ESSENTIAL
ENERGY SERVICES

SECOND QUARTER REPORT
SIX MONTHS ENDED JUNE 30, 2012

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, 2012.

This MD&A is an update to and should be read in conjunction with Essential's March 31, 2012 unaudited condensed interim consolidated financial statements, the audited consolidated financial statements and MD&A included in Essential's 2011 Financial Report to Shareholders for the financial year ended December 31, 2011 and the June 30, 2012 unaudited condensed interim consolidated financial statements to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned annual MD&A. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective August 8, 2012.

BASIS OF PRESENTATION

The following MD&A and the unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except where otherwise indicated.

SELECTED FINANCIAL INFORMATION

	Three months ended June 30,		Six months ended June 30,	
(Thousands, except per share amounts)	**2012**	2011	**2012**	2011
Revenue	**$ 52,333**	$ 40,479	**$ 171,913**	$ 106,895
Gross margin	**$ 3,667**	$ 3,077	**$ 40,171**	$ 19,729
Gross margin %[1]	**7%**	8%	**23%**	18%
EBITDA[1]	**$ (479)**	$ (137)	**$ 31,873**	$ 13,264
EBITDA %[1]	**(1)%**	0%	**19%**	12%
Funds flow from operations [1]	**$ 1,115**	$ (2,713)	**$ 29,746**	$ 10,727
Per share – basic and diluted [1]	**$ 0.01**	$ (0.03)	**$ 0.24**	$ 0.13
Net income attributable to shareholders of Essential	**$ (5,923)**	$ (6,364)	**$ 12,971**	$ (116)
Per share – basic and diluted	**$ (0.05)**	$ (0.07)	**$ 0.10**	$ 0.00
Total assets	**$ 393,377**	$ 371,017	**$ 393,377**	$ 371,017
Total long-term debt	**$ 41,198**	$ 63,459	**$ 41,198**	$ 63,459
Equity attributed to shareholders of Essential	**$ 297,937**	$ 257,119	**$ 297,937**	$ 257,119

Completion of the acquisition of Technicoil Corporation ("Technicoil" or the "Technicoil Acquisition") on May 31, 2011 impacts the results for 2012 compared to 2011. The results for Technicoil are only included in periods after the acquisition and the results for Technicoil for the first quarter and for April and May are not included in the prior year comparatives. The increased operating costs associated with Technicoil's annual maintenance programs that are performed during spring break-up are reflected in the 2012 results but are not included for the comparative periods.

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

SELECTED COMBINED FINANCIAL INFORMATION

To assist the reader in understanding the current operations of Essential, management has provided the combined results for Essential assuming the Technicoil Acquisition had occurred on January 1, 2011. The reporting in the MD&A and Financial Statements represents Essential's stand-alone activities for January 1, 2011 to May 31, 2011 and the combined operations of Essential and Technicoil from June 1, 2011 to December 31, 2011 and does not include Technicoil's pre-acquisition operating or financial results.

Essential and Technicoil operations combined as of January 1, 2011:

	Three months ended June 30,		Six months ended June 30,	
(Thousands)	**2012**	2011	**2012**	2011
Well servicing				
Coil well service	**$ 18,697**	$ 14,677	**$ 61,111**	$ 50,850
Service rigs	**12,815**	11,884	**42,753**	41,843
Other	**3,818**	4,434	**14,397**	13,272
Total well servicing	**35,330**	30,995	**118,261**	105,965
Downhole tools & rentals	**15,540**	17,115	**50,791**	43,321
Colombia	**1,463**	361	**2,861**	361
Total revenue	**$ 52,333**	$ 48,471	**$ 171,913**	$ 149,647
Gross margin	**$ 3,667**	$ 1,324	**$ 40,171**	$ 30,459
Gross margin %(1)	**7%**	3%	**23%**	20%
EBITDA(1)	**$ (479)**	$ (2,506)	**$ 31,873**	$ 22,343

During the second quarter, revenue and EBITDA(1) for the combined entity improved compared to the prior year. The factors that enabled Essential to improve on the prior year results included:

- Coil well service – Revenue increased compared to the prior year as a result of the improvements in the fleet combined with price increases introduced after the Technicoil Acquisition. Essential expanded its coil well service operations over the last twelve months with the acquisition of additional deep coil tubing rigs and fluid pumpers. The expanded coil tubing rig fleet combined with the successful integration of the pumping fleet created additional revenue for Essential.
- Service rigs – Revenue and utilization for the second quarter increased from the prior year due to the addition of the service rigs from the Technicoil Acquisition operating for a full quarter. Essential's service rig utilization increased to 34% in the second quarter of 2012 from 27% in the second quarter of 2011.
- Downhole tools & rentals – Revenue decreased during the quarter as a result of the disposal of the wireline business in the first quarter of 2012. Wet weather conditions during the quarter and the corresponding decline in industry drilling activity resulted in slightly lower activity for the Tryton Multi-Stage Fracturing System ("Tryton MSFS"). Conventional tool operations maintained revenue levels similar to the prior year despite the adverse operating conditions.

Management has also reconciled the results from the table above to the financial results for Essential.

	Three months ended June 30,		Six months ended June 30,	
(Thousands)	**2012**	2011	**2012**	2011
Revenue				
Combined results	**$ 52,333**	$ 48,471	**$ 171,913**	$ 149,647
Less: Technicoil pre-acquisition revenue	**-**	(7,992)	**-**	(42,752)
Essential Consolidated Financial Statements	**$ 52,333**	$ 40,479	**$ 171,913**	$ 106,895
EBITDA(1)				
Combined results	**$ (479)**	$ (2,506)	**$ 31,873**	$ 22,343
Less: Technicoil pre-acquisition EBITDA(1)	**-**	2,369	**-**	(9,079)
Essential Consolidated Financial Statements	**$ (479)**	$ (137)	**$ 31,873**	$ 13,264

OVERVIEW OF ESSENTIAL

EQUIPMENT FLEET

	As at June 30,	
	2012	2011
Coil Well Service		
Deep coil tubing rigs	**25**	23
Shallow/Intermediate coil tubing rigs	**22**	27
Nitrogen pumpers	**12**	10
Fluid pumpers	**16**	6
Service Rigs		
Singles	**33**	38
Doubles	**22**	21

Coil tubing rigs

Essential operates the largest coil well servicing fleet in the Western Canadian Sedimentary Basin ("WCSB"). There are two distinct operating categories within Essential's coil tubing rig fleet, deep coil tubing rigs and shallow/intermediate coil tubing rigs.

- Deep coil tubing rigs include both masted and conventional coil tubing rigs that have a depth capacity up to 6,600 meters. The deep coil tubing rigs primarily provide completion, fracture stimulation and workover services primarily on long reach horizontal wells. These rigs are supported by a fleet of nitrogen and fluid pumpers, which broadens Essential's services. The deep coil tubing rig fleet is primarily focused on providing services on horizontal oil and liquids-rich natural gas resource plays.
- Shallow/intermediate coil tubing rigs are conventional coil tubing rigs that have a depth capacity up to 2,500 meters. These rigs primarily provide workover services on existing wells; the intermediate rigs are typically more oil focused while the shallow rigs are focused on natural gas.

Service rigs

Essential's mobile service rig fleet operates from eight service locations across western Canada providing well completion and production/workover services in all major resource plays across the WCSB. Service rigs are used primarily on oil wells which are typically more service intensive than natural gas wells. These rigs are deployed to workover, re-complete and stimulate existing wells and perform completions on new wells.

