ESSENTIAL ENERGY SERVICES

Quarterly Report | Q3 2010

Q3
Third Quarter Report
Three and Nine Months Ended September 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 nine month periods ended September 30, 2010.

This MD&A is an update to, and should be read in conjunction with Essential's March 31, 2010 and June 30, 2010 interim reports, 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 nine months ended September 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 November 9, 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 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 International Financial Reporting Standards, 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 including Colombia, expectations of future cash flow and earnings, expectations of cost recovery of increased labour expenses, expectations of the delivery of equipment to Colombia pursuant to the Company's joint venture in that jurisdiction, 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 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 of the Company from a trust to a corporation, 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, the availability of qualified personnel, management or other key inputs, currency exchange fluctuations, and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) for 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 share amounts)	Three months ended September 30, **2010**	2009	Nine months ended September 30, **2010**	2009
Revenue	**41,244**	23,442	**112,658**	81,614
Gross margin[1]	**10,126**	2,841	**26,413**	12,715
Gross margin %[1]	**25%**	12%	**23%**	16%
EBITDAS[1]	**7,186**	808	**17,811**	5,435
EBITDAS %[1]	**17%**	3%	**16%**	7%
Funds flow from operations [1]	**7,115**	615	**17,215**	4,417
Per share – basic and diluted	**$ 0.10**	$ 0.01	**$ 0.25**	$ 0.07
Net earnings (loss)	**1,311**	(2,661)	**17**	(8,071)
Per share – basic and diluted	**$ 0.02**	$ (0.04)	**$ 0.00**	$ (0.13)
Total assets	**174,737**	167,574	**174,737**	167,574
Total long term debt	**-**	14,302	**-**	14,302
Shareholders' equity	**158,406**	144,506	**158,406**	144,506

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 to a corporation pursuant to a Plan of Arrangement under the Act (the "Conversion") which was completed on April 29, 2010.

Essential 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 6th largest service rig provider in Canada. Essential's 32 coil tubing rigs position the Company as 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 ("Tryton MSFS") and offers rental equipment. Essential also provides wireline, 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.

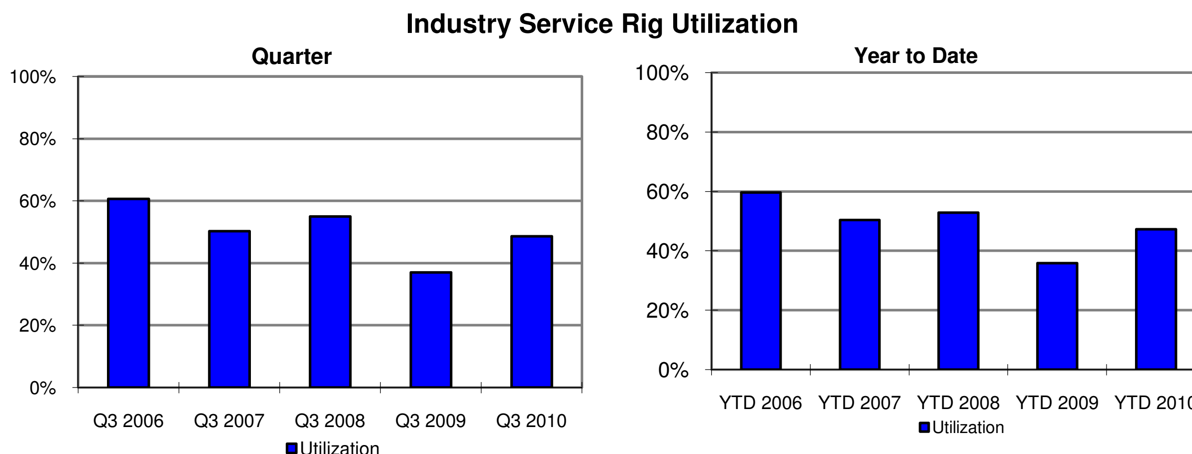
BASIS OF PRESENTATION

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

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

INDUSTRY OVERVIEW

During the third quarter, oil and liquids-rich natural gas plays continued to drive activity in the Western Canadian Sedimentary Basin ("WCSB"). Given the stability and strength of oil prices, exploration and production companies continued to focus on oil-related resource plays in the current quarter. Additionally, liquids-rich natural gas plays have become increasingly important in the WCSB given the use of natural gas liquids to dilute heavy oil for transportation. Traditional natural gas activity in the WCSB continued to be impacted by persistent low prices and high storage levels. The unseasonably wet weather in September negatively impacted activity; nevertheless, service rig utilization continued to improve over the prior year. Utilization improved in spite of fewer well completions due to the increase in horizontal wells. Typically, more money is spent and increased rig time per well is required on horizontal wells due to their depth and complexity compared to traditional vertical wells.



Source: Canadian Association of Oilwell Drilling Contractors

OPERATING HIGHLIGHTS

The Company's focus on oil and liquids-rich natural gas plays resulted in substantial improvement over the prior year. The quality, location and versatility of Essential's operations generated improved activity levels and operating results across both segments during the quarter.

The Well Servicing segment experienced increased demand for its services, particularly with respect to its deep and intermediate coil tubing fleet, as horizontal drilling on resource plays continued to generate increased activity. The Well Servicing segment also experienced improved demand for its service rig fleet as high oil prices continued to generate work on customers' oil plays.

