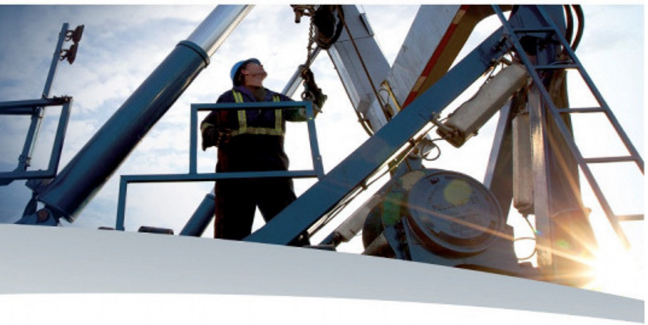

ESSENTIAL ENERGY SERVICES

# Q3 REPORT

**Nine Months Ended September 30, 2013**

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the three and nine month periods ended September 30, 2013.

This MD&A is an update to and should be read in conjunction with Essential's March 31, 2013, June 30, 2013 and September 30, 2013 unaudited condensed interim consolidated financial statements and MD&A, 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 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 November 6, 2013.

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 can be found under Essential's profile on SEDAR at www.sedar.com.

## SELECTED INFORMATION

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (Thousands, except per share amounts) | **2013** | 2012* | **2013** | 2012* |
| Revenue | **$ 84,510** | $ 83,513 | **$ 243,445** | $ 252,566 |
| Gross margin | **$ 21,414** | $ 23,012 | **$ 57,935** | $ 63,655 |
| Gross margin % | **25%** | 28% | **24%** | 25% |
| EBITDA[1] from continuing operations | **$ 17,132** | $ 19,261 | **$ 45,386** | $ 51,973 |
| EBITDA % [1] | **20%** | 23% | **19%** | 21% |
| Funds flow from continuing operations [1] | **$ 16,162** | $ 17,675 | **$ 41,253** | $ 48,339 |
| Per share – basic [1] | **$ 0.13** | $ 0.14 | **$ 0.33** | $ 0.39 |
| Per share – diluted [1] | **$ 0.13** | $ 0.14 | **$ 0.33** | $ 0.38 |
| Total assets | **$ 409,613** | $ 415,653 | **$ 409,613** | $ 415,653 |
| Total long-term debt | **$ 40,484** | $ 50,474 | **$ 40,484** | $ 50,474 |
| Utilization | | | | |
| Deep coil tubing rigs | **73%** | 79% | **67%** | 71% |
| Service rigs | **50%** | 45% | **49%** | 49% |
| Equipment fleet ** | | | | |
| Deep coil tubing rigs | **27** | 26 | **27** | 26 |
| Service rigs | **54** | 55 | **54** | 55 |

* 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.

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

## HIGHLIGHTS - THIRD QUARTER 2013

Third quarter 2013 industry activity was in line with 2012. In addition to wet weather at the beginning of the quarter, exploration and production (“E&P”) companies were cautious with their capital spending as the oil price differential continued to be volatile and equity capital market activity was limited, making it difficult for producers to raise capital.

Essential’s revenue for the third quarter of 2013 was generally flat compared to 2012, consistent with industry activity. Reported revenue of $84.5 million increased $1.0 million compared to the third quarter of 2012.

- Coil Well Service – Essential’s coil well service third quarter revenue was consistent with the same period in the prior year despite a decline in deep coil tubing utilization from 79% in the third quarter of 2012 to 73% in the current quarter. Essential saw an increase in utilization for the masted deep coil tubing fleet in the quarter and revenue increased from Essential’s larger fleet of nitrogen and fluid pumpers. These gains were offset by a softening in demand for the conventional deep coil tubing fleet.
- Service Rigs – During the third quarter, service rig revenue improved and utilization increased from 45% to 50% quarter-over-quarter. Essential saw improved utilization in specific operating areas including Grande Prairie and Fort St. John. Demand continued for service rigs operating on steam-assisted gravity drainage (“SAGD”) wells.
- Downhole Tools & Rentals – Revenue for downhole tools & rentals increased during the third quarter of 2013 compared to the same period in the prior year due to an increase in Tryton Multi-stage Fracturing System (“Tryton MSFS®”) product demand.