Downhole tools & rentals

Essential provides a wide range of downhole tools and rental services to assist with the completion and production operations of oil and natural gas wells. These services offer a full range of downhole tools, including the Tryton MSFS which is used for horizontal well completions.

CORPORATE INFORMATION

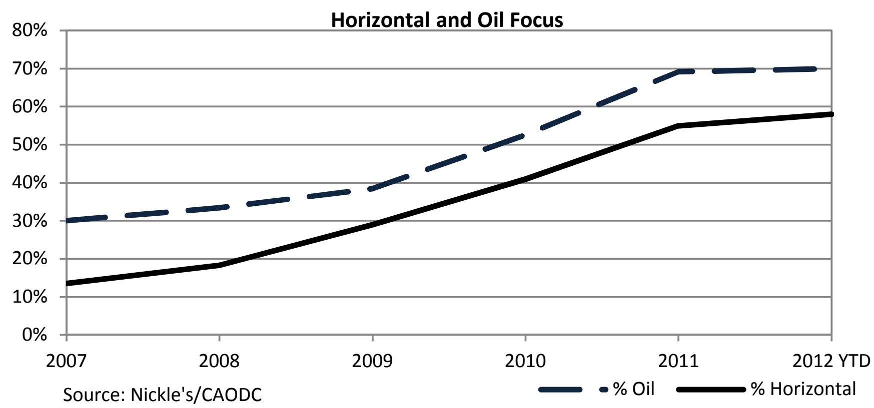
Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares trade on the Toronto Stock Exchange under the symbol ESN.

Additional information regarding Essential, including the March 31, 2012 interim report, 2011 interim reports, 2011 Annual MD&A, Financial Statements and the Annual Information Form for the year ended December 31, 2011, can be found under Essential's profile on SEDAR at www.sedar.com.

INDUSTRY OVERVIEW

Wet weather throughout the WCSB during the second quarter restricted access to work sites and limited well service activity. The wet conditions in the current year persisted throughout the quarter compared to the prior year where conditions improved in June 2011.

Well service activity in the WCSB continues to be driven by horizontal drilling, stimulation and completion of oil and liquids-rich natural gas plays. The industry continued to focus on horizontal wells which typically require more investment capital and increased rig time per well due to their depth and complexity compared to conventional vertical wells.



OPERATING HIGHLIGHTS – ESSENTIAL

Completion of the Technicoil Acquisition on May 31, 2011 impacts the results for 2012 compared to 2011. The results for Technicoil are only included in periods after the acquisition and the results for Technicoil for the first quarter and for April and May are not included in the prior year comparatives. The increased operating costs associated with Technicoil's annual maintenance programs that are performed during spring break-up are reflected in the 2012 results but are not included for 2011.

Results for the second quarter reflected the normal activity decline that occurs during spring break-up. During the quarter:

- Coil well service – Revenue generated by Essential's pumping and nitrogen fleets increased significantly compared to the prior year as a result of Essential's commitment to the expansion of these fleets. Integration of this equipment with the coil tubing rigs created additional revenue generating opportunities, however, the persistent wet weather that extended through most of June reduced activity for deep coil tubing compared to the prior year.
- Service rigs – Revenue and utilization for the second quarter increased from the prior year due to service rigs added through the Technicoil Acquisition operating for a full quarter. Essential's service rig utilization increased to 34% in the second quarter of 2012 from 27% in the second quarter of 2011.
- Downhole tools & rentals – Revenue decreased during the quarter as a result of the disposal of the wireline business in the first quarter of 2012. Tryton MSFS activity declined slightly compared to the prior year due to the wetter weather conditions and the corresponding decline in drilling activity. Conventional tool operations maintained revenue levels similar to the prior year despite the adverse operating conditions during the quarter.

Essential continued with its 2012 capital program, with 2012 spending expected to decrease from $60 million to $57 million due to a slight delay in the delivery of certain equipment. Year-to-date capital expenditures were $23.0 million, consisting of $15.6 million in growth capital, $6.6 million in maintenance capital and $0.8 million on infrastructure. Essential continues to focus on investing in high-demand assets in addition to maintaining and enhancing its existing fleet.

SUMMARY OF QUARTERLY DATA

($Thousands, except per share amounts)	**June 30, 2012**	Mar 31, 2012	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010
Well servicing:								
Coil well service	**18,697**	42,414	43,945	36,349	9,871	14,131	11,373	8,859
Service rigs	**12,815**	29,938	25,060	20,969	9,606	23,873	17,747	12,796
Other	**3,818**	10,579	7,735	7,148	3,526	2,206	2,457	2,454
Total well servicing	**35,330**	82,931	76,740	64,466	23,003	40,210	31,577	24,109
Downhole tools & rentals*	**15,540**	35,251	32,115	33,316	17,115	26,206	22,366	17,135
Colombia	**1,463**	1,398	2,048	1,634	361	-	-	-
Total revenue	**52,333**	119,580	110,903	99,416	40,479	66,416	53,943	41,244
Gross margin[(1)]	**3,667**	36,504	35,758	31,100	3,077	16,652	14,636	10,186
Gross margin %[(1)]	**7%**	31%	32%	31%	8%	25%	27%	25%
EBITDA[(1)]	**(479)**	32,352	31,829	27,293	(137)	13,401	11,293	7,248
EBITDA %[(1)]	**(1)%**	27%	29%	27%	0%	20%	21%	18%
Net income (loss) attributable to shareholders of Essential	**(5,923)**	18,893	17,559	13,678	(6,364)	6,248	6,121	2,663
Per share – basic and diluted	$**(0.05)**	$0.15	$0.14	$0.11	$(0.07)	$0.09	$0.09	$0.04
Total assets	**393,377**	430,674	421,590	411,084	371,017	190,926	173,803	160,797
Total long-term debt	**41,198**	57,238	63,576	79,230	63,459	7,392	396	471
Equity attributable to shareholders of Essential	**297,937**	306,372	288,828	271,561	257,119	156,694	149,660	143,989
Utilization **								
Coil tubing rigs – deep	**32%**	102%	111%	104%	37%	85%	81%	70%
Coil tubing rigs – other	**7%**	25%	30%	25%	18%	34%	35%	38%
Service rigs	**34%**	68%	59%	54%	27%	64%	51%	40%
Hybrid drilling rigs	**11%**	60%	47%	48%	47%	-	-	-
Operating Hours								
Coil tubing rigs – deep	**7,262**	23,236	23,524	21,938	3,638	4,575	3,740	2,305
Coil tubing rigs – other	**1,596**	5,494	6,778	5,813	3,805	7,033	8,704	8,647
Service rigs	**16,183**	35,188	31,005	28,201	13,229	28,710	24,072	18,752
Hybrid drilling rigs	**1,230**	6,581	5,192	5,337	1,696	-	-	-
Number of Tryton MSFS jobs	**33**	86	69	85	36	46	41	33
Equipment fleet ***								
Canada								
Coil tubing rigs	**45**	49	49	48	48	32	32	32
Service rigs	**53**	58	57	57	58	52	51	51
Nitrogen pumpers	**10**	10	10	9	8	8	9	10
Fluid pumpers	**16**	15	15	12	6	-	-	-
Hybrid drilling rigs	**5**	5	5	5	5	-	-	-
Rod rigs	**14**	14	14	14	14	20	20	23
Colombia								
Coil tubing rigs	**2**	2	2	2	2	2	1	-
Service rigs	**2**	2	2	1	1	1	1	-
Nitrogen pumpers	**2**	2	2	2	2	2	1	-
Rod rigs	**3**	3	3	3	3	3	3	-

* Revenue for Downhole Tools & Rentals includes the revenue from Essential's wireline fleet until it was disposed of on February 2, 2012.