The Downhole Services & Rentals segment also benefited from increased horizontal well completion activity during the quarter. Increasing demand for fracturing services has generated significant opportunities for the Tryton MSFS, which was introduced in early 2009.

Throughout 2010, the Company continued to benefit from increased utilization across all of its operations. When combined with cost management initiatives implemented in 2009 and operating efficiencies, gross margins have improved to 25% for the quarter and 23% for the year to date.

Subsequent to the quarter end, the Company entered into a joint venture agreement with a private Colombian group for its Colombian operations. Essential has identified certain equipment from its Canadian fleet that will be transferred to Colombia and substantially completed modifications to prepare the equipment to operate in Colombia.

FINANCIAL HIGHLIGHTS

- Revenue for the three and nine months ended September 30, 2010 was $41.2 million and $112.7 million respectively, compared to $23.4 million and $81.6 million respectively, for the same periods ended September 30, 2009.

- Gross margin[1] and gross margin %[1] for the three months ended September 30, 2010 were $10.1 million and 25%, compared to $2.8 million and 12% for the same period ended September 30, 2009. Gross margin[1] and gross margin %[1] for the nine months ended September 30, 2010 were $26.4 million and 23%, compared to $12.7 million and 16% for the same period ended September 30, 2009.

- EBITDAS[1] for the three and nine months ended September 30, 2010 was $7.2 million and $17.8 million respectively, compared to $0.8 million and $5.4 million respectively, for the same periods ended September 30, 2009.

- As at September 30, 2010, Essential had no long-term debt compared to long-term debt of $14.3 million as at September 30, 2009.

- Essential had positive working capital of $30.0 million as at September 30, 2010 compared to $19.5 million as at September 30, 2009.

RESULTS OF OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
(Thousands, except per share amounts)	**2010**	2009	**2010**	2009
Revenue	**$ 41,244**	$ 23,442	**$ 112,658**	$ 81,614
Operating expenses	**31,118**	20,601	**86,245**	68,899
Gross margin[1]	**10,126**	2,841	**26,413**	12,715
Gross margin %[1]	**25%**	12%	**23%**	16%
General and administrative	**2,940**	2,033	**8,602**	7,280
EBITDAS[1]	**7,186**	808	**17,811**	5,435
EBITDAS %[1]	**17%**	3%	**16%**	7%
Share-based compensation	**301**	265	**924**	944
Depreciation and amortization	**4,737**	4,986	**13,694**	14,890
Interest on long-term debt	**71**	193	**596**	1,018
(Gain) loss on disposal of assets	**22**	11	**(53)**	4,057
Earnings (loss) before income taxes	**2,055**	(4,647)	**2,650**	(15,474)
Future income tax expense (recovery)	**744**	(1,986)	**2,633**	(7,403)
Net earnings (loss)	**$ 1,311**	$ (2,661)	**$ 17**	$ (8,071)
Net earnings (loss) per share – basic and diluted	**$ 0.02**	$ (0.04)	**$ 0.00**	$ (0.13)

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 $24.1 million and $70.5 million, respectively, for the three and nine months ended September 30, 2010, compared to $13.2 million and $52.2 million, respectively, for the same periods in 2009.

	Three months ended September 30,		Nine months ended September 30,	
(Thousands)	**2010**	2009	**2010**	2009
Revenue				
Service rigs	**$ 12,876**	$ 6,453	**$ 39,169**	$ 30,761
Coil tubing rigs	**7,035**	3,994	**16,824**	12,295
Other	**4,198**	2,712	**14,500**	9,164
Total revenue	**24,109**	13,159	**70,493**	52,220
Operating expenses	**17,781**	12,209	**52,984**	44,584
Gross margin	**$ 6,328**	$ 950	**$ 17,509**	$ 7,636
Gross margin %	**26%**	7%	**25%**	15%
Service Rigs				
Number of rigs*	**51**	51	**51**	51
Number of operating hours	**18,787**	8,970	**56,189**	36,186
Utilization	**40%**	19%	**40%**	26%
Coil Tubing Rigs				
Number of rigs*	**32**	29	**32**	29
Number of operating hours	**12,387**	8,037	**31,097**	24,510
Utilization	**42%**	31%	**37%**	29%

*Fleet data represents the number of rigs at the end of the period. The service rig count will increase to 52 in the fourth quarter with the refurbishment of an additional rig.

The increase in oil-based activity in the WCSB, combined with work on the backlog of maintenance, abandonment and completion programs, continued to stimulate activity for service rig equipment during the quarter and, as a result, utilization improved substantially from the prior year. The improvement in Essential's service rig utilization was primarily in southern Alberta, where companies focused on smaller oil pools rather than shallow natural gas plays. Essential has experienced only modest improvement in northern Alberta; however, the Company expects the recent rebranding as "Essential Well Service" should benefit its northern Alberta operations in future periods.

Essential's coil tubing operations are becoming an increasingly important part of the well servicing operations as the Company expands the service offerings and the fleet. The quarterly and year to date results for the coil tubing fleet continued to benefit from the intermediate and deep coil tubing rigs working on horizontal wells in the resource plays of the Bakken, Viking, Cardium and Montney regions. During the quarter, Essential also continued to perform work using a coil tubing rig for nitrogen stimulation of coalbed methane reservoirs in southern Alberta which improved utilization of the coil tubing and nitrogen fleets.