EBITDA for the third quarter of 2013 was $17.1 million, a decrease of $2.1 million from 2012. The decrease was mainly attributable to start-up costs related to the expansion of the downhole tools operations into the United States, the EBITDA contribution in the prior quarter from the drilling rig operation which was sold in November 2012, and higher general and administrative costs.

Capital - In the third quarter, Essential took delivery of its first state-of-the-art Generation III masted deep coil tubing rig. This Generation III rig can reach up to 4,900 meters, with a coil diameter of 2 5/8”. This rig is capable of working on long-reach horizontal wells and is well-suited to meet the growing demand in servicing deeper, more complex wells.

## INDUSTRY OVERVIEW

During the third quarter of 2013, the Western Canadian Sedimentary Basin (“WCSB”) experienced a slow recovery from the unseasonably wet June. Overall industry activity in the third quarter was comparable to prior quarter levels. The lack of momentum in the third quarter was due in part to wet weather experienced in the WCSB and a lack of urgency exhibited by E&P companies.

Drilling rig utilization, wells drilled and completion activity are all indicators of overall oilfield activity levels in the WCSB. During the third quarter of 2013, drilling rig utilization and the number of wells drilled were slightly ahead of prior quarter, while well completions were slightly down. Compared to the third quarter 2012, drilling rig utilization increased 1% [a], the number of wells drilled increased by 5% [b] and well completion count decreased 3% [b].

® MSFS is a registered trademark of Essential Energy Services Ltd.
(a) Source: Canadian Association of Oilwell Drilling Contractors
(b) Source: June Warren-Nickle’s Energy Group

## RESULTS OF OPERATIONS

| (Thousands, except per share amounts) | Three months ended September 30, **2013** | Three months ended September 30, 2012 | Nine months ended September 30, **2013** | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| Revenue | **$ 84,510** | $ 83,513 | **$ 243,445** | $ 252,566 |
| Operating expenses | **63,096** | 60,501 | **185,510** | 188,911 |
| Gross margin | **21,414** | 23,012 | **57,935** | 63,655 |
| Gross margin % | **25%** | 28% | **24%** | 25% |
| General and administrative expenses | **4,282** | 3,751 | **12,549** | 11,682 |
| EBITDA(1) | **17,132** | 19,261 | **45,386** | 51,973 |
| EBITDA %(1) | **20%** | 23% | **19%** | 21% |
| Depreciation and amortization | **6,515** | 6,339 | **19,565** | 19,538 |
| Share-based compensation | **585** | 492 | **1,197** | 1,427 |
| Other expense (income) | **3,493** | 117 | **3,546** | (1,102) |
| Operating profit | **6,539** | 12,313 | **21,078** | 32,110 |
| Finance costs | **375** | 510 | **1,153** | 1,699 |
| Earnings before income taxes | **6,164** | 11,803 | **19,925** | 30,411 |
| Current income tax expense | **1,396** | 1,625 | **4,852** | 4,092 |
| Deferred income tax expense | **476** | 1,835 | **534** | 3,605 |
| Total income tax expense | **1,872** | 3,460 | **5,386** | 7,697 |
| Net income from continuing operations | **$ 4,292** | $ 8,343 | **$ 14,539** | $ 22,714 |
| Net income (loss) from discontinued operations | **(473)** | 373 | **(3,758)** | (1,274) |
| Net income | **$ 3,819** | $ 8,716 | **$ 10,781** | $ 21,440 |
| Net income from continuing operations | **$ 4,292** | $ 8,343 | **$ 14,539** | $ 22,714 |
| Net income from continuing operations per share | | | | |
| Basic and diluted | **$ 0.03** | $ 0.07 | **$ 0.12** | $ 0.18 |
| Net income (loss) attributable to: | | | | |
| Shareholders of Essential | **$ 3,843** | $ 8,660 | **$ 10,969** | $ 21,631 |
| Non-controlling interest | **(24)** | 56 | **(188)** | (191) |
| | **$ 3,819** | $ 8,716 | **$ 10,781** | $ 21,440 |
| Net income per share, attributable to Essential | | | | |
| Basic and diluted | **$ 0.03** | $ 0.07 | **$ 0.09** | $ 0.17 |

**OVERVIEW OF ESSENTIAL**

Well Servicing

Essential operates the largest coil well servicing fleet in the WCSB, operating out of five facilities across western Canada. There are three distinct types of activities within Essential's coil well service operation.