** Utilization is calculated using a 10 hour day for the entire fleet except for hybrid drilling rigs which is calculated using a 24 hour day.

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

Over the past two years, Essential has improved and expanded its fleet through the Technicoil Acquisition, the purchase of new equipment, disposal of under-utilized equipment and ongoing maintenance of its existing fleet. Spending has focused primarily on expanding the depth capacity and service capabilities of the coil well service operations.

RESULTS OF OPERATIONS

(Thousands, except per share amounts)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue	$ **52,333**	$ 40,479	$ **171,913**	$ 106,895
Operating expenses	**48,666**	37,402	**131,742**	87,166
Gross margin	**3,667**	3,077	**40,171**	19,729
Gross margin %(1)	**7%**	8%	**23%**	18%
General and administrative expenses	**4,146**	3,214	**8,298**	6,465
EBITDA(1)	**(479)**	(137)	**31,873**	13,264
EBITDA %(1)	**(1)%**	0%	**19%**	12%
Depreciation and amortization	**6,231**	4,047	**13,394**	7,555
Share-based compensation	**444**	409	**935**	714
Equity taxes	**-**	-	**-**	478
Other (income) expense	**74**	849	**(1,143)**	1,228
Operating income (loss)	**(7,228)**	(5,442)	**18,687**	3,289
Transactions costs	**-**	2,397	**-**	2,397
Finance costs	**569**	372	**1,205**	492
Income (loss) before income tax	**(7,797)**	(8,211)	**17,482**	400
Current income tax expense (recovery)	**(1,248)**	239	**2,468**	239
Deferred income tax expense (recovery)	**(542)**	(1,999)	**2,290**	517
Total income tax expense (recovery)	**(1,790)**	(1,760)	**4,758**	756
Net income	$ **(6,007)**	$ (6,451)	$ **12,724**	$ (356)
Net income (loss) attributable to:				
Shareholders of Essential	$ **(5,923)**	$ (6,364)	$ **12,971**	$ (116)
Non-controlling interest	**(84)**	(87)	**(247)**	(240)
	$ **(6,007)**	$ (6,451)	$ **12,724**	$ (356)
Net income (loss) per share				
Basic and diluted, attributable to shareholders of Essential	$ **(0.05)**	$ (0.07)	$ **0.10**	$ 0.00

<u>SEGMENT RESULTS - *WELL SERVICING - CANADA*</u>

(Thousands)	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Revenue				
Coil well service*	**$ 18,697**	$ 9,871	**$ 61,111**	$ 24,002
Service rigs	**12,815**	9,606	**42,753**	33,479
Other	**3,818**	3,526	**14,397**	5,732
Total revenue	**35,330**	23,003	**118,261**	63,213
Operating expenses	**36,117**	24,259	**92,554**	53,753
Gross margin	**$ (787)**	$ (1,256)	**$ 25,707**	$ 9,460
Gross margin %(1)	**(2)%**	(5)%	**22%**	15%
<u>Utilization**</u>				
Deep coil tubing rigs				
Utilization	**32%**	37%	**67%**	66%
Operating hours	**7,262**	3,638	**30,498**	8,213
Service rigs				
Utilization	**34%**	27%	**44%**	45%
Operating hours	**16,183**	13,229	**51,371**	41,939

* Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.
** Utilization is calculated on a 10 hour day.

Completion of the Technicoil Acquisition on May 31, 2011 impacts the results for 2012 compared to 2011. The results for Technicoil are only included in periods after the acquisition and the results for Technicoil for the first quarter and for April and May 2011 are not included in the prior year comparatives. The increased operating costs associated with Technicoil's annual maintenance programs that are performed during spring break-up are reflected in the 2012 results but are not included for 2011.

The normal decline in activity during the second quarter was more pronounced in the current year as wet weather conditions persisted throughout the quarter which limited access to well sites.

Coil well service revenue increased significantly for the second quarter and for the year-to-date over the same periods in the prior year due to the increased size and scope of Essential's deep coil fleet from the Technicoil Acquisition and execution of Essential's capital program. Essential completed a large horizontal workover project during the quarter. This project utilized both the deep coil rigs and a full complement of Essential's ancillary coil services and generated incremental nitrogen and chemical revenues. The increase in these revenues, and the current year impact of price increases introduced during the second half of 2011, increased the rate per hour.

Service rig revenue for the second quarter increased from the prior year due to increased utilization across the fleet and service rigs added through the Technicoil Acquisition operating for a full quarter. Activity was impacted by wet weather conditions during the quarter, however, utilization increased due to Essential operating in high demand areas including Slave Lake and Cardium.

During the second quarter, other revenue, which includes hybrid drilling rigs and rod rigs, was relatively flat compared to the prior year. Utilization of the hybrid drilling rigs was significantly impacted by the wet conditions during the quarter which limited their ability to access work sites and resulted in lower utilization of 11% during the second quarter of 2012.

Costs associated with retaining key personnel and maintaining equipment and service locations negatively impact operating margins during periods of lower activity; while certain labour, fuel and other operating costs tend to fluctuate with activity. Operating expenses during the second quarter also increased due to Technicoil's annual maintenance programs that are included in the current year results but not in the comparable information for the prior year.

<u>SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS - CANADA*</u>

(Thousands)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Revenue	**$ 15,540**	$ 17,115	**$ 50,791**	$ 43,321
Operating expenses	**10,277**	12,993	**34,015**	31,429
Gross margin	**$ 5,263**	$ 4,122	**$ 16,776**	$ 11,892
Gross margin %[1]	**34%**	24%	**33%**	27%
Number of Tryton MSFS jobs	**33**	36	**119**	82

The Downhole Tools & Rentals segment focuses on oil and liquids-rich natural gas plays by providing production and completion tools for horizontal and vertical wells. Operations for this segment are well placed geographically across many of the active oil plays in the WCSB. During the first half of 2012, this segment continued to grow as the industry continued utilizing multi-stage fracturing services for completions on horizontal wells and as Essential continued to expand its conventional downhole tools & rentals operations.

The revenue decline for this segment compared to 2011 related primarily to the disposal of the wireline business in the first quarter of 2012. Activity generated from Tryton MSFS declined slightly during the second quarter, compared to the same period in the prior year, due to persistent wet weather conditions and moderate declines in drilling activity. Conventional downhole tools & rentals activity during the quarter remained comparable to the prior year despite the weather conditions.

The gross margin for this segment improved over the prior year as a result of the disposition of the wireline business which traditionally generated lower margins. Margins in the Downhole Tools & Rentals segment are typically less impacted during periods of low activity due to the lower fixed cost structure of this segment.

<u>COLOMBIA</u>

Essential services producing wells from its operating base in Barrancabermeja, Colombia. The Colombian operations were slightly cash flow negative during the quarter and revenue was below management expectations due to periods of inactivity. The Colombian operations have experienced inconsistent activity and Essential continues to pursue opportunities to stabilize activity and expand these operations. Management believes that there is significant demand for the services Essential provides and is continuing to develop these operations and relationships.