The Company significantly improved activity and revenue for its Well Servicing segment during the quarter compared to the prior year despite the unseasonably wet weather in September. Essential was able to achieve these improvements while being subject to labour constraints throughout the quarter. Due to these labour challenges, the Company initiated some wage increases in an effort to retain personnel. Essential will be striving to maintain margins in the fourth quarter through improved activity levels and modest pricing increases to offset the impact of wage increases.

Essential completed the re-branding of its coil tubing and nitrogen operations as "Essential Coil and Stimulation Services" effective November 1, 2010. The Company expects the re-branding will provide its

customers with additional clarity about Essential's service offerings and will enable the Company to further benefit from its position as the largest coil tubing well service fleet 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 $17.1 million and $42.2 million, respectively, for the three and nine months ended September 30, 2010, compared to $10.3 million and $29.4 million for the same periods in 2009.

	Three months ended September 30,		Nine months ended September 30,	
(Thousands)	**2010**	2009	**2010**	2009
Revenue				
Downhole tools & rentals	**$ 14,542**	$ 7,798	**$ 34,093**	$ 20,724
Wireline services	**2,593**	2,485	**8,072**	8,670
Total revenue	**17,135**	10,283	**42,165**	29,394
Operating expenses	**12,062**	8,080	**30,386**	23,187
Gross margin	**$ 5,073**	$ 2,203	**$ 11,779**	$ 6,207
Gross margin %	**30%**	21%	**28%**	21%

The downhole tools and rentals operations continued to be a strong contributor to this segment in the third quarter of 2010. Essential continued to benefit from increasing industry demand for multi-stage fracturing applications to stimulate wells. The Tryton MSFS, which was first introduced in the second quarter of 2009 as Essential's solution for multi-stage fracturing applications, has rapidly become a core service line of the Company. Revenue from both the traditional downhole tools and rentals operations and the Tryton MSFS continued to increase, particularly throughout northern and central Alberta, on both a quarterly and year to date basis. During the quarter, Essential expanded its labour force to meet the rapidly growing demand for its downhole tools and rentals operations.

Wireline continued to be negatively impacted by reduced conventional natural gas drilling throughout the WCSB and reduced activity in the shallow gas resource plays of southern Alberta. Wireline had improved activity levels during the quarter compared to the prior year, however, a high fixed cost structure and the competitive market for these services continued to hamper profitability.

General and Administrative

	Three months ended September 30,		Nine months ended September 30,	
(Thousands)	**2010**	2009	**2010**	2009
General and administrative expenses	$ **2,940**	**$** 2,033	**$ 8,602**	$ 7,280
As a % of revenue	**7%**	9%	**8%**	9%

General and administrative expenses were $2.9 million and $8.6 million, respectively, for the three and nine months ended September 30, 2010, compared to $2.0 million and $7.3 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 increase in general and administrative costs in 2010 is due to costs related to converting to a corporation, incurred in the first half of 2010, and implementing International Financial Reporting Standards ("IFRS"). In addition, certain compensation programs were reinstated in 2010 after being eliminated as part of the cost reduction measures taken in 2009.

Share-based Compensation

Essential recorded a non-cash expense related to share-based compensation for the three and nine months ended September 30, 2010 of $0.3 million and $0.9 million, respectively, compared to $0.3 million and $0.9 million, respectively, for the same periods in 2009.

Depreciation and Amortization

	Three months ended September 30,		Nine months ended September 30,	
(Thousands)	**2010**	2009	**2010**	2009
Depreciation and amortization	**$ 4,737**	$ 4,986	**$ 13,694**	$ 14,890

Depreciation and amortization expense was $4.7 million and $13.7 million, respectively, for the three and nine months ended September 30, 2010, compared to $5.0 million and $14.9 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

	Three months ended September 30,		Nine months ended September 30,	
(Thousands)	**2010**	2009	**2010**	2009
Interest on long-term debt	**$ 71**	$ 193	**$ 596**	$ 1,018

Interest expense was $0.1 million and $0.6 million, respectively, for the three and nine months ended September 30, 2010, compared to $0.2 million and $1.0 million, respectively, for the same periods in 2009.

The Company had no long-term debt outstanding during the three months ended September 30, 2010 and an average long-term debt outstanding for the nine months ended September 30, 2010 of $5.4 million. In comparison, the Company had an average of $13.3 million and $19.1 million, respectively, for the same periods ended September 30, 2009. The decrease in interest expense from 2009 is a result of the elimination of long-term debt during 2010. Interest expense in the current quarter related entirely to standby fees incurred on the Company's credit facility.

Income Taxes

	Three months ended September 30,		Nine months ended September 30,	
(Thousands)	**2010**	2009	**2010**	2009
Future income tax expense (recovery)	$ **744**	**$** (1,986)	**$ 2,633**	$ (7,403)

Future income tax expense was $0.7 million and $2.6 million, respectively, for the three and nine months ended September 30, 2010, compared to future income tax recovery of $2.0 million and $7.4 million, respectively, for the same periods in 2009.

