ESSENTIAL ENERGY SERVICES

Q1 REPORT

Three Months Ended March 31, 2013

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the three months ended March 31, 2013.

This MD&A should be read in conjunction with Essential's March 31, 2013 unaudited condensed interim consolidated financial statements, the audited consolidated financial statements and MD&A included in Essential's 2012 Financial Report to Shareholders for the financial year ended December 31, 2012 and the statement regarding forward-looking information in this report. 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 May 7, 2013.

SELECTED INFORMATION

(Thousands of dollars, except per share amounts and percentages)	For the three months ended March 31, 2013	2012*
Revenue	$ **120,519**	$ 118,182
Gross margin	$ **37,832**	$ 36,740
Gross margin %	**31%**	31%
EBITDA[1] from continuing operations	$ **33,426**	$ 32,755
EBITDA % [1]	**28%**	28%
Funds flow from continuing operations [1]	$ **29,278**	$ 29,060
Per share – basic [1]	$ **0.24**	$ 0.24
Per share – diluted [1]	$ **0.23**	$ 0.23
Total assets	$ **436,301**	$ 430,674
Total long-term debt	$ **35,603**	$ 57,238
Utilization		
Deep coil tubing rigs	**110%**	102%
Service rigs	**69%**	68%
Equipment fleet **		
Deep coil tubing rigs	**25**	25
Service rigs	**56**	58

* Certain comparative amounts have been reclassified to conform to the current period's presentation.
** Fleet data represents the number of units at the end of a period.
*** Essential committed to a plan to divest of its Colombian operations. This resulted in various changes to the presentation of financial information for the current and comparative periods. The operating results and cash flows from continuing operations do not include the results of the Colombian operations. Operating results for the Colombian operations have been reclassified as discontinued operations and cash flows have been reclassified as net cash flows incurred by discontinued operations for the current and all comparative periods.

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

Q1 2013 HIGHLIGHTS – ESSENTIAL

Operating Highlights

- Coil Well Service – Essential's coil well service business experienced strong demand for deep coil tubing and pumping services relative to the prior year. The significant growth in revenue was attributable to increased demand for Essential's coil well services working on the Bakken and Montney plays. Deep coil tubing utilization of 110% increased 8 percentage points quarter-over-quarter from the prior year, outperforming industry completion statistics which showed flat [(1)] well completion activity quarter-over-quarter.
- Service Rigs – Service rig utilization remained strong at 69% which was consistent with 2012 performance. Demand for services remained high, particularly for Essential's three service rigs operating 24 hours a day on steam-assisted gravity drainage ("SAGD") wells.
- Downhole Tools & Rentals – The downhole tools & rentals segment had a very strong first quarter as the Tryton multi-stage fracturing system ("Tryton MSFS") benefited from continued growth quarter-over-quarter from the new tools introduced in the latter part of 2012.
- Capital – Equipment fabricators made significant progress during the quarter in building the equipment planned for 2013 delivery. In March 2013, Essential commissioned one mobile free standing, all-period double service rig purpose-built to work on SAGD wells. Essential took delivery of two nitrogen pumpers in the earlier part of the second quarter.

OVERVIEW OF ESSENTIAL

Coil Well Service

Essential operates the largest coil well servicing fleet in the Western Canadian Sedimentary Basin ("WCSB") operating out of six service locations across western Canada. There are three distinct types of operations within Essential's coil well service operation.

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

Service Rigs

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

1 Sources: JuneWarren-Nickle's Energy Group

Downhole Tools & Rentals

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

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

Corporate Information

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

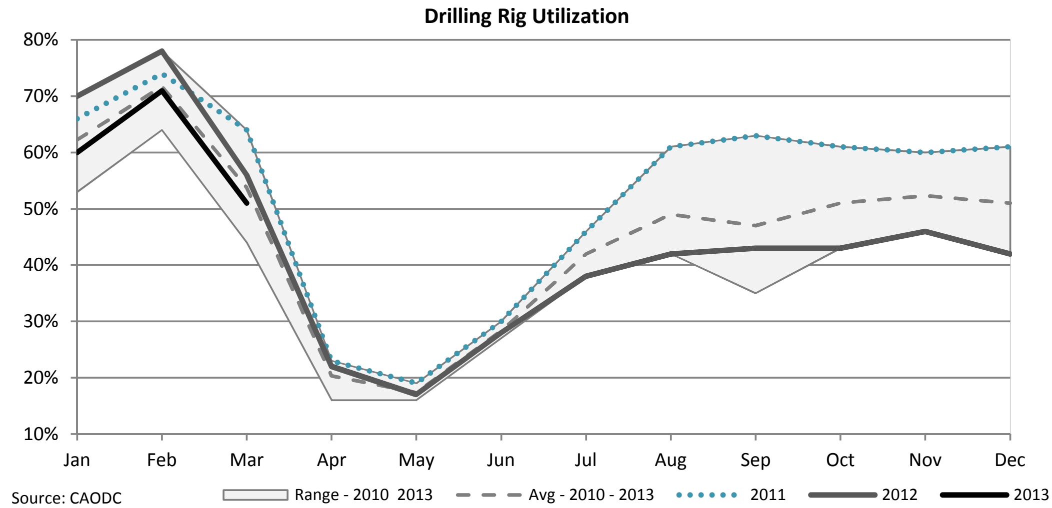
Additional information regarding Essential, including the Financial Statements for the three months ended March 31, 2013 and the year ended December 31, 2012, the 2012 Annual MD&A, the Annual Information Form for the year ended December 31, 2012, and the March 31, 2012, June 30, 2012 and September 30, 2012 interim reports can be found under Essential's profile on SEDAR at www.sedar.com.

