six months ended June 30, 2021	For the twelve months ended December 31, 2020
Balance, beginning of period	**$ 1,706**	$ 1,068
(Recovery) provision for receivables impairment	**(50)**	1,100
Receivables recovered against the provision	**-**	(462)
Balance, end of period	**$ 1,656**	$ 1,706

5. INVENTORY

	As at June 30, 2021	As at December 31, 2020
Tryton tools	**$ 20,411**	$ 20,807
Coil tubing and supplies	**11,095**	11,350
	$ 31,506	$ 32,157

Inventory charged through operating expenses in the consolidated interim statements of net loss and comprehensive loss for the three and six months ended June 30, 2021 was $6.0 million and $15.9 million (2020 – $3.8 million and $13.9 million), respectively.

6. PROPERTY AND EQUIPMENT

As at June 30, 2021	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Coil tubing rigs, pumpers and equipment	**$ 148,820**	**$ 92,217**	**$ 56,603**
Other oilfield equipment	**57,772**	**40,456**	**17,316**
Vehicles	**29,547**	**19,631**	**9,916**
Other	**13,400**	**12,352**	**1,048**
	$ 249,539	**$ 164,656**	**$ 84,883**

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

As at December 31, 2020	Cost	Accumulated Depreciation	Net Book Value
Coil tubing rigs, pumpers and equipment	$ 147,203	$ 89,367	$ 57,836
Other oilfield equipment	57,761	38,620	19,141
Vehicles	29,668	18,606	11,062
Other	13,386	11,965	1,421
	$ 248,018	$ 158,558	$ 89,460

Included in property and equipment is $2.8 million (December 31, 2020 – $0.4 million) of assets under construction which will not be depreciated until put into service.

	For the six months ended June 30, **2021**	2020
Net book value, beginning of period	**$ 89,460**	$ 111,436
Additions	**3,464**	1,418
Transfers	**44**	139
Disposals	**(514)**	(1,066)
Depreciation	**(7,558)**	(7,840)
Impairment loss	**-**	(6,559)
Currency translation adjustment	**(13)**	28
Net book value, end of period	**$ 84,883**	$ 97,556

During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American exploration & production companies' drilling and completion programs. As a result, Essential completed an impairment assessment at March 31, 2020 which determined that the recoverable amounts of the Essential Coil Well Service ("ECWS"), Tryton Tools and Tryton Rentals cash generating units were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Tryton Rentals assets and $3.7 million on Tryton Tools goodwill.

7. TRADE AND OTHER ACCOUNTS PAYABLE

	As at June 30, 2021	As at December 31, 2020
Trade accounts payable	**$ 5,686**	$ 5,093
Accrued payroll	**2,343**	1,342
Accrued payables	**2,402**	2,341
Other	**271**	129
	$ 10,702	$ 8,905

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

8. LONG-TERM DEBT

		As at June 30, 2021		As at December 31, 2020
PPP Loans	**$**	**301**	$	53

Essential has a revolving credit facility (the "Credit Facility") with a syndicate of lenders (the "Lenders"). The Credit Facility is available up to the lesser of: i) $25.0 million, ii) the borrowing base (if applicable), and iii) $15.0 million during the covenant relief period ("Covenant Relief Period"). The Covenant Relief Period is available until December 31, 2021. During the Covenant Relief Period, the funded debt to capitalization ratio cannot exceed 20% and the trailing 12 month bank EBITDA cannot be lower than negative $10.0 million. The Credit Facility matures on June 30, 2022, is renewable at the Lenders' consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date.

As at June 30, 2021, $15.0 million under the Credit Facility was available to Essential and all financial debt covenants and banking requirements under the Credit Facility were satisfied.

As at June 30, 2021, Essential had $0.3 million (June 30, 2020 - $0.7 million) of PPP Loans outstanding. The PPP Loans are used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they are incurred. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. For the three and six months ended June 30, 2021, $0.2 million and $0.2 million (2020 - $nil and $nil), respectively, in forgivable amounts were recorded as a reduction of operating expenses in the consolidated statements of net loss and comprehensive loss.
The following table reconciles the change in long-term debt to cash flow arising from financing activities:

	For the six months ended June 30,			
		2021		2020
Balance, beginning of period	**$**	**53**	$	6,563
Cash changes:				
Increase (decrease) in long-term debt		**248**		(6,085)
Non-cash changes:				
Amortization of deferred financing fees		**-**		187
Balance, end of period	**$**	**301**	$	665

9. LEASES

Essential's leases are primarily related to office and shop premises.