SUMMARY OF QUARTERLY DATA

($Thousands, except per share amounts)	**Sep 30, 2010**	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008
Revenue	**41,244**	25,194	46,220	30,108	23,442	15,974	42,198	43,842
Gross margin[1]	**10,126**	3,034	13,253	6,764	2,841	(888)	10,762	12,086
Gross margin %[1]	**25%**	12%	29%	22%	12%	(6%)	26%	28%
EBITDAS[1]	**7,186**	302	10,323	4,586	808	(3,400)	8,027	8,219
EBITDAS %[1]	**17%**	1%	22%	15%	3%	(21%)	19%	19%
Net earnings (loss) *	**1,311**	(4,889)	3,605	(1,409)	(2,661)	(10,972)	5,562	(15,950)
Per share – basic and diluted	**0.02**	(0.07)	0.06	(0.02)	(0.04)	(0.18)	0.09	(0.27)
Total assets	**174,737**	168,422	175,447	169,380	167,574	163,599	189,998	192,035
Total long term debt	**-**	-	-	16,600	14,302	9,755	18,928	17,525
Shareholders' equity	**158,406**	156,776	161,368	143,367	144,506	147,500	158,780	154,824
Equipment fleet **								
Service rigs ***	**51**	51	51	51	51	51	55	53
Coil tubing rigs	**32**	32	30	29	29	28	32	32
Nitrogen pumpers	**10**	10	7	7	7	7	7	7
Rod rigs	**23**	23	23	23	23	23	27	27
E-line trucks	**14**	14	14	14	14	14	14	13
Slickline trucks	**6**	6	6	6	6	6	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.
*** The service rig count will increase to 52 in the fourth quarter with the refurbishment of an additional rig.

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[1]

	Three months ended September 30,		Nine months ended September 30,	
(Thousands, except per share amounts)	**2010**	2009	**2010**	2009
Cash flow from operations	$ **383**	$ (1,032)	**$ 14,618**	$ 14,839
Add:				
Changes in non-cash working capital	**6,732**	1,647	**2,597**	(10,422)
Funds flow from operations	$ **7,115**	$ 615	**$ 17,215**	$ 4,417
Per share – basic and diluted	$ **0.10**	$ 0.01	**$ 0.25**	$ 0.07

Funds flow from operations[1] was $7.1 and $17.2 million, respectively, for the three and nine months ended September 30, 2010, compared to $0.6 million and $4.4 million, respectively, for the same periods in 2009.

Working Capital

(Thousands)		**September 30, 2010**		September 30, 2009
Current assets	**$**	**46,398**	$	28,264
Current liabilities, excluding current portion of long-term debt		**(16,331)**		(8,766)
Working capital	**$**	**30,067**	$	19,498
Working capital ratio		**2.8:1**		3.2:1

Working capital at September 30, 2010 was $30.0 million compared to $19.5 million at September 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 September 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 September 30, 2010, the maximum of $50 million was available to Essential.

As at September 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 November 9, 2010, Essential had no long-term debt outstanding and a positive cash balance of $0.8 million.

Equipment Expenditures

	Three months ended September 30,				Nine months ended September 30,			
(Thousands)		**2010**		2009		**2010**		2009
Equipment expenditures								
Well Servicing	**$**	**2,208**	$	1,761	**$**	**8,804**	$	5,394
Downhole Services & Rentals		**668**		582		**1,354**		1,166
Corporate		**119**		227		**747**		650
		2,995		2,570		**10,905**		7,210
Less proceeds on disposal of property and equipment		**(107)**		(52)		**(877)**		(407)
Net equipment expenditures[(1)]	**$**	**2,888**	$	2,518	**$**	**10,028**	$	6,803

Net equipment expenditures[(1)] for the three and nine months ended September 30, 2010 were $2.9 million and $10.0 million, respectively, compared to $2.5 million and $6.8 million, respectively, for the same periods in 2009. During the quarter the Company's capital expenditures were primarily for upgrades and retrofits to the coil tubing and nitrogen fleets.

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 September 30, 2010	2009	Nine months ended September 30, 2010	2009
Equipment expenditures				
Growth capital[(1)]	$ **793**	$ 2,119	**$ 6,214**	$ 4,718
Maintenance capital[(1)]	**2,202**	451	**4,691**	2,492
	$ **2,995**	$ 2,570	**$ 10,905**	$ 7,210

Essential increased its 2010 capital spending budget by $3 million to $19 million. The $3 million increase includes $2 million for Colombian operations and $1 million for Canadian operations. Previously budgeted fourth quarter spending of $6 million includes a second deep coil tubing rig for Canada and maintenance capital. This deep coil tubing rig is expected to be in service in December 2010.

In conjunction with its expansion into Colombia, Essential has made a further commitment to spend $3 million in 2011 for a deep coil tubing rig and picker and two rod rig accelerator units. These items are expected to be completed and shipped to Colombia early in the second quarter of 2011. This commitment forms part of Essential's 2011 capital expenditure program which will be finalized and announced in the first quarter of 2011.

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 November 9, 2010, there were 71,403,296 shares and 5,129,333 share options outstanding. Of the 5,129,333 share options, 2,178,576 were exercisable of which 523,816 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 and on the Essential's website at 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 and on

Essential's website at 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.

Based on the work completed to date, management has identified areas where financial statement differences will result from the conversion to IFRS. The discussion and estimates that follow should not be regarded as a complete compilation of changes, but rather is intended to highlight the areas that have been identified to date which management believes may be relevant to the presentation of the Company's transition date balance sheet as at January 1, 2010 and related changes to accounting policies. Any amounts disclosed should be considered preliminary estimates and may differ from the actual numbers reported in the January 1, 2010 transition date balance sheet.