<u>GENERAL AND ADMINISTRATIVE</u>

(Thousands)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
General and administrative expenses	**$ 4,146**	$ 3,214	**$ 8,298**	$ 6,465
As a % of revenue	**8%**	8%	**5%**	6%

General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at the corporate and operations level. General and administrative expenses increased in absolute dollars primarily due to additional administrative costs associated with Technicoil field operations which are only included for one month of 2011 comparatives.

SHARE-BASED COMPENSATION

(Thousands)	Three months ended June 30, **2012**	2011	Six months ended June 30, **2012**	2011
Share-based compensation expense	**$ 444**	$ 409	**$ 935**	$ 714

Share-based compensation increased over the same periods in the prior year as a result of additional options issued in 2012.

DEPRECIATION AND AMORTIZATION

(Thousands)	Three months ended June 30, **2012**	2011	Six months ended June 30, **2012**	2011
Depreciation and amortization expense	**$ 6,231**	$ 4,047	**$ 13,394**	$ 7,555

Increased depreciation and amortization expense during 2012 was due to increased capital asset and intangible asset values as a result of the Technicoil Acquisition and Essential's 2011 capital program.

EQUITY TAXES

(Thousands)	Three months ended June 30, **2012**	2011	Six months ended June 30, **2012**	2011
Equity tax expense	**$ -**	$ -	**$ -**	$ 478

Equity tax for the prior year of $0.5 million represents a Colombian tax of 6.0% on the balance sheet equity recorded in Essential's Colombia branch at January 1, 2011. The equity tax is assessed every four years. The tax for the four-year period from 2011 to 2014 is payable in eight semi-annual installments over the four-year period but was expensed in the first quarter of 2011.

TRANSACTION COSTS

(Thousands)	Three months ended June 30, **2012**	2011	Six months ended June 30, **2012**	2011
Transaction costs	**$ -**	$ 2,397	**$ -**	$ 2,397

Transaction costs for the prior year of $2.4 million represents the costs incurred by Essential to complete the Technicoil Acquisition and is comprised primarily of credit facility, legal and consulting fees.

FINANCE COSTS

(Thousands)	Three months ended June 30, **2012**	2011	Six months ended June 30, **2012**	2011
Bank borrowings	**$ 567**	$ 367	**$ 1,199**	$ 480
Lease financing	**2**	5	**6**	12
	$ 569	$ 372	**$ 1,205**	$ 492

The increase in finance costs from 2011 is due to the increase in long-term debt from the Technicoil Acquisition and Essential's capital expenditure program. The Company had an average long-term debt balance outstanding during the three months and six months ended June 30, 2012 of $47.0 million and $51.9 million, respectively, compared to $23.7 million and $13.8 million, respectively, for the same periods in 2011.

INCOME TAXES

(Thousands)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Current income tax expense (recovery)	**$ (1,248)**	$ 239	**$ 2,468**	$ 239
Deferred income tax expense (recovery)	**(542)**	(1,999)	**2,290**	517
Total income tax expense (recovery)	**$ (1,790)**	$ (1,760)	**$ 4,758**	$ 756

For the six months ended June 30, 2012, income tax expense increased compared to 2011 due to higher comparable earnings.

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS[1]

(Thousands)	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Net cash flows from operating activities	**$ 26,507**	$ 3,408	**$ 37,861**	$ 3,398
Add:				
Changes in non-cash working capital	**$ (25,392)**	$ (6,121)	**(8,115)**	7,329
Funds flow from operations[1]	**$ 1,115**	$ (2,713)	**$ 29,746**	$ 10,727
Per share – basic and diluted	**$ 0.01**	$ (0.03)	**$ 0.24**	$ 0.13

WORKING CAPITAL

(Thousands)	June 30, 2012	June 30, 2011
Current assets	**$ 75,363**	$ 66,558
Current liabilities, excluding current portion of long-term debt	**(28,373)**	(31,155)
Working capital	**$ 46,990**	$ 35,403
Working capital ratio	**2.7:1**	2.1:1

The increase in working capital is a result of the improved results compared to the prior year.

CREDIT FACILITY

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on lender's consent. The revolving term loan facility matures on May 30, 2014, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule. At June 30, 2012, the maximum of $100 million was available to Essential.

As at June 30, 2012, all financial debt covenants were satisfied and all banking requirements were up to date. Essential does not anticipate any financial resource or liquidity issues to restrict its future operating, investing or financing activities. On August 8, 2012, Essential had long-term debt outstanding of $51.9 million.

EQUIPMENT EXPENDITURES

(Thousands)		Three months ended June 30, 2012		2011		Six months ended June 30, 2012		2011
Well Servicing	**$**	**11,820**	$	8,168	**$**	**21,088**	$	14,425
Downhole Tools & Rentals		**398**		1,461		**1,213**		3,129
Corporate		**246**		348		**710**		425
Total equipment expenditures		**12,464**		9,977		**23,011**		17,979
Less proceeds on disposal of property and equipment		**(797)**		(1,404)		**(8,115)**		(2,351)
Net equipment expenditures[1]	**$**	**11,667**	$	8,573	**$**	**14,896**	$	15,628

Essential plans to complete its 2012 capital program, however, spending is expected to decrease from $60 million to $57 million due to the slight delay in the delivery of certain equipment into 2013. Spending in 2012 is expected to consist of $43 million in growth capital and $14 million in maintenance and infrastructure capital. The program continues to focus on increasing the depth capacity of the coil tubing fleet, expanding the pumping fleet to support deeper horizontal well activity and enhancing the capabilities of the service rig fleet. Capital spending during the first half of 2012 primarily consisted of deposits and progress payments on the build programs for the masted coil tubing rigs, fluid pumpers and service rigs. Capital spending during the second half of 2012 is expected to be higher than the first half of 2012 as Essential makes final payments for equipment once it has been commissioned and delivered.

During the first six months of 2012, Essential added the following assets to its fleet:

- One 1,000 HP quintiplex fluid pumper in the coil well service operations.
- One custom built mobile, free-standing, all-period double service rig for northern Alberta service rig operations.
- One mobile, free-standing, double service rig for southern Alberta service rig operations.

Essential expects to add the following assets to its fleet through the remainder of 2012 and into 2013:

- Five deep masted coil tubing rigs and one conventional deep coil tubing rig in the coil well service operations.
- Two 1,000 HP quintiplex fluid pumpers, three low-rate nitrogen pumpers and one high-rate pumper in the coil well service operations.
- Two custom built mobile, free-standing, all-period double service rigs for the northern Alberta service rig operations.
- One mobile, free-standing, double service rig for southern Alberta service rig operations.

Essential has removed from service several redundant shallow coil tubing rigs and aging service rigs during the quarter. These assets have nominal book value and represent a small portion of Essential's equipment fleet. The Company expects to sell or dismantle this equipment.

Essential classifies its equipment expenditures as growth capital[1], maintenance capital[1], and infrastructure capital[1]. The latter category includes information systems, operational facilities and leasehold improvements. Comparative equipment expenditures are as follows:

(Thousands)		Three months ended June 30, 2012		2011		Six months ended June 30, 2012		2011
Growth capital[1]	$	**9,545**	$	7,301	$	**15,633**	$	12,721
Maintenance capital[1]		**2,575**		1,929		**6,552**		4,179
Infrastructure capital[1]		**344**		747		**826**		1,079
Total equipment expenditures	$	**12,464**	$	9,977	$	**23,011**	$	17,979

SHARE CAPITAL

As at August 8, 2012, there were 123,875,567 shares and 7,462,502 share options outstanding. Of the 7,462,502 share options, 3,508,483 were exercisable of which 2,385,983 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; 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 2011 reporting (please refer to the MD&A for the year ended December 31, 2011 available on SEDAR at www.sedar.com and on 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 IFRS. 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 2011 reporting (please refer to the MD&A for the year ended December 31, 2011 available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca).