- Deep Coil Tubing - The deep coil tubing rig fleet includes both masted and conventional rigs, which are primarily focused on providing services on horizontal oil and liquids-rich natural gas resource plays. These rigs typically provide completion, stimulation and work-over services on vertical wells as well as long reach horizontal wells:
    - Masted deep coil tubing rigs have a depth capacity of up to 6,400 meters. These rigs have an increased reel capacity which allow for longer and larger coil diameter, making them well suited for deeper, more complex wells.
    - Conventional deep coil tubing rigs generally work in the depth range of 2,500 to 4,000 meters. These rigs have a smaller footprint on location and have greater flexibility during transport and rig-up operations.
- 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 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.

Essential's mobile service rig fleet provides well servicing from eight facilities 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.

Downhole Tools & Rentals

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, and in 2013, Essential began expanding its downhole tools business into the United States.

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, allowing 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.
- 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.

**FINANCIAL RESULTS**

Revenue for the nine months ended September 30, 2013 was $243.4 million, a decrease of $9.1 million compared to the same period in 2012. The decrease in revenue is mainly attributable to the disposal of the drilling rig operations in November 2012, which had contributed $11.0 million of revenue in the prior year.

EBITDA for the nine months ended September 30, 2013 was $45.4 million, a decrease of $6.6 million from the same period in 2012. The decline in EBITDA is mainly attributable to start-up costs related to expansion of the downhole tools operations into the United States, the EBITDA contribution in the prior year from the drilling rig operation which was sold in November 2012, and higher general and administrative costs.

**SEGMENT RESULTS - *WELL SERVICING***

| (Thousands, except percentages) | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| Revenue | | | | |
| Coil Well Service (i) | **$ 33,037** | $ 33,857 | **$ 92,091** | $ 94,968 |
| Service Rigs (ii) | **23,870** | 20,552 | **72,158** | 69,427 |
| Other (iii) | **-** | 2,762 | **-** | 11,037 |
| Total revenue | **56,907** | 57,171 | **164,249** | 175,432 |
| Operating expenses | **42,383** | 41,537 | **126,723** | 134,091 |
| Gross margin | **$ 14,524** | $ 15,634 | **$ 37,526** | $ 41,341 |
| Gross margin % | **26%** | 27% | **23%** | 24% |
| Utilization (iv) | | | | |
| Deep Coil Tubing Rigs | | | | |
| Utilization | **73%** | 79% | **67%** | 71% |
| Operating hours | **17,724** | 18,301 | **46,614** | 48,799 |
| Service Rigs | | | | |
| Utilization | **50%** | 45% | **49%** | 49% |
| Operating hours | **25,084** | 22,632 | **73,682** | 74,003 |
| Equipment fleet (v) | | | | |
| Coil tubing rigs – deep | **27** | 26 | **27** | 26 |
| Coil tubing rigs – other | **18** | 19 | **18** | 19 |
| Service rigs | **54** | 55 | **54** | 55 |
| Nitrogen pumpers | **15** | 10 | **15** | 10 |
| Fluid pumpers | **18** | 16 | **18** | 16 |
| Rod rigs | **12** | 14 | **12** | 14 |

(i) Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.
(ii) Includes revenue from service rigs and rod rigs. Comparative amounts have been reclassified to conform to current period's presentation.
(iii) Other revenue in 2012 represents revenue from Essential's drilling operation which was disposed of in November 2012.
(iv) Utilization is calculated using a 10 hour day.
(v) Fleet data represents the number of units at the end of the period.

Coil well service revenue was unchanged during the third quarter of 2013 compared to the same period in the prior year despite a decrease in utilization from 79% to 73% quarter-over-quarter. Essential's masted deep coil tubing fleet performed well with 112% utilization compared to 100% in third quarter of 2012 and revenue increased from Essential's larger fleet of nitrogen and fluid pumpers. These gains were offset by a decrease in revenue from the conventional deep coil tubing fleet. Management anticipates utilization for the conventional deep coil tubing fleet may continue to lag below prior year levels through the rest of the year. Addition of the first Generation III masted deep coil tubing rig in the third quarter and three more masted deep coil tubing rigs in the fourth quarter will position Essential to meet the growing demand for long-reach coil tubing rigs. Revenue per hour for coil tubing rigs was consistent with prior year.

Service rig revenue improved during the third quarter of 2013 compared to the same period in the prior year as Essential saw improved utilization in Grande Prairie and Fort St. John. During the third quarter, Essential continued to see demand for its service rigs operating on SAGD wells. Revenue per hour increased from prior year due to the mix of services provided.