IFRS 1 – First-time Adoption of IFRS

The initial application of IFRS requires an entity to comply with each IFRS standard effective at the date of transition. This requires the financial statements of the entity to be retroactively restated where the application of IFRS results in changes from Canadian GAAP. IFRS 1 provides limited exemptions from these requirements in specified areas as well as specific exceptions where IFRS is not to be applied retroactively. Of the three exceptions and fifteen exemptions under IFRS 1, Essential expects to utilize the exemption that allows the Company to fair value specific items of property and equipment at the date of transition and the exemption to not restate business combinations prior to the date of transition.

IFRS 1 & IAS 16 – Property and Equipment

IAS 16 requires that assets be separated into their component parts and depreciation be expensed on a systematic basis over the useful life of the componentized assets. The application of this section will result in new depreciation policies and correspondingly increase the carrying value of property and equipment. In addition, under IFRS 1, the Company has elected to revalue specific items of property and equipment to fair market value on the transition date, which will, in turn, reduce the carrying value of property and equipment. The application of IAS 16 and IFRS 1 is expected to result in a net reduction to the carrying value of property and equipment of approximately $23 million as at January 1, 2010. As a result of the decrease in carrying value and revised depreciation methods, the annual depreciation expense is expected to decline by approximately $5 million in future periods.

IAS 17 – Leases

IAS 17 does not contain numerical or percentage thresholds to determine the nature of a lease, as is the case under Canadian GAAP. As a result, many of the leases classified as operating leases under Canadian GAAP will be classified as financing leases under IFRS. The impact on the transition date balance sheet is an increase in debt of approximately $1.0 million, an increase in the carrying value of property and equipment of approximately $1.3 million, and an increase in the book value of equity of approximately $0.3 million. The reclassification of these leases will generate a slight increase to depreciation expense and interest expense in future periods, offset by a reduction in operating expenses.

IAS 36 – Impairment of Assets

IFRS requires a one-step impairment test for identifying and measuring impairment and requires the long-lived assets be tested at the level of the cash-generating unit (CGU). The CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups. Based on management's initial estimates, this is not expected to result in any changes to the transition date balance sheet.

IAS 12 – Income Taxes

The initial application of other IFRS standards will impact the taxable temporary differences at the transition date. As a result of the change in these values, the future tax asset is expected to increase at the date of transition. Changes to these balances in future periods will be recognized in net earnings in the period in which they occur.

IAS 32 – Financial Instruments - Presentation
Under IAS 32, the units of Essential Energy Services Trust meet the definition of a puttable instrument and certain criteria must be met to determine if the instrument can be considered as equity. Essential Energy Services Trust made changes prior to the transition date that allows for the trust units to be treated and presented as equity, however, prior to the changes being made the trust units would have been considered as liabilities under IFRS. As a result, the trust units are required to be fair valued at the date in which the change was made. It is expected that the application of this standard will result in a reduction in the value of unitholders' capital offset by a reduction of the accumulated deficit.

IFRS 2 – Share-based Payments
Under IFRS, the option plan would be treated as a liability given the nature of the units of Essential Energy Services Trust. As a result, the amounts would be revalued at the date of transition using the fair value calculated on each grant at that date. As a result, the amount of the expense, the timing of recognition of the expense and the underlying liability associated with this expense will change under IFRS. The application of this standard is expected to reduce the amounts previously recorded in contributed surplus.

IFRS 1 & IFRS 3 – Business Combinations
The Company expects to utilize the IFRS 1 exemption to not adopt IFRS 3 requirements for business combinations occurring prior to the transition date.

In addition to the changes described above, management anticipates there will be a significant increase in the disclosures required under IFRS. Management also expects the transition to IFRS to impact financial reporting processes, business processes, internal controls and information systems.

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 included an IFRS awareness session with Essential's Board and Audit Committee in 2009 as well as an IFRS update session with Essential's Audit Committee in 2010, which updated the timeline for implementation, the implications of IFRS standards to the business and the potential impacts to the financial statements. Management will continue to provide updates to the Audit Committee each quarter throughout 2010 and 2011.

OUTLOOK

Activity in the WCSB has been tracking above 2009 levels and this is expected to continue for the remainder of the year. The price of oil remains strong and exploration and production companies are expected to continue to focus on oil and liquids-rich natural gas resource plays. While low natural gas prices continue to be a concern, some of the reduction in natural gas-related activity is being offset by the increased activity for oil and liquids-rich natural gas.

With 80% of its service rigs, coil tubing operations and downhole tool and rentals business, including the Tryton MSFS, focused on servicing oil-related and liquids-rich natural gas activity, the Company expects strong demand for its services as it enters the winter drilling season. These services are also expected to continue to benefit from the high demand generated by the increase in horizontal wells. Essential's deep and intermediate coil tubing rigs have been busy in 2010 and Essential expects to have its second deep coil tubing rig ready for operations in December 2010. In addition, Essential expects to have a second intermediate coil tubing rig focused on nitrogen stimulation of coalbed methane reservoirs in southern Alberta in the fourth quarter.