INDUSTRY OVERVIEW

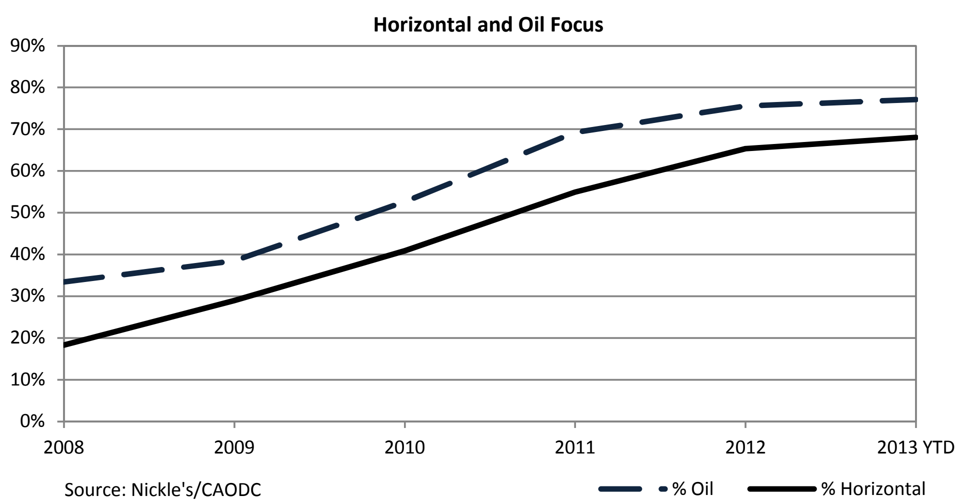
During the first quarter of 2013, activity in the Canadian oil and gas industry was below the first quarter of 2012, but improved sequentially from the fourth quarter of 2012 as a result of the seasonally busy winter drilling period. Well completion count and drilling rig utilization, both indicators of overall oilfield service activity levels in the WCSB, were down year-over-year. Well completion counts were relatively flat with a 1 percentage point [(1)] decline compared to 2012 and drilling rig utilization was 61% [(2)] compared to 68% [(2)] in 2012. Much of the uncertainty surrounding macroeconomic factors which impacted the latter part of 2012 still existed in the first quarter of 2013 as fundamentals were largely unchanged. The price differential between the Western Canadian Select ("WCS") crude oil and West Texas Intermediate ("WTI") benchmark remained high for the current quarter. 2013 activity in the first quarter benefited from a longer winter operating season due to colder weather extending beyond mid-March and sustained crude oil prices averaging above US $90/bbl.

1 Sources: June Warren-Nickle's Energy Group
2 Sources: Canadian Association of Oilwell Drilling Contractors

The following chart summarizes drilling rig utilization in the last 3 years as reported by the Canadian Association of Oilwell Drilling Contractors ("CAODC").



Well service activity in the WCSB continues to be driven by horizontal drilling, completion and stimulation of oil and liquids-rich natural gas plays. The industry continues 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.



SUMMARY OF QUARTERLY DATA

(Thousands of dollars, except per share amounts and percentages)	**Mar 31, 2013**	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	**Mar 31, 2012**	Dec 31, 2011	Sep 30, 2011	June 30, 2011
Well Servicing:								
Coil Well Service	**49,621**	41,228	33,857	18,697	**42,414**	43,945	36,349	9,871
Service Rigs	**33,556**	26,012	20,552	15,564	**33,311**	28,118	23,939	11,835
Other*	**-**	786	2,762	1,069	**7,206**	4,677	4,178	1,297
Total well servicing	**83,177**	68,026	57,171	35,330	**82,931**	76,740	64,466	23,003
Downhole Tools & Rentals**	**37,342**	27,989	26,342	15,540	**35,251**	32,115	33,316	17,115
Total revenue	**120,519**	96,015	83,513	50,870	**118,182**	108,855	97,782	40,118
Gross margin	**37,832**	27,039	23,012	3,904	**36,740**	35,498	31,203	3,334
Gross margin %	**31%**	28%	28%	8%	**31%**	33%	32%	8%
EBITDA[(1)]	**33,426**	22,368	19,261	(42)	**32,755**	31,733	27,570	449
EBITDA %[(1)]	**28%**	23%	23%	0%	**28%**	29%	28%	1%
Continuing operations								
Net income (loss)	**19,205**	8,050	8,343	(5,453)	**19,823**	17,082	14,020	(5,388)
Per share – basic and diluted	**$0.15**	$0.06	$0.07	$(0.04)	**$0.16**	$0.14	$0.11	$(0.06)
Net income (loss) attributable to shareholders of Essential	**18,627**	678	8,660	(5,923)	**18,893**	17,559	13,678	(6,364)
Per share – basic and diluted	**$0.15**	$0.01	$0.07	$(0.05)	**$0.15**	$0.14	$0.11	$(0.07)
Total assets	**436,301**	406,853	415,653	393,377	**430,674**	421,500	411,204	371,017
Total long-term debt	**35,603**	35,563	50,474	41,198	**57,238**	63,486	79,230	63,459
Utilization * **								
Coil tubing rigs – deep	**110%**	95%	79%	32%	**102%**	111%	104%	37%
Coil tubing rigs – other	**15%**	16%	15%	7%	**25%**	30%	25%	18%
Pumpers	**73%**	57%	50%	33%	**69%**	71%	50%	23%
Service rigs	**69%**	54%	45%	34%	**68%**	59%	54%	27%
Operating Hours								
Coil tubing rigs – deep	**24,765**	22,777	18,301	7,262	**23,236**	23,524	21,938	3,638
Coil tubing rigs – other	**2,511**	2,757	2,819	1,596	**5,494**	6,778	5,813	3,805
Pumpers	**20,481**	15,328	11,919	7,504	**13,865**	13,008	9,594	2,978
Service rigs	**34,364**	27,310	22,632	16,183	**35,188**	31,005	28,201	13,229
Downhole Tools & Rentals - revenue % of total								
Tryton MSFS	**60%**	51%	52%	40%	**47%**	47%	54%	45%
Conventional Tools & Rentals	**40%**	49%	48%	60%	**53%**	53%	46%	55%
Equipment fleet ******								
Canada								
Coil tubing rigs - deep	**25**	27	26	25	**25**	25	23	23
Coil tubing rigs - other	**19**	19	19	20	**24**	24	25	25
Service rigs	**56**	55	55	53	**58**	57	57	58
Nitrogen pumpers	**13**	13	10	10	**10**	10	9	8
Fluid pumpers	**18**	18	16	16	**15**	15	12	6
Rod rigs	**14**	14	14	14	**14**	14	14	14

* Other revenue included revenue from Essential's hybrid drilling operation until it was disposed of in November 2012.
** Revenue for Downhole Tools & Rentals included revenue from Essential's wireline business which was disposed of in February 2012.
*** Utilization is calculated using a 10 hour day.
**** Fleet data represents the number of units at the end of the period.