Well servicing revenue decreased on a quarter-to-date and year-to-date basis in 2013 compared to 2012 as the prior period included $2.8 million and $11.0 million, respectively, in revenue from the drilling rig operation which was disposed of in November 2012.

## SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

| (Thousands, except percentages) | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| Revenue | | | | |
| Downhole Tools & Rentals | **$ 28,185** | $ 26,342 | **$ 79,779** | $ 75,452 |
| Other* | - | - | - | 1,681 |
| Total revenue | **28,185** | 26,342 | **79,779** | 77,133 |
| Operating expenses | **19,524** | 17,587 | **54,539** | 51,602 |
| Gross margin | **$ 8,661** | $ 8,755 | **$ 25,240** | $ 25,531 |
| Gross margin % | **31%** | 33% | **32%** | 33% |
| Downhole Tools & Rentals Revenue – % of total | | | | |
| Tryton MSFS® | **55%** | 52% | **54%** | 47% |
| Conventional Tools & Rentals | **45%** | 48% | **46%** | 53% |

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

During the third quarter of 2013, Downhole Tools & Rentals revenue increased compared to the same quarter in the prior year due to an increase in demand for the Tryton MSFS® product line. Revenue for conventional tools and rentals was comparable to the same period in the prior year.

Downhole tools & rentals revenue increased on a year-to-date basis in 2013 compared to 2012 as a result of continued growth in Tryton MSFS® activity. Demand for Tryton MSFS® has remained strong due to innovative product design and the high quality of service offered by the business. Tryton continues to provide tools that are a cost-effective technical solution for customers looking to minimize horizontal well completion costs.

Essential has started expanding downhole tool operations into the southern United States, strategically operating near active basins. Gross margin percentage declined on a quarter-over-quarter basis due to United States start-up costs with limited revenue as the business is in the very early stages of operations.

A Statement of Claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in Federal Court. The Statement of Claim alleges products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes the suit is without merit and will actively defend against the allegations.

## GENERAL AND ADMINISTRATIVE

| (Thousands of dollars, except percentages) | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| General and administrative expenses | **$ 4,282** | $ 3,751 | **$ 12,549** | $ 11,682 |
| As a % of revenue | **5%** | 4% | 5% | 5% |

General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at corporate and operational levels. General and administrative expenses in the three and nine-months ended September 30, 2013 were higher than 2012, both in dollars and as a percentage of revenue. The increase is due to additional corporate staff, facility lease costs and professional fees.

**DEPRECIATION AND AMORTIZATION**

| (Thousands of dollars) | Three months ended September 30, 2013 | 2012 | Nine months ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Depreciation and amortization expense | **$ 6,515** | $ 6,339 | **$ 19,565** | $ 19,538 |

During the third quarter of 2013, and on a year-to-date basis, depreciation and amortization expense increased slightly compared to 2012 due to additional depreciation charges related to assets commissioned in the latter part of 2012 and the first nine months of 2013 as part of Essential's capital program, offset by a decrease in depreciation related to disposal of the drilling operation in November 2012.

**SHARE-BASED COMPENSATION**

| (Thousands of dollars) | Three months ended September 30, 2013 | 2012 | Nine months ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Share-based compensation expense | **$ 585** | $ 492 | **$ 1,197** | $ 1,427 |

Share-based compensation expense increased in the third quarter of 2013 due to the introduction of the Restricted Share Unit plan, as approved by shareholders in May 2013, and the Deferred Share Unit plan. During the nine-months ended September 30, 2013, share-based compensation expense decreased as a result of fewer share options issued in 2013.

**OTHER EXPENSE (INCOME)**

| (Thousands of dollars) | Three months ended September 30, 2013 | 2012 | Nine months ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Other expense (income) | **$ 3,493** | $ 117 | **$ 3,546** | $ (1,102) |

Other expense in the three and nine months ended September 30, 2013 included a $3.6 million expense of deposits on two coil tubing rigs as the supplier was placed into receivership in September 2013. In the nine months ended September 30, 2012, other income of $1.1 million related to gains on fixed asset sales.