As activity levels have increased, the labour market has tightened the demand for experienced oilfield service workers. This is not unusual due to the cyclicality of the oil and gas industry in the WCSB. Many workers left the industry and Alberta in 2009 during the industry downturn. Labour rates are increasing

with demand and Essential is focused on recruiting and training new employees. The Company expects to recover some of the increased labour costs through higher service pricing and increased activity.

Essential is progressing on its plan to expand operations into Colombia. The first phase of equipment, including two double service rigs, three double rod rigs, an intermediate depth coil tubing rig, a nitrogen pumper, two electric wireline trucks and various spare parts and support equipment, is expected to leave Canada in November, 2010 and be ready for operations in Colombia in the first quarter of 2011. This equipment is from Essential's current fleet. The second phase of equipment, including a deep coil tubing rig and picker, two rod rig accelerator units and a nitrogen pumper, is expected to be shipped to Colombia early in the second quarter of 2011. Essential will operate in Colombia through a joint venture arrangement with a private Colombian group (the "Partner") under the name of Essential Energy Services S.A. (Sucursal) Colombia ("Essential Colombia"). Under the terms of the joint venture agreement, Essential owns 85% and the Partner owns 15% of Essential Colombia.

Essential Colombia will offer well servicing and wireline services from a field office and operating base in Villavicencio, Colombia. Villavicencio is located in the heart of the Llanos region, one of the fastest growing oil and gas exploration regions in Colombia. Essential believes that customer workover and completion needs, well pressures and depths in this region are relatively similar to those in western Canada. Essential Colombia believes there is a strong demand for its services in Colombia as both the Canadian equipment design and proven Canadian services practices will offer operators in Colombia a competitive advantage in terms of efficiencies and cost savings.

With no debt outstanding, Essential has a very strong balance sheet allowing it to realize on its growth plans into Colombia and be well-positioned to respond quickly to possible growth opportunities in the WCSB.

[(1)]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[(2)] – This measure is considered a primary indicator of operating performance as calculated by revenue less operating expenses.

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

EBITDAS[(3)] (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 %[(3)] – This measure is considered an indicator of Essential's ability to generate funds flow as calculated by EBITDAS[(3)] divided by revenue.

Funds flow or funds flow from operations[(4)] – This measure is an indicator of Essential's ability to generate funds flow[(4)] 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[(5)] – 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.

[2] Gross margin and gross margin % are reconciled to the GAAP measures, revenue and operating costs, in the table "Results of Operations".
[3] EBITDAS and EBITDAS % are reconciled to the GAAP measure, loss from continuing operations before income taxes, in the table "Results of Operations".
[4] Funds flow is reconciled to the GAAP measure, cash flow from operations, in the table "Funds Flow from Operations".
[5] 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.

September 30, 2010

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(Thousands)	**As at September 30, 2010**	As at December 31, 2009
Assets *(note 7)*		
Current assets		
Cash	**$ 2,937**	$ 1,080
Accounts receivable	**31,680**	22,855
Inventory *(note 3)*	**9,620**	9,194
Prepaid expenses and deposits	**2,161**	1,897
	46,398	35,026
Property and equipment *(note 4)*	**123,868**	125,704
Assets held for sale *(note 5)*	**-**	1,215
Intangible assets *(note 6)*	**3,291**	3,853
Future income tax asset *(note 11)*	**1,180**	3,582
	$ 174,737	$ 169,380
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 16,331**	$ 9,413
Current portion of long-term debt *(note 7)*	-	3,228
	16,331	12,641
Long-term debt *(note 7)*	-	13,372
	16,331	26,013
Commitments *(note 13)*		
Shareholders' Equity		
Share capital *(note 8)*	**279,697**	-
Unitholders' capital *(note 8)*	**-**	265,573
Contributed surplus *(note 9)*	**7,620**	6,722
Accumulated deficit	**(128,911)**	(128,928)
	158,406	143,367
	$ 174,737	$ 169,380

See accompanying notes to unaudited interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE EARNINGS (LOSS) AND ACCUMULATED DEFICIT
(unaudited)

(Thousands, except per share amounts)	For the three months ended September 30, **2010**	For the three months ended September 30, 2009	For the nine months ended September 30, **2010**	For the nine months ended September 30, 2009
Revenue	**$ 41,244**	$ 23,442	**$ 112,658**	$ 81,614
Operating expenses	**31,118**	20,601	**86,245**	68,899
	10,126	2,841	**26,413**	12,715
Expenses				
General and administrative	**2,940**	2,033	**8,602**	7,280
Share-based compensation *(note 10)*	**301**	265	**924**	944
Depreciation and amortization	**4,737**	4,986	**13,694**	14,890
Interest on long-term debt	**71**	193	**596**	1,018
(Gain) loss on disposal of assets	**22**	11	**(53)**	4,057
Earnings (loss) before income taxes	**2,055**	(4,647)	**2,650**	(15,474)
Income tax expense (recovery)				
Future *(note 11)*	**744**	(1,986)	**2,633**	(7,403)
Net earnings (loss) and comprehensive earnings (loss)	**1,311**	(2,661)	**17**	(8,071)
Accumulated deficit, beginning of period	**(130,222)**	(124,260)	**(128,928)**	(116,257)
Distributions to unitholders	-	(598)	**-**	(3,191)
Accumulated deficit, end of period	**$ (128,911)**	$ (127,519)	**$ (128,911)**	$ (127,519)
Net earnings (loss) per share *(note 12)*				
Basic and diluted	**$ 0.02**	$ (0.04)	**$ 0.00**	$ (0.13)

See accompanying notes to unaudited interim consolidated financial statements.