Over the past two years, Essential has improved its fleet through the acquisition of Technicoil, the purchase of new equipment, the 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 well servicing operations.

RESULTS OF OPERATIONS

(Thousands of dollars, except per share amounts and percentages)	Three months ended March 31, 2013	2012
Revenue	**$ 120,519**	$ 118,182
Operating expenses	**82,687**	81,442
Gross margin	**37,832**	36,740
Gross margin %	**31%**	31%
General and administrative expenses	**4,406**	3,985
EBITDA(1)	**33,426**	32,755
EBITDA %(1)	**28%**	28%
Depreciation and amortization	**7,044**	7,079
Share-based compensation	**343**	491
Other income	**(133)**	(1,243)
Operating income	**26,172**	26,428
Finance costs	**376**	632
Income before income tax	**25,796**	25,796
Current income tax expense	**4,425**	3,716
Deferred income tax expense	**2,166**	2,257
Total income tax expense	**6,591**	5,973
Net income from continuing operations	**$ 19,205**	**$** 19,823
Net loss from discontinued operations	**(607)**	(1,093)
Net income	**$ 18,598**	**$** 18,730
Net income from continuing operations	**$ 19,205**	$ 19,823
Net income from continuing operations per share		
Basic and diluted	**$ 0.15**	$ 0.16
Net income (loss) attributable to:		
Shareholders of Essential	**$ 18,627**	$ 18,893
Non-controlling interest	**(29)**	(163)
	$ 18,598	$ 18,730
Net income per share, attributable to Essential		
Basic and diluted	**$ 0.15**	$ 0.15

SEGMENT RESULTS - *WELL SERVICING*

(Thousands of dollars, except percentages)	Three months ended March 31, 2013	2012
Revenue		
Coil Well Service*	**$ 49,621**	$ 42,414
Service Rigs **	**33,556**	33,311
Other ***	**-**	7,206
Total revenue	**83,177**	82,931
Operating expenses	**56,042**	56,437
Gross margin	**$ 27,135**	$ 26,494
Gross margin %	**33%**	32%
Utilization ****		
Deep Coil Tubing Rigs		
Utilization	**110%**	102%
Operating hours	**24,765**	23,236
Service Rigs		
Utilization	**69%**	68%
Operating hours	**34,364**	35,188

* Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.
** Includes revenue from service rigs and rod rigs. Comparative amounts have been reclassified to conform to current period's presentation.
*** Other revenue included revenue from Essential's hybrid drilling operation until it was disposed of in November 2012.
**** Utilization is calculated using a 10 hour day.

Coil well service revenue experienced improved operating performance during the first quarter of 2013 as compared to the same period in the prior year as the demand for services was particularly strong in the Bakken oil play in Saskatchewan and Manitoba and in the Montney play in northern Alberta and British Columbia. Masted coil tubing revenue increased quarter-over-quarter as a result of the deep coil tubing reel trailer commissioned in the latter part of 2012 and an increase in coil tubing cycle charges and ancillary charges. Deep conventional coil tubing revenue increased as customers took advantage of the prolonged cold weather and continued service work in northern Alberta and British Columbia. Coil well service pumper revenue also increased from the addition of six new pumpers since the first quarter in 2012 and the training and recruiting initiatives undertaken in the latter part of 2012 which enabled Essential to crew additional pumpers. Revenue per hour for coil well service equipment increased due to the mix of services provided.

Service rigs maintained strong utilization during the first quarter of 2013 consistent with the same period in the prior year as demand for services remained high, particularly for Essential's three service rigs operating 24 hours a day on SAGD wells and service rigs operating in northern Alberta. Revenue per hour in the first quarter of 2013 increased due to the mix of services provided including the increase in SAGD work and associated rentals.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

(Thousands of dollars, except percentages)	Three months ended March 31, 2013	2012
Revenue		
Downhole Tools & Rentals	**$ 37,342**	$ 33,570
Other*	-	1,681
Total revenue	**37,342**	35,251
Operating expenses	**24,374**	23,738
Gross margin	**$ 12,968**	$ 11,513
Gross margin %	**35%**	33%
Downhole Tools & Rentals Revenue – % of total		
Tryton MSFS	**60%**	47%
Conventional Tools & Rentals	**40%**	53%

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

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

Downhole tools & rentals revenue increased during the first quarter as compared to the same period in the prior year due to the continued growth of the Tryton MSFS business and strong customer acceptance of the new MSFS tools introduced in the last half of 2012. The new tools provide an innovative, cost effective alternative to customers completing long reach horizontal wells.

Gross margin increased on a quarter-over-quarter basis due to improved tool procurement efficiencies and the disposal of the wireline business, which historically generated lower margins compared to the ongoing operations of the segment.

General and Administrative

(Thousands of dollars, except percentages)	Three months ended March 31, 2013	2012
General and administrative expenses	**$ 4,406**	$ 3,985
As a % of revenue	**4%**	3%

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 were higher in the first quarter of 2013 due to increased staffing costs, professional fees and infrastructure costs compared to the first quarter of 2012.

Depreciation and Amortization

(Thousands of dollars)	Three months ended March 31, 2013	2012
Depreciation and amortization expense	**$ 7,044**	$ 7,079

During the first quarter of 2013, depreciation and amortization expense is unchanged compared to 2012. Depreciation and amortization expense decreased due to the sale of the hybrid drilling assets in November 2012, offset by a corresponding increase due to higher capital asset values as a result of Essential's 2012 capital program and assets which were commissioned in the latter part of 2012.

Share-based Compensation

(Thousands of dollars)	Three months ended March 31, 2013	2012
Share-based compensation expense	**$ 343**	$ 491

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

Finance Costs

(Thousands of dollars)	Three months ended March 31, 2013	2012
Finance costs	**$ 376**	$ 632

During the first quarter of 2013, finance costs decreased compared to the same period in the prior year due to a decline in the average long-term debt balance. The Company had an average long-term debt balance outstanding during the three months ended March 31, 2013 of $35.7 million compared to $56.2 million for the same period in 2012.

INCOME TAXES

(Thousands of dollars)		Three months ended March 31, 2013		2012
Current income tax expense	**$**	**4,425**	$	3,716
Deferred income tax expense		**2,166**		2,257
Total income tax expense	**$**	**6,591**	$	5,973

For the three months ended March 31, 2013, income tax expense increased compared to 2012 due to timing differences.