OUTLOOK

Demand in the WCSB continues to be driven by oil prices and activity on horizontal wells which are more service intensive than vertical wells. Activity in the second quarter was hampered by wet weather conditions which delayed the restart of operations after spring break-up, however, demand for Essential's services has recently started improving.

Since the end of the first quarter there has been some deterioration in industry expectations for the second half of 2012 as world economic events have created uncertainty in the market and oil price instability. Activity for the back half of 2012 will be dependent on whether customers maintain or reduce their capital spending programs given these market uncertainties. If capital budgets are reduced, customers may continue to focus on workovers of existing wells to meet production targets. Despite these factors, management expects strong activity in Essential's deep coil tubing fleet due to the shortage of equipment in the industry.

Essential expects to complete its 2012 capital expenditure program which further expands the breadth and depth of the current fleet and is expected to reinforce Essential's position as a leading well service provider in the WCSB.

Essential remains well-positioned with a strong balance sheet and high demand services lines of coil well service, service rigs and downhole tools and rentals to meet its customers' needs.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including expectations regarding capital spending, in-service timing of new equipment, expectations regarding the impact of recent equipment purchases, expectations of future cash flow and earnings, expectations with respect to the demand for and price of oil and liquids-rich natural gas, expectations regarding the level and type of drilling activity, production activity and required oilfield services in the WCSB, expectations regarding the demand for Essential's services, expectations regarding the business, operations and revenues of the Company in addition to general economic conditions, expectations regarding Essential's ability to meet the changing needs of the WCSB market and expectations regarding demand for Essential's services in Colombia.

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

Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the risks associated with the oilfield services sector (e.g. demand, pricing and terms for oilfield services; current and expected oil and natural gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety and environmental risks); integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties, incentive programs and environmental regulations; stock market volatility and the inability to access sufficient capital from external and internal sources; the ability of the Company's subsidiaries to enforce legal rights in foreign jurisdictions; general economic, market or business conditions; global economic events; changes to Essential's financial position and cash flow; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; risks associated with government regulations and environmental health and safety matters and other unforeseen conditions which could impact the use of equipment and services supplied by Essential in Colombia; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive.

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

[1]**Non-IFRS Measures**

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

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

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

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

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

Infrastructure capital – Additions that are incurred in order to maintain the Company's business systems and operating facilities. Such additions do not provide incremental increases in revenue.

Net equipment expenditures[d] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to assess net cash flows related to the financing of Essential's oilfield services equipment.

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[a] Gross margin % is reconciled to the IFRS measures, revenue and operating costs, in the table "Results of Operations".
[b] EBITDA and EBITDA % are reconciled to the IFRS measure, loss from continuing operations before income taxes, in the table "Results of Operations".
[c] Funds flow is reconciled to the IFRS measure, cash flow from operations, in the table "Funds Flow from Operations".
[d] Net equipment expenditures is calculated from the IFRS measures, equipment expenditures and proceeds on disposal of equipment, in the table "Equipment Expenditures".

Unaudited Condensed Interim Consolidated Financial Statements

Essential Energy Services Ltd.

June 30, 2012

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

(Thousands)		**As at June 30, 2012**		As at December 31, 2011
Assets				
Current				
Cash	**$**	**-**	$	164
Trade and other receivables *(note 4)*		**49,131**		85,013
Income taxes receivable		**800**		-
Inventories *(note 5)*		**21,313**		17,819
Prepayments		**4,119**		3,019
		75,363		106,015
Non-current				
Property and equipment *(note 6)*		**217,513**		211,764
Intangible assets *(note 7)*		**41,961**		44,750
Goodwill		**57,425**		57,425
Deferred tax assets *(note 10)*		**1,115**		1,636
		318,014		315,575
Total assets	**$**	**393,377**	$	421,590
Liabilities				
Current				
Bank indebtedness	**$**	**2,715**	$	-
Trade and other payables		**22,452**		39,913
Dividends payable *(note 8)*		**3,096**		-
Income taxes payable		**-**		5,234
Current portion of long-term debt *(note 9)*		**15**		14,603
Current portion of equity taxes		**110**		117
		28,388		59,867
Non-current				
Long-term debt *(note 9)*		**41,183**		48,973
Equity taxes		**110**		232
Deferred tax liabilities *(note 10)*		**25,794**		23,615
		67,087		72,820
Total liabilities		**95,475**		132,687
Commitments *(note 16)*				
Equity				
Share capital *(note 11)*		**258,514**		257,775
Retained earnings		**35,427**		28,651
Other reserves		**3,996**		2,402
Equity attributable to shareholders of Essential		**297,937**		288,828
Non-controlling interest *(note 12)*		**(35)**		75
Total equity		**297,902**		288,903
Total liabilities and equity	**$**	**393,377**	$	421,590

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

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

(Thousands, except per share amounts)	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Revenue	$ **52,333**	$ 40,479	$ **171,913**	$ 106,895
Operating expenses	**48,666**	37,402	**131,742**	87,166
Gross margin	**3,667**	3,077	**40,171**	19,729
General and administrative expenses	**4,146**	3,214	**8,298**	6,465
	(479)	(137)	**31,873**	13,264
Depreciation and amortization *(notes 6 & 7)*	**6,231**	4,047	**13,394**	7,555
Share-based compensation *(note 14)*	**444**	409	**935**	714
Equity taxes	**-**	-	**-**	478
Other (income) expense	**74**	849	**(1,143)**	1,228
Operating profit (loss)	**(7,228)**	(5,442)	**18,687**	3,289
Transaction costs	**-**	2,397	**-**	2,397
Finance costs *(note 13)*	**569**	372	**1,205**	492
Earnings (loss) before income taxes	**(7,797)**	(8,211)	**17,482**	400
Income taxes				
Current expense (recovery)	**(1,248)**	239	**2,468**	239
Deferred expense (recovery)	**(542)**	(1,999)	**2,290**	517
Total income tax expense (recovery) *(note 10)*	**(1,790)**	(1,760)	**4,758**	756
Net income (loss)	**(6,007)**	(6,451)	**12,724**	(356)
Other comprehensive income (loss):				
Unrealized foreign exchange gain (loss) on foreign operations	**(2)**	169	**1,007**	344
Comprehensive income (loss)	$ **(6,009)**	$ (6,282)	$ **13,731**	$ (12)
Net income (loss) attributable to:				
Shareholders of Essential	$ **(5,923)**	$ (6,364)	$ **12,971**	$ (116)
Non-controlling interest	**(84)**	(87)	**(247)**	(240)
	$ **(6,007)**	$ (6,451)	$ **12,724**	$ (356)
Comprehensive income (loss) attributable to:				
Shareholders of Essential	$ **(5,913)**	$ (6,216)	$ **13,846**	$ 193
Non-controlling interest	**(96)**	(66)	**(115)**	(205)
	$ **(6,009)**	$ (6,282)	$ **13,731**	$ (12)
Earnings (loss) per share *(note 15)*				
Basic and diluted, attributable to shareholders of Essential	$ **(0.05)**	$ (0.07)	$ **0.10**	$ 0.00