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

(Thousands)	For the three months ended September 30, **2010**	2009	For the nine months ended September 30, **2010**	2009
Operating activities:				
Net earnings (loss)	**$ 1,311**	$ (2,661)	**$ 17**	$ (8,071)
Items not affecting cash:				
Depreciation and amortization	**4,737**	4,986	**13,694**	14,890
Future income tax expense (recovery)	**744**	(1,986)	**2,633**	(7,403)
Share-based compensation	**301**	265	**924**	944
(Gain) loss on disposal of assets	**22**	11	**(53)**	4,057
	7,115	615	**17,215**	4,417
Changes in non-cash working capital	**(6,732)**	(1,647)	**(2,597)**	10,422
	383	(1,032)	**14,618**	14,839
Financing activities:				
Issuance of shares, net of costs *(note 8)*	**-**	-	**13,813**	-
Proceeds on exercise of share options	**17**	-	**54**	-
Increase (decrease) in long-term debt	**-**	4,149	**(16,600)**	(4,083)
Distributions paid	**-**	(599)	**-**	(3,491)
	17	3,550	**(2,733)**	(7,574)
Investing activities:				
Property and equipment	**(2,995)**	(2,570)	**(10,905)**	(7,210)
Proceeds on disposal of equipment	**107**	52	**877**	407
Changes in non-cash working capital	**(11)**	-	**-**	(462)
	(2,899)	(2,518)	**(10,028)**	(7,265)
Change in cash	**(2,499)**	-	**1,857**	-
Cash, beginning of the period	**5,436**	-	**1,080**	-
Cash, end of the period	**$ 2,937**	$ -	**$ 2,937**	$ -
Supplementary cash flow information:				
Interest paid	**$ 71**	$ 213	**$ 394**	$ 654

See accompanying notes to unaudited interim consolidated financial statement.

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

	As at September 30, 2010	As at December 31, 2009
Downhole service tools	**$ 8,309**	$ 7,848
Coil tubing and wireline products	**1,311**	1,346
	$ 9,620	$ 9,194

For the three months and nine months ended September 30, 2010, inventory recorded through operating expenses was $5.6 million and $13.3 million, respectively (2009 – $3.6 million and $6.5 million, respectively).

4. PROPERTY AND EQUIPMENT

As at September 30, 2010	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Well servicing rigs and equipment	**$ 141,973**	**$ 45,611**	**$ 96,362**
Oilfield equipment	**30,310**	**11,383**	**18,927**
Vehicles	**7,141**	**3,175**	**3,966**
Other	**7,664**	**3,051**	**4,613**
	$ 187,088	**$ 63,220**	**$ 123,868**

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
	$ 176,266	$ 50,562	$ 125,704

5. ASSETS HELD FOR SALE

During the quarter, the Company reclassified assets previously stated as held for sale to property and equipment, as the marketing efforts to sell the assets were unsuccessful and have been deferred.

6. INTANGIBLE ASSETS

As at September 30, 2010	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 5,464**	**$ 2,463**	**$ 3,001**
Favourable leases	**576**	**326**	**250**
Trade names	**237**	**197**	**40**
	$ 6,277	**$ 2,986**	**$ 3,291**

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
	$ 6,422	$ 2,569	$ 3,853

7. LONG-TERM DEBT

	As at September 30, 2010	As at December 31, 2009
Term loan	**$ -**	$ 16,600
Less: current portion of long-term debt	**-**	(3,228)
	$ -	$ 13,372

At September 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 September 30, 2010, all financial debt covenants were satisfied and all banking requirements were up to date. The maximum of $50 million was available to the Company as at September 30, 2010.

8. SHARE CAPITAL

Authorized

Pursuant to the Plan of Arrangement *(see note 1)*, Essential unitholders received one common share of Essential Energy Services Ltd. in exchange for each 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, September 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	45	72
Balance, September 30, 2010	71,403	$ 279,697

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).

9. CONTRIBUTED SURPLUS

	As at September 30, 2010	As at December 31, 2009
Balance, beginning of period	**$ 6,722**	$ 5,508
Share-based compensation	**924**	1,214
Exercise of options	**(26)**	-
Balance, end of period	**$ 7,620**	$ 6,722

10. SHARE OPTIONS AND SHARE-BASED COMPENSATION

	Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,737	$ 3.49
Issued	1,430	1.17
Exercised	(50)	1.08
Expired	(508)	10.99
Forfeited	(446)	3.62
Outstanding, end of period	5,163	$ 2.60
Exercisable, end of period	2,208	$ 4.22

The Company recorded share-based compensation expense in respect of the option plan of $0.3 million and $0.9 million for the three and nine months ended September 30, 2010, respectively (2009 - $0.3 million and $0.9 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	2.2 - 2.7%
Expected volatility	69.6 - 72.6%
Expected term	5 years
Dividend yield	nil
Fair value per option issued	$0.68 - 0.85