DISCONTINUED OPERATIONS

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

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

(Thousands of dollars, except per share amounts)		Three months ended March 31, 2013		2012
Revenue	**$**	**1,000**	$	1,398
Expenses		**1,380**		1,915
Disposal costs		**227**		-
Loss before income taxes		**(607)**		(517)
Deferred income tax expense		-		576
Net loss from discontinued operations	$	**(607)**		(1,093)
Loss per share from discontinued operations				
Basic and diluted	**$**	**0.00**	$	(0.01)

(Thousands of dollars)		Three months ended March 31, 2013		2012
Net cash flows from (incurred by) discontinued operations:				
Operating	**$**	**(285)**	$	136
Investing		-		(357)
Financing		-		(766)
	$	**(285)**	$	(987)

The following table represents the balances that have been reclassified on the consolidated balance sheet as assets and liabilities held for sale. Assets held for sale is comprised primarily of oilfield service equipment that Essential imported into Colombia in 2010.

(Thousands of dollars)		As at March 31, 2013		As at December 31 2012
Assets held for sale:				
Cash	$	-	$	261
Trade and other receivables		**1,051**		868
Inventories		**151**		153
Prepayments		**472**		273
Property and equipment		**6,477**		6,585
	$	**8,151**	$	8,140
Liabilities held for sale:				
Bank indebtedness	$	**23**	$	-
Trade and other payables		**1,435**		1,731
	$	**1,458**	$	1,731

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS(1)

(Thousands of dollars, except per share amounts)		Three months ended March 31, 2013		2012
Net cash flows from operating activities	**$**	**7,072**	$	11,218
Add:				
Changes in non-cash working capital		**22,206**		17,842
Funds flow from operations(1)	**$**	**29,278**	$	29,060
Per share – basic	**$**	**0.24**	$	0.24
Per share – diluted	**$**	**0.23**	$	0.23

WORKING CAPITAL(1)

(Thousands of dollars, except ratios)		As at March 31 2013		As at December 31 2012
Current assets	**$**	**125,931**	$	95,840
Current liabilities, excluding current portion of long-term debt		**(49,221)**		(37,594)
Working capital	**$**	**76,710**	$	58,246
Working capital ratio		**2.6:1**		2.5:1

CREDIT FACILITY

Essential's Credit Facility with its banking syndicate is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on lender's consent. The revolving term loan facility matures on May 30, 2014, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule. At March 31, 2013, the maximum of $100 million was available to Essential.

As at March 31, 2013, all financial debt covenants were satisfied and all banking requirements were up to date. Essential does not anticipate any financial resource or liquidity issues to restrict its future operating, investing or financing activities. On May 7, 2013, Essential had long-term debt outstanding of $36 million.

EQUIPMENT EXPENDITURES AND FLEET

(Thousands of dollars)	Three months ended March 31, 2013	2012
Well Servicing	**$ 6,142**	$ 8,903
Downhole Tools & Rentals	**444**	823
Corporate	**238**	464
Total equipment expenditures	**6,824**	10,190
Less proceeds on disposal of property and equipment	**(540)**	(7,318)
Net equipment expenditures[1]	**$ 6,284**	$ 2,872

During the first quarter of 2013, Essential's equipment expenditures of $6.8 million were primarily directed towards progress payments for the 2013 capital builds and maintenance capital expenditures. During the first quarter of 2013, Essential commissioned one mobile free standing, all-period double service rig purpose-built to work on SAGD wells.

(Thousands of dollars)	Three months ended March 31, 2013	2012
Growth capital[1]	**$ 4,766**	$ 6,088
Maintenance capital[1]	**2,048**	4,102
Total equipment expenditures	**$ 6,824**	$ 10,190

Essential's 2013 capital spending budget of $45 million is comprised of $32 million of growth [1] capital and $13 million of maintenance [1] capital.

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

	Quantity	**Expected In-Service Date 2013**
Deep masted coil tubing rigs	4	Q3(2),Q4(2)
Deep coil tubing rig converted from intermediate	1	Q2
Nitrogen pumpers	2	Q2 (2)
Double rod rig	1	Q4
Double service rigs – mobile free standing, all-period (two of these are purpose-built for SAGD wells)	3	Q2(1), Q4(2)

Compared to the capital budget announced in December 2012, Essential has cancelled one double service rig and will build one double rod rig.

During the first quarter, Essential removed two masted coil tubing rigs from service. These two rigs, the last rigs of their kind in Essential's fleet, were among the first masted coil tubing rigs built for use in the WCSB. These rigs have nominal net book value and/or sales proceeds, and Essential expects to dismantle this equipment. The remainder of the deep coil tubing fleet is relatively new and, as of March 31, 2013, the average age of the deep coil tubing fleet is 4 years from construction or most recent recertification date.

SHARE CAPITAL

As at May 7, 2013, there were 123,876,568 shares and 7,862,766 share options outstanding. Of the 7,862,766 share options, 4,604,243 were exercisable of which 2,672,586 were "in-the-money".

NORMAL COURSE ISSUER BID ("NCIB")

On March 20, 2013 the Company received approval from the TSX to implement an NCIB for Essential's common shares ("Shares"). Any Share purchases by Essential pursuant to the NCIB will be for cancellation. The NCIB commenced on March 25, 2013 and will terminate on March 24, 2014 or at such earlier date as the NCIB is completed or terminated at the option of Essential.

Under the NCIB, Essential may purchase up to 12,182,508 of its issued and outstanding Shares on the open market through the facilities of the TSX. As required by TSX policy, the maximum number of Shares that may be purchased on one day may not exceed 56,113 Shares, which is 25 percent of the six month average daily trading volume of Shares on the TSX, at February 28, 2013. The price which Essential will pay for any Shares purchased will be the prevailing market price of such Shares on the TSX at the time of purchase.

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

For the quarter-ended March 31, 2013 a total of 9,000 Shares were acquired and 3,800 Shares were cancelled under the NCIB at an average cost of $2.10 per share. The remaining 5,200 Shares were cancelled on April 1, 2013. Since the beginning of April 2013, 191,900 shares were acquired and cancelled under the NCIB at an average cost of $2.09 per share. Shareholders may obtain a copy of the "Notice of Intention to make a Normal Course Issuer Bid" that was filed by the Company with the TSX, free of charge, by contacting the Company.