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

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

(Thousands)	For the six months ended June 30, **2012**	2011
Equity attributable to shareholders of Essential:		
Share capital		
Opening balance	**$ 257,775**	$ 150,798
Exercise of options	**739**	10
Issuance of shares	**-**	106,536
Closing balance	**$ 258,514**	$ 257,344
Retained earnings (accumulated deficit)		
Opening balance	**$ 28,651**	$ (2,223)
Net income (loss)	**12,971**	(116)
Dividends	**(6,190)**	-
Equity transferred *(note 12)*	**(5)**	(108)
Closing balance	**$ 35,427**	$ (2,447)
Other Reserves		
Opening balance	**$ 2,402**	$ 1,205
Other comprehensive income	**877**	307
Share based compensation	**935**	714
Exercise of options	**(218)**	(4)
Closing balance	**$ 3,996**	$ 2,222
Total equity attributable to shareholders of Essential	**$ 297,937**	$ 257,119
Equity attributable to non-controlling interest:		
Opening balance	**$ 75**	$ 303
Net loss	**(246)**	(240)
Other comprehensive income	**131**	35
Equity transferred *(note 12)*	**5**	108
Closing balance	**$ (35)**	$ 206
Total equity	**$ 297,902**	$ 257,325

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

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

	For the six months ended June 30,	
(Thousands)	**2012**	2011
Operating activities:		
Net income (loss)	**$ 12,724**	$ (356)
Non-cash adjustments to reconcile net income to net cash flow:		
Depreciation and amortization *(notes 6 & 7)*	**13,394**	7,555
Deferred income tax expense *(note 10)*	**2,290**	517
Share-based compensation *(note 14)*	**935**	714
Provision for (recovery of) impairment of trade receivables *(note 4)*	**(312)**	214
Finance costs *(note 13)*	**1,205**	492
(Gain) loss on disposal of assets *(note 6)*	**(490)**	1,591
Operating cash flow before changes in working capital	**29,746**	10,727
Changes in working capital:		
Decrease in trade and other receivables before provision	**36,668**	6,096
Increase in inventories	**(3,494)**	(3,036)
(Increase) decrease in prepayments	**(1,100)**	311
Increase (decrease) in income taxes payable	**(6,034)**	239
Decrease in trade and other accounts payables	**(17,461)**	(11,417)
Increase (decrease) in equity taxes payable	**(129)**	478
Net cash flows from operating activities	**38,196**	3,398
Investing activities:		
Purchase of property and equipment *(note 6)*	**(23,011)**	(17,979)
Business acquisition	**-**	(56,582)
Proceeds on disposal of equipment *(note 6)*	**8,115**	2,351
Net cash flows used in investing activities	**(14,896)**	(72,210)
Financing activities:		
Increase (decrease) in long-term debt	**(22,378)**	62,837
Dividends paid	**(3,094)**	-
Issuance of share capital, net of costs	**520**	6
Finance costs *(note 13)*	**(1,205)**	(492)
Net cash flows from (used in) financing activities	**(26,157)**	62,351
Foreign exchange gain on cash held in a foreign currency	**(22)**	(4)
Change in cash	**(2,879)**	(6,465)
Cash, beginning of period	**164**	2,392
Bank indebtedness, end of period	**$ (2,715)**	$ (4,073)
Supplemental cash flow information		
Cash taxes paid	**$ 8,516**	$ -

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

ESSENTIAL ENERGY SERVICES LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at and for the periods ended June 30, 2012 and 2011
(All tabular amounts in thousands unless otherwise stated, except for per share amounts)

1. AUTHORIZATION OF FINANCIAL STATEMENTS & STATEMENT OF COMPLIANCE WITH IFRS

The unaudited condensed interim consolidated financial statements ("Interim Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the three and six month periods ended June 30, 2012 and 2011 were authorized by the Board of Directors on August 8, 2012. Essential is a publicly traded oilfield services company governed by the laws of the province of Alberta. Essential is listed on the Toronto Stock Exchange and trades under the symbol "ESN".

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

The Interim Financial Statements of Essential have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited annual consolidated financial statements as at December 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements for the three and six month periods ended June 30, 2012 and 2011 were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these Interim Financial Statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2011. Accordingly, these Interim Financial Statements for the three and six month periods ended June 30, 2012 and 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2011.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements necessarily involves the use of estimates and approximations based on information available as of the date of the Interim Financial Statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the estimates used for the fair valuation of acquired assets and liabilities pursuant to business combinations, provisions for impairment of trade receivables, net realizable value of used inventory, depreciation and amortization, intangible assets, share-based compensation, impairment of non-financial assets and deferred income tax assets and liabilities. The effect on the Interim Financial Statements of changes in such estimates in future years could be material.

4. TRADE AND OTHER RECEIVABLES

	As at June 30, 2012	As at December 31, 2011
Trade receivables, net of provision	**$ 48,933**	$ 83,065
Other receivables	**198**	1,948
	$ 49,131	$ 85,013

Trade receivables are non-interest bearing, generally due on 30-90 day terms and are shown net of a provision for impairment of $0.9 million (2011 - $1.6 million). Other receivables are non-interest bearing and do not contain impaired assets.

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

		As at June 30, 2012		As at December 31, 2011
Canadian Dollar	**$**	**46,792**	$	81,982
United States Dollar		**2,141**		1,083
	$	**48,933**	$	83,065

The aging analysis of trade receivables is as follows:

		As at June 30, 2012		As at December 31, 2011
< 31 days	**$**	**23,759**	$	38,414
31-60 days		**11,127**		28,551
61-90 days		**4,881**		10,759
>90 days		**9,166**		5,341
	$	**48,933**	$	83,065

Trade receivables that are less than three months past due are generally not considered impaired. The provision for impairment of receivables of $0.9 million is included in the amounts over 90 days old. The movements in the provision during the period were as follows:

	For the three months ended June 30,				For the six months ended June 30,			
		2012		2011		**2012**		2011
Balance, beginning of the period	**$**	**958**	$	573	**$**	**1,642**	$	423
Acquisition of Technicoil		**-**		794		-		794
Provision for receivables impairment		**30**		61		**30**		214
Receivables written off during the period as uncollectible		**(75)**		(60)		**(417)**		(63)
Unused amount reversed		**-**		**-**		**(342)**		-
Balance, end of the period	**$**	**913**	$	1,368	**$**	**913**	$	1,368

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

5. INVENTORIES

		As at June 30, 2012		As at December 31, 2011
Downhole tools	**$**	**14,216**	$	13,493
Coil tubing products		**7,097**		4,326
	$	**21,313**	$	17,819

Inventory charged through operating expenses in the consolidated statement of comprehensive income for the three and six months ended June 30, 2012 was $5.7 million and $20.0 million, respectively (2011 - $6.8 million and $15.9 million, respectively).