Right-of-use lease asset

(in thousands of dollars)	**For the six months ended June 30, 2021**	For the twelve months ended December 31, 2020
Beginning of period	**$ 8,513**	$ 12,600
Additions	**1,318**	1,252
Modifications	**-**	(1,836)
Depreciation	**(1,703)**	(3,472)
Foreign exchange loss	**(20)**	(31)
End of period	**$ 8,108**	$ 8,513

Lease liability

	As at June 30, 2021	As at December 31, 2020
Maturity analysis - contractual undiscounted cash flow		
Less than one year	**$ 4,887**	$ 4,678
One to five years	**7,318**	8,305
Total undiscounted lease liability, end of period	**$ 12,205**	$ 12,983
Discounted value of future lease payments		
Current portion of lease liability	**$ 4,349**	$ 4,089
Long-term portion of lease liability	**6,861**	7,801
Lease liability included in the statements of financial position	**$ 11,210**	$ 11,890

For the three and six months ended June 30, 2021, Essential recognized $0.2 million and $0.3 million (2020 - $0.2 million and $0.5 million), respectively, of finance costs related to the lease liability in its consolidated interim statements of net loss and comprehensive loss, and $1.2 million and $2.3 million (2020 - $1.1 million and $2.3 million), respectively, of total cash outflow for leases in the consolidated interim statement of cash flows.

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

10. SHARE CAPITAL

Authorized

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

	Number of Common shares (000's)		Amount
As at June 30, 2021, December 31, 2020 and January 1, 2020	**141,857**	$	**272,732**

11. OTHER RESERVES

		Contributed Surplus		Accumulated Other Comprehensive Income		Total
As at January 1, 2020	$	5,870	$	469	$	6,339
Share-based compensation		22		-		22
Unrealized foreign exchange gain		-		295		295
As at December 31, 2020	$	5,892	$	764	$	6,656
Share-based compensation		**5**		**-**		**5**
Unrealized foreign exchange gain		**-**		**144**		**144**
As at June 30, 2021	**$**	**5,897**	**$**	**908**	**$**	**6,805**

12. SHARE-BASED COMPENSATION

The Company offers the following share-based compensation plans: Share Option Plan, Restricted Share Unit ("RSU") Plan and Deferred Share Unit ("DSU") Plan. Components of the Company's share-based compensation expense (recovery) are as follows:

	For the three months ended June 30,				For the six months ended June 30,			
		2021		2020		**2021**		2020
Share options	**$**	**3**	$	5	**$**	**5**	$	11
Restricted share units		**1,740**		317		**2,968**		(41)
Deferred share units		**1,898**		293		**2,977**		(1,035)
Share-based compensation expense (recovery)	**$**	**3,641**	$	615	**$**	**5,950**	$	(1,065)

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

a) Share Option Plan

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

At June 30, 2021 and 2020, the maximum number of share options issuable under the Share Option Plan may not exceed 6% of the Company's outstanding Common Shares. As at June 30, 2021, the maximum number of share options allowed for issuance was 8,511,409 (2020 – 8,511,409).

	For the six months ended June 30, 2021			For the six months ended June 30, 2020		
	Number of Options (000's)		**Weighted Average Exercise Price**	Number of Options (000's)		Weighted Average Exercise Price
Outstanding, beginning of period	**3,264**	**$**	**0.62**	4,428	$	0.77
Expired	**(1,785)**		**0.57**	(1,164)		1.19
Outstanding, end of period	**1,479**	**$**	**0.68**	3,264	$	0.62
Exercisable, end of period	**1,329**	**$**	**0.72**	2,964	$	0.65

The following table summarizes information with respect to the share options outstanding:

Exercise Prices	**Options Outstanding (000's)**	**Weighted Average Remaining Contractual Life (years)**		**Weighted Average Exercise Price (per option)**	**Number of Options Exercisable (000's)**
As at June 30, 2021					
$0.32 - $0.50	**449**	**2.52**	**$**	**0.32**	**299**
$0.51 - $0.83	**1,030**	**0.53**	**$**	**0.83**	**1,030**
	1,479	**1.14**	**$**	**0.68**	**1,329**
As at June 30, 2020					
$0.32 - $1.00	1,494	1.42	$	0.48	1,194
$1.01 - $1.12	1,770	1.31	$	0.74	1,770
	3,264	1.36	$	0.62	2,964

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

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. Grants generally vest in three equal instalments but can be issued with time vesting and/or performance vesting feature(s). The performance-based units vest when certain conditions are met. Essential's liability as at June 30, 2021 was $2.8 million (December 31, 2020 – $1.9 million) of which $1.9 million is due within one year (December 31, 2020 – $1.4 million).

The following table summarizes information with respect to RSUs outstanding:

	For the six months ended June 30,	
Number of RSUs (000's)	**2021**	2020
Outstanding, beginning of period	**14,483**	8,077
Issued	**10,729**	10,720
Vested	**(7,762)**	(3,119)
Forfeited	**(122)**	(70)
Outstanding, end of period	**17,328**	15,608

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment when the participant ceases to be a director or employee of the Company. Essential's liability at June 30, 2021 was $5.9 million (December 31, 2020 – $2.9 million) of which $nil is due within one year (December 31, 2020 – $nil).