OUTLOOK

After spring break-up, Essential expects that oilfield service activity will be similar to 2012. Global economic concerns are still prevalent, impacting the stability of oil prices, and while there has been some recent improvement in the oil price differential, longer-term infrastructure solutions are still required. A colder winter has reduced natural gas storage levels and the NYMEX price for natural gas has recently risen above US $4/mmbtu. There is longer-term optimism with certain foreign investment focused on the Montney and Horn River natural gas basins to develop the reserves to provide gas to the proposed liquefied natural gas ("LNG") export facilities in British Columbia. Such development would increase the demand for oilfield services to complete these wells.

Essential's $45 million capital spending budget is focused on building deep masted coil tubing rigs and double service rigs capable of SAGD operations to meet customer demand. Essential has four deep masted coil tubing rigs under construction, expected to be delivered in 2013. These rigs will have an increased reel capacity for longer and larger diameter coil. Two of these are classified as Generation III and two are Generation IV rigs. While Essential's current masted rigs can reach up to 5,500 meters with 2" coil, the Generation III rigs are designed to reach 5,700 meters with 2 3/8" coil and the Generation IV rigs will reach 6,400 meters with 2 5/8" coil. Essential's deep coil tubing reel trailer is a non-masted prototype of the Generation IV rig and has been successfully operating on deeper wells since the end of 2012. These state-of-the-art rigs are being built to meet the growing demand for oilfield service equipment to complete and produce longer, deeper and more complex wells.

While Essential remains focused on the WCSB, it has recently started exploring prospects to organically expand operations into the United States with downhole tools. The United States offers the opportunity for continued growth with services that Essential has a unique expertise and strong reputation with customers for completing and producing horizontal wells.

Essential has a very strong balance sheet with $36 million of debt outstanding on May 7, 2013 and debt to EBITDA of 0.5x. Management remains focused on the core services of well servicing with coil tubing, service rigs and downhole tools and rentals.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including expectations regarding capital spending, in-service timing of new equipment, demand for new equipment, expectations of future cash flow and earnings, expectations with respect to the demand for and price of oil and liquids-rich natural gas, expectations regarding the future areas of development in the WCSB, the level and type of drilling activity, completion activity, work-over activity, production activity and required oilfield services in the WCSB, expectations regarding the business, operations and revenues of the Company in addition to general economic conditions, expectations regarding Essential's ability to meet the changing needs of the WCSB market, expectations regarding the capital spending programs of E&P companies, expectations for Essential's positioning for the future, expectations related to infrastructure uncertainties, expectations that development of possible LNG projects on the west coast will increase the demand for oilfield services, expectations that oilfield service activity after spring break-up will be similar to 2012, expectations to operate Essential's rod rigs in Colombia until their current contracts expire, expectations of 2013 financial performance in Colombia, anticipated timing of the shut-down of Colombian operations, anticipated proceeds from asset sales in Colombia, anticipated shut-down and disposal costs of Colombian operations, expectations of the net realizable value of the Colombian assets, and expectations of the opportunity for growth through expansion into the United States.

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

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

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

[1]Non-IFRS Measures

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

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

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

Funds flow or funds flow from operations[(b)] – This measure is an indicator of Essential's ability to generate funds flow[(b)] in order to fund working capital, principal debt repayments and capital programs. Funds flow or funds flow from operations is defined as cash flow from operations before changes in non-cash operating working capital. This measure is useful in assessing Essential's operational cash flow as it provides cash generated in the period excluding the timing of non-cash operating working capital. This reflects the ability of the operations of Essential to meet the above noted funding requirements.

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

Growth capital – Growth capital is capital spending which is intended to result in incremental increases in revenue. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired equipment less proceeds on the disposal of retired equipment. Such additions do not provide incremental increases in revenue. Maintenance capital is a key component in understanding the sustainability of Essential's business as cash resources retained within Essential must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation.

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

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

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

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

Unaudited Condensed Interim Consolidated Financial Statements

Essential Energy Services Ltd.

March 31, 2013

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

(Thousands)		**As at March 31 2013**		As at December 31 2012
Assets				
Current				
Trade and other accounts receivable *(note 4)*	**$**	**101,822**	$	71,835
Inventories *(note 5)*		**21,461**		20,699
Prepayments		**2,648**		3,306
		125,931		95,840
Non-current				
Property and equipment *(note 6)*		**212,215**		211,304
Intangible assets		**34,990**		36,555
Goodwill		**55,014**		55,014
		302,219		302,873
Assets held for sale *(note 3)*		**8,151**		8,140
Total assets	**$**	**436,301**	$	406,853
Liabilities				
Current				
Bank indebtedness	**$**	**4,403**	$	1,835
Trade and other payables *(note 7)*		**39,616**		32,354
Dividends payable *(note 8)*		**3,102**		3,100
Income taxes payable		**2,100**		305
		49,221		37,594
Non-current				
Long-term debt *(note 9)*		**35,603**		35,563
Deferred tax liabilities *(note 10)*		**31,726**		29,560
		67,329		65,123
Liabilities held for sale *(note 3)*		**1,458**		1,731
Total liabilities		**118,008**		104,448
Commitments *(note 16)*				
Equity				
Share capital *(note 11)*		**258,886**		258,772
Retained earnings		**53,801**		38,276
Other reserves		**5,642**		5,363
Equity attributable to shareholders of Essential		**318,329**		302,411
Non-controlling interest *(note 12)*		**(36)**		(6)
Total equity		**318,293**		302,405
Total liabilities and equity	**$**	**436,301**	$	406,853