6. PROPERTY AND EQUIPMENT

As at June 30, 2012		**Cost**		**Accumulated Depreciation**		**Net Book Value**
Service rigs and equipment	**$**	**122,494**	**$**	**23,141**	**$**	**99,353**
Coil tubing rigs and equipment		**82,687**		**11,051**		**71,636**
Oilfield equipment		**38,912**		**12,236**		**26,676**
Vehicles		**20,818**		**5,216**		**15,602**
Office and computer equipment		**2,932**		**1,271**		**1,661**
Land		**482**		**-**		**482**
Other		**3,742**		**1,639**		**2,103**
	$	**272,067**	**$**	**54,554**	**$**	**217,513**

As at December 31, 2011		Cost		Accumulated Depreciation		Net Book Value
Service rigs and equipment	$	115,581	$	19,835	$	95,746
Coil tubing rigs and equipment		75,138		8,504		66,634
Oilfield equipment		40,723		11,335		29,388
Vehicles		18,885		4,560		14,325
Office and computer equipment		2,840		1,012		1,828
Land		482		-		482
Other		4,892		1,531		3,361
	$	258,541	$	46,777	$	211,764

Included in service rigs and equipment, coil tubing rigs and equipment and oilfield equipment is $27.0 million (December 31, 2011 - $17.0 million) of assets under construction which will not be depreciated until put into use.

	For the three months ended June 30,				For the six months ended June 30,			
		2012		2011		**2012**		2011
Net book value, beginning of the period	**$**	**211,189**	$	110,963	**$**	**211,764**	$	107,805
Acquisition of Technicoil		**-**		82,408		**-**		82,408
Acquisitions		**12,368**		9,917		**22,761**		17,865
Disposals		**(1,187)**		(2,252)		**(7,625)**		(3,942)
Depreciation		**(4,781)**		(3,286)		**(10,489)**		(6,434)
Currency translation adjustment		**(76)**		172		**1,102**		220
Net book value, end of the period	**$**	**217,513**	$	197,922	**$**	**217,513**	$	197,922

7. INTANGIBLE ASSETS

As at June 30, 2012		**Cost**		**Accumulated Amortization**		**Net Book Value**
Customer relationships	**$**	**45,715**	**$**	**7,546**	**$**	**38,169**
Trade names		**3,559**		**1,364**		**2,195**
Computer software		**3,629**		**2,050**		**1,579**
Favourable leases		**500**		**482**		**18**
	$	**53,403**	**$**	**11,442**	**$**	**41,961**

As at December 31, 2011		Cost		Accumulated Amortization		Net Book Value
Customer relationships	$	45,917	$	5,379	$	40,538
Trade names		3,599		1,125		2,474
Computer software		3,378		1,724		1,654
Favourable leases		561		477		84
	$	53,455	$	8,705	$	44,750

		For the three months ended June 30,		For the six months ended June 30,
	2012	2011	**2012**	2011
Net book value, beginning of the period	**$ 43,315**	$ 4,841	**$ 44,750**	$ 5,147
Acquisition of Technicoil *(note 5)*	**-**	44,600	**-**	44,600
Acquisitions	**96**	60	**250**	114
Loss on disposal of assets	**-**	-	**(133)**	-
Amortization	**(1,450)**	(763)	**(2,906)**	(1,123)
Net book value, end of the period	**$ 41,961**	$ 48,738	**$ 41,961**	$ 48,738

8. DIVIDENDS PAYABLE

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

2012 Dividends	**Record date**	**Dividend date**	**Amount per share**
First quarter	March 30	April 13	$ 0.025
Second quarter	June 29	July 13	$ 0.025

9. LONG-TERM DEBT

	As at June 30, 2012	As at December 31, 2011
Term loan	**$ 41,165**	$ 63,293
Finance leases	**33**	283
	41,198	63,576
Less: current portion of long-term debt	**(15)**	(14,603)
	$ 41,183	$ 48,973

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on lender's consent. The $100 million revolving term loan facility matures on May 31, 2014, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule.

As at June 30, 2012, all financial debt covenants were satisfied and all banking requirements were up to date.

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

	As at June 30, 2012	As at December 31, 2011
Repayments are required as follows:		
Within one year	**$ -**	$ 14,345
Between one and two years	**818**	20,254
Between two and three years	**13,833**	28,694
Between three and four years	**26,514**	-
	$ 41,165	$ 63,293

10. INCOME TAXES

Components of income tax expense	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Current income tax expense	**$ (1,248)**	$ 239	**$ 2,468**	$ 239
Deferred income tax expense related to the origination and reversal of temporary differences	**(542)**	(1,999)	**2,290**	517
Income tax expense	**$ (1,790)**	$ (1,760)	**$ 4,758**	$ 756

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

	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
Earnings before income taxes	**$ (7,797)**	$ (8,211)	**$ 17,482**	$ 400
Statutory tax rate	**25.0%**	26.5%	**25.0%**	26.5%
Expected income tax expense	**$ (1,949)**	$ (2,176)	**$ 4,371**	$ 106
Increase (decrease) resulting from:				
Equity tax	-	-	-	127
Share based compensation	**111**	108	**234**	189
Items not deductible for tax	**70**	181	**127**	347
Impact of foreign tax rates	**3**	(21)	**41**	(40)
Effective tax law changes and future tax rate deductions	-	148	-	27
Other	**(25)**	-	**(15)**	-
Income tax expense (recovery)	**$ (1,790)**	$ (1,760)	**$ 4,758**	$ 756

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

	As at June 30, 2012	As at December 31, 2011
Deferred tax assets		
Foreign operating loss	**$ 1,239**	$ 1,383
Foreign incentive	**296**	253
Accelerated depreciation of property and equipment	**(420)**	-
	$ 1,115	$ 1,636
Deferred tax liabilities		
Accelerated depreciation of property and equipment	**$ (18,485)**	$ (16,989)
Book values of intangible assets in excess of tax	**(6,903)**	(7,457)
Losses available for offset against future taxable income	**2,102**	4,157
Deferred partnership income	**(2,089)**	(3,118)
Equity issuance costs	**487**	617
Other	**(906)**	(825)
	$ (25,794)	$ (23,615)
Net deferred tax assets (liabilities)	**$ (24,679)**	$ (21,979)

11. SHARE CAPITAL

Authorized

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

Issued	Number of Common Shares		Amount
As at January 1, 2011	71,443	$	150,798
Shares issued on acquisition of Technicoil	51,736		106,536
Shares issued on exercise of options	260		441
As at December 31, 2011	123,439	$	257,775
Shares issued on exercise of options	400		739
As at June 30, 2012	**123,839**	**$**	**258,514**

12. NON-CONTROLLING INTEREST

		As at June 30, 2012		As at December 31 2011
Balance, beginning of the period	**$**	**75**	$	303
Contribution		**5**		128
Loss attributed to non-controlling interest		**(246)**		(347)
Other comprehensive income (loss)		**131**		(9)
Balance, end of the period	**$**	**(35)**	$	75

Essential established a subsidiary pursuant to the terms of an agreement with a private Colombian group (the "Partner") under the name of Essential Energy Services S.A. ("Essential Colombia"). Under the terms of the agreement, Essential owns 85% and the Partner owns 15% of Essential Colombia and earnings are allocated accordingly.

The Partner was granted a 5% interest in Essential Colombia upon signing the agreement. Therefore, 5% of the fair value of Essential's contributed equipment has been treated as a transfer of equity to the non-controlling interest. The remaining 10% of the Partner's contribution will be recorded as an increase to non-controlling interest when received.

13. FINANCE COSTS

	For the three months ended June 30,				For the six months ended June 30,			
		2012		2011		**2012**		2011
Bank borrowings	**$**	**567**	$	367	**$**	**1,199**	$	480
Lease financing		**2**		5		**6**		12
	$	**569**	$	372	**$**	**1,205**	$	492

14. SHARE-BASED COMPENSATION

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

The maximum number of share options issuable under the Share Option Plan may not exceed 10% of the sum of the Company's outstanding shares, which at June 30, 2012 totaled 12,383,890 (2011 – 12,318,640) share options.