The following table summarizes information with respect to DSUs outstanding:

	For the six months ended June 30,	
Number of DSUs (000's)	**2021**	2020
Outstanding, beginning of period	**11,464**	5,551
Issued	**2,330**	4,622
Redeemed	**(81)**	(328)
Forfeited	**(323)**	-
Outstanding, end of period	**13,390**	9,845

13. EARNINGS PER SHARE

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

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

	For the three months ended June 30,		For the six months ended June 30,	
(000'S)	**2021**	2020	**2021**	2020
Basic and diluted	**141,857**	141,857	**141,857**	141,857

14. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

15. SEASONALITY OF OPERATIONS

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

16. SEGMENTED INFORMATION

Essential has two operating segments, ECWS and Tryton, and a non-operating segment, corporate ("Corporate").

Essential's reportable segments are based on services offered. The basis of accounting for transactions between reportable segments is done at fair market value.

a) ECWS

The ECWS segment provides well completion and production services throughout western Canada. The ECWS fleet is comprised of coil tubing rigs, fluid pumpers, nitrogen pumpers and ancillary equipment.

b) Tryton

The Tryton segment provides downhole tools and rental services in Canada and the U.S.

c) Corporate

The Corporate segment is comprised of corporate costs and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. For the three and six months ended June 30, 2021, the Corporate segment includes corporate costs and certain operational costs of $1.8 million and $3.6 million (2020 - $1.5 million and $4.1 million), respectively, and $4.2 million and $7.1 million (2020 – $2.0 and $(1.2) million), respectively, related to share-based compensation expense (recovery), depreciation and amortization, finance costs and foreign exchange loss/gain.

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

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

As at and for the three months ended June 30, 2021		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	**$**	**13,355**	**$**	**9,086**	**$**	**-**	**$**	**22,441**
Income (loss) before taxes	**$**	**274**	**$**	**785**	**$**	**(6,076)**	**$**	**(5,017)**
Depreciation and amortization	**$**	**3,034**	**$**	**1,180**	**$**	**234**	**$**	**4,448**
Total assets	**$**	**102,803**	**$**	**52,459**	**$**	**2,354**	**$**	**157,616**
Total liabilities	**$**	**15,971**	**$**	**8,562**	**$**	**6,368**	**$**	**30,901**
Property, equipment and intangible asset expenditures	**$**	**979**	**$**	**227**	**$**	**14**	**$**	**1,220**

As at and for the three months ended June 30, 2020		ECWS		Tryton		Corporate		Consolidated
Revenue	$	6,116	$	4,839	$	-	$	10,955
Loss before taxes	$	(2,061)	$	(2,088)	$	(3,581)	$	(7,730)
Depreciation and amortization	$	3,680	$	1,718	$	255	$	5,653
Total assets	$	101,548	$	53,211	$	6,772	$	161,531
Total liabilities	$	13,282	$	8,814	$	(135)	$	21,961
Property, equipment and intangible asset expenditures	$	71	$	12	$	30	$	113

As at and for the six months ended June 30, 2021		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	**$**	**29,211**	**$**	**23,380**	**$**	**-**	**$**	**52,591**
Income (loss) before taxes	**$**	**563**	**$**	**2,518**	**$**	**(10,690)**	**$**	**(7,609)**
Depreciation and amortization	**$**	**6,387**	**$**	**2,402**	**$**	**472**	**$**	**9,261**
Property, equipment and intangible asset expenditures	**$**	**3,159**	**$**	**291**	**$**	**14**	**$**	**3,464**

As at and for the six months ended June 30, 2020		ECWS		Tryton		Corporate		Consolidated
Revenue	$	30,655	$	21,723	$	-	$	52,378
Loss before taxes	$	(4,116)	$	(6,209)	$	(2,855)	$	(13,180)
Depreciation and amortization	$	6,073	$	2,947	$	547	$	9,567
Impairment	$	5,159	$	5,134	$	-	$	10,293
Property, equipment and intangible asset expenditures	$	810	$	578	$	30	$	1,418

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

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Robert T. German[1, 3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2, 3]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

ATB Financial

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Jeff B. Newman
Chief Financial Officer

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Finance and Corporate Secretary

Stock Exchange Listing

TSX: ESN

Calgary Office

Livingston Place West

1100, 250 2nd Street SW

Calgary, Alberta T2P 0C1

Phone: (403) 263-6778

Fax: (403) 263-6737

Email: service@essentialenergy.ca

Website: www.essentialenergy.ca