**FINANCE COSTS**

| (Thousands of dollars) | Three months ended September 30, 2013 | 2012 | Nine months ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Finance costs | **$ 375** | $ 510 | **$ 1,153** | $ 1,699 |

During the third quarter of 2013, and on a year-to-date basis, finance costs decreased compared to the same period in the prior year due to a decline in the average long-term debt balance. Average long-term debt balance outstanding during the three and nine months ended September 30, 2013 was $35 million and $31 million, respectively, compared to $50 million and $51 million, respectively, for the same periods in 2012.

**INCOME TAXES**

| (Thousands of dollars) | Three month ended September 30, 2013 | 2012 | Nine months ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Current income tax expense | **$ 1,396** | $ 1,625 | **$ 4,852** | $ 4,092 |
| Deferred income tax expense | **476** | 1,835 | **534** | 3,605 |
| Total income tax expense | **$ 1,872** | $ 3,460 | **$ 5,386** | $ 7,697 |

During the three and nine months ended September 30, 2013, income tax expense decreased compared to 2012 due to lower reported earnings before income taxes.

**DISCONTINUED OPERATIONS**

Results of the Colombian operations have been presented as discontinued operations. As of November 6, 2013, Essential has received approximately $2.2 million in cash proceeds from the sale of certain of its Colombian assets during 2013.

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

| (Thousands of dollars, except per share amounts) | Three months ended September 30, **2013** | 2012 | Nine months ended September 30, **2013** | 2012 |
|---|---|---|---|---|
| Revenue | **$ 24** | $ 1,382 | **$ 1,887** | $ 4,243 |
| Expenses | **350** | 1,685 | **2,740** | 5,673 |
| Disposal costs | **147** | - | **532** | - |
| Loss on revaluation of discontinued operations | **-** | - | **2,373** | - |
| Loss before income taxes | **(473)** | (303) | **(3,758)** | (1,430) |
| Deferred income tax expense (recovery) | **-** | (676) | **-** | (156) |
| Net income (loss) from discontinued operations | **$ (473)** | $ 373 | **$ (3,758)** | $ (1,274) |
| Net income (loss) per share from discontinued operations | | | | |
| Basic and diluted | **$ 0.00** | $ 0.00 | **$ (0.03)** | $ (0.01) |

**FINANCIAL RESOURCES AND LIQUIDITY**

**FUNDS FLOW FROM OPERATIONS**[1]

| (Thousands of dollars, except per share amounts) | Three months ended September 30, **2013** | 2012 | Nine months ended September 30, **2013** | 2012 |
|---|---|---|---|---|
| Net cash flows from operating activities | **$ (10,378)** | $ 5,950 | **$ 31,517** | $ 43,851 |
| Add: | | | | |
| Changes in non-cash working capital | **26,540** | 11,725 | **9,736** | 4,488 |
| Funds flow from operations[1] | **$ 16,162** | $ 17,675 | **$ 41,253** | $ 48,339 |
| Per share – basic | **$ 0.13** | $ 0.14 | **$ 0.33** | $ 0.39 |
| Per share – diluted | **$ 0.13** | $ 0.14 | **$ 0.33** | $ 0.38 |

For the three months ended September 30, 2013 funds flow from operations were down as a result of lower EBITDA period over period. Net cash flows from operating activities decreased $16.3 million from the same period in the prior year due to changes in non-cash working capital, primarily driven by a seasonal growth in accounts receivable. With a comparable balance of accounts receivable at September 30, 2013 compared to 2012, the change was primarily driven by a lower opening balance at June 30, 2013 compared to 2012.

For the nine months ended September 30, 2013, funds flow from operations were down $7.1 million due primarily to the loss of EBITDA as a result of the disposal of the drilling operation in November 2012.

**WORKING CAPITAL**[1]

| (Thousands of dollars, except ratios) | | **As at September 30 2013** | | As at December 31 2012 |
|---|---|---|---|---|
| Current assets | **$** | **96,510** | $ | 95,840 |
| Current liabilities, excluding current portion of long-term debt | | **(32,662)** | | (37,594) |
| Working capital | **$** | **63,848** | $ | 58,246 |
| Working capital ratio | | 3.0:1 | | 2.5:1 |

**CREDIT FACILITY**

Essential's Credit Facility with its banking syndicate is comprised of a $100 million revolving term loan facility plus 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 September 30, 2013, the maximum of $100 million was available to Essential.