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

11. 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 nine months ended September 30, 2010 is based on the conversion to a corporate structure, whereas the calculation of current and future income taxes for the nine months ended September 30, 2009 was 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 September 30, **2010**	For the three months ended September 30, 2009	For the nine months ended September 30, **2010**	For the nine months ended September 30, 2009
Earnings (loss) before income taxes	**$ 2,055**	$ (4,647)	**$ 2,650**	$ (15,474)
Statutory tax rate	**28%**	0%	**28%**	0%
Expected income tax expense (recovery)	**$ 576**	$ -	**$ 742**	$ -
Increase (decrease) resulting from:				
Share based compensation	**84**	-	**259**	-
Permanent items	**112**	-	**352**	-
Future tax rate reductions	**(29)**	-	**(108)**	-
Adjustment on conversion to Corporation	**-**	-	**1,387**	-
Other	**1**	-	**1**	-
Effective tax law changes and future tax rate deductions	**-**	(1,986)	-	(7,403)
Future income tax expense (recovery)	**$ 744**	$ (1,986)	**$ 2,633**	$ (7,403)

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

	As at September 30, 2010	As at December 31, 2009
Tangible assets	**$ (3,431)**	$ (657)
Net operating losses	**3,050**	3,008
Goodwill and intangible assets	**2,756**	2,657
Equity issuance costs	**702**	471
Valuation allowance	**(953)**	(953)
Other	**(944)**	(944)
Future income tax asset	**$ 1,180**	$ 3,582

12. PER SHARE AMOUNTS

The weighted average number of shares outstanding for the three and nine months ended September 30, 2010 was 71,396,970 and 67,580,418 respectively (2009 – 59,852,965). The diluted number of shares outstanding for the three and nine months ended September 30, 2010 was 71,722,001 and 67,867,922, respectively (2009 – 59,852,965).

13. 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	$ 1,204
2011	4,110
2012	2,855
2013	1,686
2014	929
Thereafter	1,298
	$ 12,082

14. 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 September 30, 2010, the Company is in good standing with respect to these covenants.

15. 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 September 30, 2010, accounts receivable are aged as follows: 56% - current; 28% - 31-60 days; 10% - 61-90 days; and 6% - over 90 days (2009 - 50% - current; 32% - 31-60 days; 10% - 61-90 days; and 8% - 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 September 30, 2010, the Company's allowance for doubtful accounts is $0.5 million (2009 - $1.0 million) and for the nine month period then ended had a bad debt expense of $0.1 million (2009 - $0.3 million). As at September 30, 2010, approximately 22% of the total accounts receivable balance was due from five companies (2009 – 34%).

(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 September 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.

16. 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.

17. 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:

	As at and for the three months ended September 30, 2010			
	Well Servicing	**Downhole Services & Rentals**	**Corporate**	**Consolidated**
Revenue	**$ 24,109**	**$ 17,135**	**$ -**	**$ 41,244**
Earnings (loss) before income taxes	**$ 2,321**	**$ 3,577**	**$ (3,843)**	**$ 2,055**
Depreciation and amortization	**$ 3,185**	**$ 1,255**	**$ 297**	**$ 4,737**
Total assets	**$ 121,876**	**$ 46,568**	**$ 6,293**	**$ 174,737**
Equipment expenditures	**$ 2,208**	**$ 668**	**$ 119**	**$ 2,995**

	As at and for the three months ended September 30, 2009			
	Well Servicing	Downhole Services & Rentals	Corporate	Consolidated
Revenue	$ 13,159	$ 10,283	$ -	$ 23,442
Earnings (loss) before income taxes	$ (3,035)	$ 526	$ (2,138)	$ (4,647)
Depreciation and amortization	$ 3,339	$ 1,475	$ 172	$ 4,986
Total assets	$ 117,059	$ 43,873	$ 6,642	$ 167,574
Assets held for sale	$ 1,215	$ -	$ -	$ 1,215
Equipment expenditures	$ 1,761	$ 582	$ 227	$ 2,570

	As at and for the nine months ended September 30, 2010			
	Well Servicing	**Downhole Services & Rentals**	**Corporate**	**Consolidated**
Revenue	**$ 70,493**	**$ 42,165**	**$ -**	**$ 112,658**
Earnings (loss) before income taxes	**$ 6,085**	**$ 7,331**	**$ (10,766)**	**$ 2,650**
Depreciation and amortization	**$ 9,113**	**$ 3,742**	**$ 839**	**$ 13,694**
Total assets	**$ 121,876**	**$ 46,568**	**$ 6,293**	**$ 174,737**
Equipment expenditures	**$ 8,804**	**$ 1,354**	**$ 747**	**$ 10,905**

	As at and for nine months ended September 30, 2009			
	Well Servicing	Downhole Services & Rentals	Corporate	Consolidated
Revenue	$ 52,220	$ 29,394	$ -	$ 81,614
Earnings (loss) before income taxes	$ (8,493)	$ 960	$ (7,941)	$ (15,474)
Depreciation and amortization	$ 10,073	$ 4,332	$ 485	$ 14,890
Total assets	$ 117,059	$ 43,873	$ 6,642	$ 167,574
Assets held for sale	$ 1,215	$ -	$ -	$ 1,215
Equipment expenditures	$ 5,394	$ 1,166	$ 650	$ 7,210

18. COMPARATIVE AMOUNTS

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

CORPORATE INFORMATION

Directors

James A. Banister[2,3], Chairman

Garnet K. Amundson

Michael J. Black[2]

William T. Lynch[1,3]

Nicholas G. Kirton[1,2]

Jeffrey J. Scott[1,3]

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

Fasken Martineau LLP

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

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