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

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

(Thousands, except per share amounts)	For the three months ended March 31 **2013**	2012
Revenue	**$ 120,519**	$ 118,182
Operating expenses	**82,687**	81,442
Gross margin	**37,832**	36,740
General and administrative expenses	**4,406**	3,985
	33,426	32,755
Depreciation and amortization *(note 6)*	**7,044**	7,079
Share-based compensation *(note 14)*	**343**	491
Other income	**(133)**	(1,243)
Operating profit from continuing operations	**26,172**	26,428
Finance costs *(note 13)*	**376**	632
Net income before income tax from continuing operations	**25,796**	25,796
Current income tax expense	**4,425**	3,716
Deferred income tax expense	**2,166**	2,257
Total income tax expense *(note 10)*	**6,591**	5,973
Net income from continuing operations	**19,205**	19,823
Net loss from discontinued operations, net of tax *(note 3)*	**(607)**	(1,093)
Net income	**18,598**	18,730
Unrealized foreign exchange gain (loss) on discontinued operations	**(31)**	1,009
Other comprehensive income (loss) from discontinued operations *(note 3)*	**(31)**	1,009
Comprehensive income	**18,567**	19,739
Net income (loss) attributable to:		
Shareholders of Essential	**$ 18,627**	$ 18,893
Non-controlling interest	**(29)**	(163)
	$ 18,598	$ 18,730
Comprehensive income (loss) attributable to:		
Shareholders of Essential	**$ 18,597**	$ 19,758
Non-controlling interest	**(30)**	(19)
	$ 18,567	$ 19,739
Net income per share from continuing operations *(note 15)*		
Basic and diluted, attributable to shareholders of Essential	**$ 0.15**	$ 0.16
Net income per share *(note 15)*		
Basic and diluted, attributable to shareholders of Essential	**$ 0.15**	$ 0.15
Comprehensive income per share *(note 15)*		
Basic and diluted, attributable to shareholders of Essential	**$ 0.15**	$ 0.16

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

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

(Thousands)	For the three months ended March 31 2013	2012
Equity attributable to shareholders of Essential:		
Share capital		
Balance, January 1	**$ 258,772**	$ 257,775
Exercise of options *(note 11)*	**122**	626
Shares repurchased in normal course issuer bid *(note 11)*	**(8)**	-
Balance, March 31	**$ 258,886**	$ 258,401
Retained earnings		
Balance, January 1	**$ 38,276**	$ 28,651
Net income	**18,627**	18,893
Dividends *(note 8)*	**(3,102)**	(3,094)
Equity transferred	-	(56)
Balance, March 31	**$ 53,801**	$ 44,394
Other reserves		
Balance, January 1	**$ 5,363**	$ 2,402
Other comprehensive income (loss)	**(30)**	865
Share based compensation	**343**	491
Exercise of options	**(34)**	(181)
Balance, March 31	**$ 5,642**	$ 3,577
Total equity attributable to shareholders of Essential	**$ 318,329**	$ 306,372
Equity attributable to non-controlling interest:		
Balance, January 1	**$ (6)**	$ 75
Net loss	**(29)**	(163)
Other comprehensive income (loss)	**(1)**	145
Equity transferred *(note 12)*	-	56
Balance, March 31	**$ (36)**	$ 113
Total equity	**$ 318,293**	$ 306,485

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

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

(Thousands)	For the three months ended March 31 2013	2012
Operating activities:		
Net income from continuing operations	**$ 19,205**	$ 19,823
Non-cash adjustments to reconcile net income for the year to operating cash flow:		
Depreciation and amortization *(note 6)*	**7,044**	7,079
Deferred income tax expense	**2,166**	2,257
Share-based compensation *(note 14)*	**343**	491
Provision (recovery) for impairment of trade accounts receivable *(note 4)*	**250**	(342)
Finance costs *(note 13)*	**376**	632
Gain on disposal of assets *(note 6)*	**(106)**	(880)
Operating cash flow before changes in working capital	**29,278**	29,060
Change in non-cash operating working capital:		
Trade and other accounts receivable before provision	**(31,159)**	(7,825)
Inventories	**(762)**	(2,200)
Prepayments	**658**	288
Trade and other accounts payable	**7,262**	(6,485)
Current taxes payable	**1,795**	(1,620)
Net cash provided by operating activities from continuing operations	**7,072**	11,218
Investing activities:		
Purchase of property and equipment & intangibles *(note 6)*	**(6,824)**	(10,190)
Proceeds on disposal of equipment *(note 6)*	**540**	7,318
Net cash used in investing activities from continuing operations	**(6,284)**	(2,872)
Financing activities:		
Increase (decrease) in long-term debt	**40**	(5,575)
Proceeds on exercise of share options	**88**	445
Common shares repurchase *(note 11)*	**(8)**	-
Dividends paid *(note 8)*	**(3,100)**	-
Finance costs *(note 13)*	**(376)**	(632)
Net cash used in financing activities from continuing operations	**(3,356)**	(5,762)
Net increase (decrease) in cash	**(2,568)**	2,584
Net decrease in cash, discontinued operations *(note 3)*	**-**	(987)
Cash, beginning balance, discontinued operations *(note 3)*	**-**	1,268
Bank indebtedness, beginning of the period	**(1,835)**	(1,105)
Cash (bank indebtedness), end of the period	**$ (4,403)**	$ 1,760
Supplemental cash flow information		
Cash taxes paid	**$ 2,630**	$ 5,336

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

(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 months ended March 31, 2013 and 2012 were authorized by the Board of Directors on May 7, 2013. Essential is a publicly traded oilfield services company governed by the laws of the province of Alberta. Essential is listed on the Toronto Stock Exchange and trades under the symbol "ESN".

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

	As at March 31 2013	As at December 31 2012
Assets held for sale:		
Cash	**$ -**	$ 261
Trade and other receivables	**1,051**	868
Inventories	**151**	153
Prepayments	**472**	273
Property and equipment	**6,477**	6,585
	$ 8,151	$ 8,140
Liabilities held for sale:		
Bank indebtedness	**$ 23**	$ -
Trade and other payables	**1,435**	1,731
	$ 1,458	$ 1,731

Losses from discontinued operations related to Colombia are as follows:

	For the three months ended March 31 2013	2012
Revenue	**$ 1,000**	$ 1,398
Expenses	**1,380**	1,915
Disposal costs	**227**	-
Loss before income taxes	**(607)**	(517)
Deferred income tax expense	-	576
Net Loss from discontinued operations, net of tax	**(607)**	(1,093)
Unrealized foreign exchange gain (loss) on discontinued operations	**(31)**	1,009
Comprehensive loss from discontinued operations, net of tax	**$ (638)**	$ (84)
Comprehensive loss from discontinued operations attributable to:		
Shareholders of Essential	**$ (608)**	$ (65)
Non-controlling interest	**(30)**	(19)
	$ (638)	$ (84)
Net loss from discontinued operations	**$ (607)**	$ (1,093)
Net loss per share from discontinued operations		
Basic and dilutive	**$ 0.00**	$ (0.01)
Net cash flows incurred by discontinued operations:		
Operating	**$ (285)**	$ 136
Investing	**-**	(357)
Financing	-	(766)
	$ (285)	$ (987)

4. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at March 31 2013	As at December 31 2012
Trade receivables, net of provision	**$ 101,053**	$ 69,271
Other receivables	**769**	2,564
	$ 101,822	$ 71,835

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

Canadian dollar	**$ 100,001**	$ 68,118
United States dollar	**1,052**	1,153
	$ 101,053	$ 69,271

The aging analysis of trade receivables is as follows:

< 31 days	**$ 43,564**	$ 30,955
31-60 days	**41,239**	26,187
61-90 days	**10,748**	7,585
>90 days	**5,502**	4,544
	$ 101,053	$ 69,271

Trade receivables are non-interest bearing, generally due on 30-90 day terms and are shown net of a provision for impairment. Other accounts receivable are non-interest bearing.

The allowance for doubtful accounts receivable is $0.5 million (December 31, 2012 - $ 0.3 million) which 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 March 31	
	2013	2012
Balance, beginning of the period	**$ 314**	$ 1,642
Provision for receivables impairment	**250**	-
Receivables written off against the provision in the period	**(42)**	(342)
Unused amount reversed	-	(342)
Balance, end of the period	**$ 522**	$ 958

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

The Company's trade accounts receivable 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 three months ended March 31, 2013, the Company earned revenues from more than 350 customers (2012 - 400 customers) with five of these customers representing 28% of revenue (2012 - 22% of revenue). As at March 31, 2013, approximately 24% of the total accounts receivable balance was due from five companies (2012 - 21%).

5. INVENTORIES

	As at March 31 2013	As at December 31 2012
Downhole tools	**$ 14,808**	$ 13,632
Coil tubing products	**6,653**	7,067
	$ 21,461	$ 20,699

Inventory charged through operating expenses in the consolidated statement of net income and comprehensive income for the three months ended March 31, 2013 was $17.8 million (2012 - $14.3 million).

6. PROPERTY AND EQUIPMENT

As at March 31, 2013	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Service rigs and equipment	**$ 120,271**	**$ 27,945**	**$ 92,326**
Coil tubing rigs and equipment	**88,884**	**14,467**	**74,417**
Oilfield equipment	**36,774**	**13,343**	**23,431**
Vehicles	**24,469**	**6,631**	**17,838**
Office and computer equipment	**3,364**	**1,703**	**1,661**
Land	**482**	**-**	**482**
Other	**4,150**	**2,090**	**2,060**
	$ 278,394	**$ 66,179**	**$ 212,215**

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

Included in service rigs and equipment, coil tubing rigs and equipment and oilfield equipment is $19.9 million (December 31, 2012 - $25.9 million) of assets under construction which will not be depreciated until they are ready for their intended use.

	For the three months ended March 31 **2013**	2012
Net book value, beginning of the period	**$ 211,304**	$ 211,764
Acquisitions	**6,824**	10,506
Disposals	**(434)**	(6,194)
Depreciation	**(5,479)**	(5,708)
Currency translation adjustment	-	1,045
Net book value, end of the period	**$ 212,215**	$ 211,413

7. TRADE AND OTHER PAYABLES

	As at March 31 2013	As at December 31 2012
Trade accounts payable	**$ 17,758**	$ 17,409
Accrued payables	**6,012**	4,920
Payroll	**13,386**	9,879
Other	**2,460**	146
	$ 39,616	$ 32,354

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

Canadian dollar	**$ 17,396**	$ 17,084
United States dollar	**362**	325
	$ 17,758	$ 17,409

8. DIVIDENDS PAYABLE

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

2013 Dividends	**Record date**	**Dividend date**	**Amount per share**
First quarter	March 28, 2013	April 15, 2013	$ 0.025

9. LONG-TERM DEBT

	As at March 31 2013	As at December 31 2012
Term loan	**$ 35,807**	$ 35,811
Deferred financing costs	**(204)**	(248)
	$ 35,603	$ 35,563

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $100.0 million revolving loan facility with a $35.0 million accordion feature available on the lender's consent. The $100.0 million revolving term loan matures on May 31, 2014, is renewable annually at the lender's consent and is secured by a general security agreement over the Company's assets. Should the revolving term loan facility not be renewed, debt payments would be required over a two year period based on a three year amortization schedule.

As at March 31, 2013, all financial debt covenants were satisfied and all banking requirements were up to date.

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

	As at March 31 2013	As at December 31 2012
Repayments are required as follows:		
Within one year	**$ 7**	$ 11
Between one and two years	**9,945**	7,199
Between two and three years	**11,933**	11,917
Between three and four years	**13,718**	16,436
	$ 35,603	$ 35,563

10. INCOME TAXES

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

	For the three months ended March 31 2013	2012
Earnings before income taxes	**$ 25,796**	$ 25,796
Statutory tax rate	**25.0%**	25.0%
Expected income tax expense	**6,449**	6,449
Increase (decrease) resulting from:		
Share based compensation	**86**	123
Items not deductible for tax	**60**	57
Other	**(4)**	(656)
Total income tax expense	**$ 6,591**	$ 5,973

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

	As at March 31 2013	As at December 31 2012
Deferred tax liabilities		
Property and equipment	**$ (21,060)**	$ (20,648)
Intangible assets	**(5,733)**	(6,069)
Deferred partnership income	**(4,544)**	(3,293)
Loss carryforwards	**59**	929
Share issuance costs	**320**	354
Other	**(768)**	(833)
	$ (31,726)	$ (29,560)

11. SHARE CAPITAL

Authorized

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

Issued	Number of Common Shares	Amount
As at January 1, 2012	123,439	$ 257,775
Shares issued on exercise of options	552	997
As at December 31, 2012	123,991	$ 258,772
Shares issued on exercise of options	**80**	**122**
Shares repurchased in normal course issuer bid	**(4)**	**(8)**
As at March 31, 2013	**124,067**	**$ 258,886**

On March 20, 2013 the Company received approval from the Toronto Stock Exchange ("TSX") to implement a Normal Course Issuer Bid ("NCIB") for Essential common shares ("Shares"). Any Share purchases by Essential pursuant to the NCIB are for cancellation. The NCIB commenced on March 25, 2013 and will terminate on March 24, 2014 or at such earlier date as the NCIB is completed or terminated at the option of Essential. Under the NCIB, Essential may purchase up to 12,182,508 of its issued and outstanding Shares on the open market. Purchases are made at the discretion of management at prevailing market prices, through the facilities of the TSX. For the period ended March 31, 2013 a total of 9,000 Shares were acquired and 3,800 Shares were cancelled under the NCIB at an average cost of $2.10 per share. The remaining 5,200 shares were cancelled on April 1, 2013. Any excess amount paid for these shares, relative to their carrying amount is transferred to contributed surplus.