	For the six months ended June 30, 2012		For the six months ended June 30, 2011	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**6,271**	**$ 2.04**	5,034	$ 2.61
Issued	**2,310**	**2.08**	2,275	2.10
Exercised	**(400)**	**1.32**	(7)	1.00
Expired	**(199)**	**8.91**	(325)	10.44
Forfeited	**(394)**	**2.02**	(109)	3.45
Outstanding, end of period	**7,588**	**$ 1.91**	6,868	$ 2.06
Exercisable, end of period	**3,558**	**$ 1.95**	2,609	$ 2.48

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

	2012	2011
Fair value per option issued	**$0.58 – 1.10**	$0.94 – 1.18
Assumptions used:		
Risk-free interest rate	**0.9 – 1.2%**	1.7 – 2.3%
Expected volatility	**50.9 – 72.2%**	70.0 – 77.4%
Expected term	**2.8 – 4.4 years**	2.2 – 4.2 years
Expected forfeiture rate	**8.0 – 19.2%**	15.2 – 16.0%
Dividend yield	**nil – 4.7%**	nil

The expected term of the grant is determined based on the historical average life of grants issued. The risk-free interest rate is determined using the Canadian bond yield based on the expected term of the grant. The expected volatility is determined based on the change in the share price over the expected term of the grant. The expected forfeiture rate is calculated based on historical forfeitures of grants issued.

15. EARNINGS PER SHARE

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

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

	For the three months ended June 30, **2012**	For the three months ended June 30, 2011	For the six months ended June 30, **2012**	For the six months ended June 30, 2011
Basic	**123,792**	88,500	**123,682**	80,021
Dilutive common shares from share options	**-**	-	**1,628**	-
Total diluted	**123,792**	88,500	**125,310**	80,021
Net income (loss) attributable to Essential	**$ (5,923)**	$ (6,364)	**$ 12,971**	$ (116)
Basic and diluted earnings (loss) per share	**$ (0.05)**	$ (0.07)	**$ 0.10**	$ 0.00

16. COMMITMENTS

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

	Amount
Within one year	$ 4,258
In the second year to fifth years inclusive	13,048
After five years	9,715
	$ 27,021

In addition to the above, Essential entered into agreements to build certain assets for $43.1 million. During the remainder of 2012, $33.7 million of the amounts committed to these expenditures are expected to be paid with the balance of $9.4 million expected to be paid during 2013.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The carrying values of cash, trade and other receivables, dividends payable and trade and other payables approximate their estimated fair values due to their short terms to maturity.

The fair value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates.

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and gas industry and are subject to normal industry credit risks. These balances represent the Company's total credit exposure. During the six months ended June 30, 2012, the Company earned revenues from approximately 400 customers (2011 – 400 customers) with five of these customers representing 25% of revenue (2011 – 23%). As at June 30, 2012, approximately 29% of the total accounts receivable balance was due from five companies (2011 – 25%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's income or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.4 million change to net income on an annualized basis.

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 from undrawn committed credit facilities to meet current spending forecasts.

18. SEASONALITY OF OPERATIONS

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

19. SEGMENTED INFORMATION

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

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

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

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	**$ 36,793**	**$ 15,540**	**$ -**	**$ 52,333**
Net income (loss) before income taxes	**$ (8,401)**	**$ 4,685**	**$ (4,081)**	**$ (7,797)**
Depreciation and amortization	**$ 5,177**	**$ 730**	**$ 324**	**$ 6,231**
Total assets	**$ 340,432**	**$ 45,157**	**$ 7,788**	**$ 393,377**
Total liabilities	**$ 33,986**	**$ 2,789**	**$ 58,700**	**$ 95,475**
Equipment expenditures	**$ 11,820**	**$ 398**	**$ 246**	**$ 12,464**

As at and for the three months ended June 30, 2011

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	$ 23,364	$ 17,115	$ -	$ 40,479
Net income (loss) before income taxes	$ (5,718)	$ 2,810	$ (5,303)	$ (8,211)
Depreciation and amortization	$ 2,808	$ 965	$ 274	$ 4,047
Total assets	$ 305,914	$ 50,813	$ 14,290	$ 371,017
Total liabilities	$ 26,721	$ 7,432	$ 79,539	$ 113,692
Equipment expenditures	$ 8,168	$ 1,461	$ 348	$ 9,977
Property and equipment acquired in business combination	$ 82,408	$ -	$ -	$ 82,408

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

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	**$ 121,122**	**$ 50,791**	**$ -**	**$ 171,913**
Net income (loss) before income taxes	**$ 10,941**	**$ 15,585**	**$ (9,044)**	**$ 17,482**
Depreciation and amortization	**$ 11,050**	**$ 1,703**	**$ 641**	**$ 13,394**
Total assets	**$ 340,432**	**$ 45,157**	**$ 7,788**	**$ 393,377**
Total liabilities	**$ 33,986**	**$ 2,789**	**$ 58,700**	**$ 95,475**
Equipment expenditures	**$ 21,088**	**$ 1,213**	**$ 710**	**$ 23,011**

As at and for the six months ended June 30, 2011

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	$ 63,574	$ 43,321	$ -	$ 106,895
Net income (loss) before income taxes	$ 1,504	$ 8,470	$ (9,574)	$ 400
Depreciation and amortization	$ 5,010	$ 2,003	$ 542	$ 7,555
Total assets	$ 305,914	$ 50,813	$ 14,290	$ 371,017
Total liabilities	$ 26,721	$ 7,432	$ 79,539	$ 113,692
Equipment expenditures	$ 14,425	$ 3,129	$ 425	$ 17,979
Property and equipment acquired in business combination	$ 82,408	$ -	$ -	$ 82,408

The Company's operations are carried out in two geographic locations:

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

	Canada	**Colombia**	**Consolidated**
Revenue	**$ 50,872**	**$ 1,463**	**$ 52,333**
Total assets	**$ 380,043**	**$ 13,334**	**$ 393,377**

As at and for the three months ended June 30, 2011

	Canada	Colombia	Consolidated
Revenue	$ 40,118	$ 361	$ 40,479
Total assets	$ 360,696	$ 10,321	$ 371,017

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

	Canada	**Colombia**	**Consolidated**
Revenue	**$ 169,052**	**$ 2,861**	**$ 171,913**
Total assets	**$ 380,043**	**$ 13,334**	**$ 393,377**

As at and for the six months ended June 30, 2011

	Canada	Colombia	Consolidated
Revenue	$ 106,534	$ 361	$ 106,895
Total assets	$ 360,696	$ 10,321	$ 371,017

20. COMPARATIVE AMOUNTS

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

CORPORATE INFORMATION

DIRECTORS

James A. Banister, Chairman

Garnet K. Amundson

Michael J. Black [2]

Robert T. German [1,3]

Roderick W. Graham [1,2,3]

Nicholas G. Kirton [1,2]

Andrew B. Zaleski [3]

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

MANAGEMENT

Garnet K. Amundson
President & Chief Executive Officer

Don A. K. Webster
Chief Operating Officer

Jeff B. Newman
Chief Financial Officer & Vice President, Finance

Kevin W. Job
Vice President, Operations

AUDITORS

Ernst & Young LLP

BANKERS

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Toronto Dominion Bank

HSBC Bank Canada

Canadian Western Bank

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