12. NON-CONTROLLING INTEREST

	As at March 31 2013	As at December 31 2012
Balance, beginning of the period	**$ (6)**	$ 75
Contribution	**-**	294
Loss attributed to non-controlling interest	**(29)**	(455)
Unrealized foreign exchange gain (loss) on discontinued operations	**(1)**	70
Balance, end of the period	**$ (36)**	$ (6)

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

13. FINANCE COSTS

	For the three months ended March 31 2013	2012
Interest on bank borrowings	**$ 376**	$ 632

14. SHARE-BASED COMPENSATION

Under the Company's Share Option Plan certain key personnel of the Company are eligible to receive options to acquire common shares, with terms not to exceed five years from the date of the grant. The exercise price is the weighted-average price of the common shares for the five trading days immediately prior to the grant date. Under the Share Option Plan, vesting periods are determined by the Board of Directors 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 Company's outstanding common shares, which at March 31, 2013 totaled 12,404,767 (2012 – 12,376,957) share options.

	For the three months ended March 31 2013		For the three months ended March 31 2012	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**7,374**	**$ 1.79**	6,271	$ 2.04
Issued	**618**	**2.20**	2,155	2.07
Exercised	**(80)**	**1.10**	(331)	1.36
Expired	**-**	**-**	(93)	5.87
Forfeited	**(23)**	**2.05**	(73)	1.88
Outstanding, end of period	**7,889**	**$ 1.94**	7,929	$ 2.03
Exercisable, end of period	**4,610**	**$ 1.84**	3,501	$ 2.14

The fair value of share options issued during the period were between \$0.53 - \$0.76 per option (2012 - \$0,85 - \$1.10), estimated using the Black-Scholes option pricing model using the following underlying assumptions:

	2013	2012
Risk-free interest rate	**1.2 – 1.4%**	1.0 – 1.1%
Expected volatility	**47.0 – 58.5%**	62.5 – 72.2%
Expected term	**2.7 – 4.0 years**	2.9 – 3.8 years
Expected forfeiture rate	**7.9 – 18.2%**	8.0 – 18.9%
Dividend yield	**4.3%**	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 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 of Essential by the weighted average number of shares in issue.

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

	For the three months ended March 31	
Weighted average shares outstanding	**2013**	2012
Basic	**124,024**	123,573
Dilutive common shares from share options	**978**	1,765
Diluted	**125,002**	125,338
Net income attributable to Essential from continuing operations	**\$ 19,205**	\$ 19,823
Net income attributable to Essential	**\$ 18,627**	\$ 18,893
Comprehensive income attributable to Essential	**\$ 18,597**	\$ 19,758
Net income per share from continuing operations		
Basic and diluted, attributable to shareholders of Essential	**\$ 0.15**	\$ 0.16
Net income per share		
Basic and diluted, attributable to shareholders of Essential	**\$ 0.15**	\$ 0.15
Comprehensive income per share		
Basic and diluted, attributable to shareholders of Essential	**\$ 0.15**	\$ 0.16

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	\$ 5,144
In the second year to fifth years inclusive	16,470
After five years	7,295
	\$ 28,909

In addition to the above, Essential entered into agreements to build certain assets for $19 million which are expected to be paid in 2013.

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

17. SEASONALITY OF OPERATIONS

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

18. SEGMENTED INFORMATION

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

a) Well Servicing

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

b) Downhole Tools & Rentals

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

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

As at and for the three months ended March 31, 2013

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	**$ 83,177**	**$ 37,342**	**$ -**	**$ 120,519**
Net income (loss) before income taxes	**$ 19,908**	**$ 12,259**	**$ (6,371)**	**$ 25,796**
Depreciation and amortization	**$ 6,001**	**$ 715**	**$ 328**	**$ 7,044**
Total assets	**$ 359,447**	**$ 65,537**	**$ 3,166**	**$ 428,150**
Total liabilities	**$ 43,070**	**$ 13,239**	**$ 60,241**	**$ 116,550**
Equipment expenditures	**$ 6,142**	**$ 444**	**$ 238**	**$ 6,824**

As at and for the three months ended March 31, 2012	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	$ 82,931	$ 35,251	$ -	$ 118,182
Net income (loss) before income taxes	$ 19,860	$ 10,900	$ (4,964)	$ 25,796
Depreciation and amortization	$ 5,789	$ 973	$ 317	$ 7,079
Total assets	$ 362,920	$ 61,483	$ 6,271	$ 430,674
Total liabilities	$ 40,343	$ 8,654	$ 75,192	$ 124,189
Equipment expenditures	$ 8,911	$ 815	$ 464	$ 10,190

19. COMPARATIVE AMOUNTS

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

CORPORATE INFORMATION

DIRECTORS

James Banister, CHAIRMAN

Garnet Amundson

Michael Black [2]

Robert German [1,3]

Roderick Graham [1,2,3]

Nicholas Kirton [1,2]

Andrew Zaleski [3]

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

MANAGEMENT

Garnet Amundson
PRESIDENT & CHIEF EXECUTIVE OFFICER

Don Webster
CHIEF OPERATING OFFICER

Allan Mowbray
VICE PRESIDENT, FINANCE & CHIEF FINANCIAL OFFICER

Jeff Newman
SENIOR VICE PRESIDENT, CORPORATE

Kevin Job
SENIOR VICE PRESIDENT, OPERATIONS

AUDITORS

Ernst & Young LLP

BANKERS

National Bank of Canada

Toronto Dominion Bank

HSBC Bank Canada

Canadian Western Bank

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STOCK EXCHANGE LISTING

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