The following table outlines the term loan repayments, excluding interest, in the event that the Credit Facility is not renewed.

| | | **As at September 30 2013** | | As at December 31 2012 |
|---|---|---|---|---|
| Repayments are required as follows: | | | | |
| Within one year | **$** | **4,394** | $ | - |
| Between one and two years | | **13,533** | | 7,210 |
| Between two and three years | | **22,557** | | 11,917 |
| Between three and four years | | **-** | | 16,436 |
| | **$** | **40,484** | $ | 35,563 |

As at September 30, 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 November 6, 2013, Essential had long-term debt outstanding of $44.7 million.

**EQUIPMENT EXPENDITURES AND FLEET ADDITIONS**

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (Thousands of dollars) | | **2013** | | 2012 | | **2013** | | 2012 |
| Well Servicing | **$** | **11,180** | $ | 10,401 | **$** | **27,688** | $ | 31,035 |
| Downhole Tools & Rentals | | **584** | | 159 | | **2,325** | | 1,381 |
| Corporate | | **490** | | 115 | | **945** | | 824 |
| Total equipment expenditures | | **12,254** | | 10,675 | | **30,958** | | 33,240 |
| Less proceeds on disposal of property and equipment | | **(874)** | | (169) | | **(1,601)** | | (8,284) |
| Net equipment expenditures[1] | **$** | **11,380** | $ | 10,506 | **$** | **29,357** | $ | 24,956 |

During the three and nine months ended September 30, 2013, Essential's equipment expenditures of $12.3 million and $31.0 million, respectively, consisted primarily of progress payments related to its 2013 capital program.

During the nine months ended September 30, 2013, Essential commissioned the following assets:

- One Generation III masted deep coil tubing rig in the third quarter;
- One deep coil tubing rig conversion from an intermediate rig in the third quarter;

- Two nitrogen pumpers in the second quarter, and;
- Two mobile free standing, double service rigs which are SAGD capable, one in each of the first and second quarters, respectively.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (Thousands of dollars) | **2013** | 2012 | **2013** | 2012 |
| Growth capital[(1)] | **$ 8,047** | $ 6,285 | **$ 21,399** | $ 21,918 |
| Maintenance capital[(1)] | **4,207** | 4,390 | **9,559** | 11,322 |
| Total equipment expenditures | **$ 12,254** | $ 10,675 | **$ 30,958** | $ 33,240 |

In October 2013, Essential announced its 2014 capital budget of $50 million comprised of $33 million in growth capital and $17 million of maintenance capital. Essential's 2014 growth capital spending plan consists primarily of four masted deep coil tubing rigs, one quintiplex fluid pumper, one rod rig and rental equipment.

Essential increased its 2013 capital spending budget from $45 million to $50 million to include deposits and progress payments payable in 2013 for its 2014 capital program. The $50 million is comprised of $37 million of growth capital and $13 million of maintenance capital.

The following table shows the expected dates of the major equipment being built over the remainder of 2013 and 2014:

| | | **Expected Dates** | |
|---|---|---|---|
| | **Quantity** | **2013** | **2014** |
| Deep masted coil tubing rigs | 7 | Q4(3) | Q2,Q3,Q4,Q2'15 |
| Quintiplex fluid pumper | 1 | - | Q3 |
| Double rod rigs | 2 | Q4 | Q4 |
| Double service rigs – mobile free standing (one of these rigs is SAGD capable) | 2 | Q4(2) | - |

**SHARE CAPITAL**

As at November 6, 2013, there were 125,213,776 shares and 5,756,739 share options outstanding. Of the 5,756,739 share options, 2,918,049 were exercisable and "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. On November 6, 2013, Essential amended the Form 12 with the TSX to allow for purchases of shares to occur on other alternative trading systems, in addition to the TSX.

For the nine months ended September 30, 2013, a total of 520,052 Shares were acquired and cancelled under the NCIB at an average cost of $2.35 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**

Heading into the fourth quarter, industry activity in the WCSB has been consistent with 2012 levels. Demand in well servicing continues to be driven by oil wells and horizontal completions, with an increasing shift to deeper, more complex wells. Looking beyond the near term, there is a positive overall tone in the potential for the proposed liquefied natural gas ("LNG") projects in British Columbia which would include development of the Montney, Horn River and Duvernay basins. This is expected to increase the demand for oilfield services, including the demand for deep coil tubing and downhole tools.

Essential is well positioned to benefit from the rising demand to complete complex, long-reach horizontal wells. During the third quarter of 2013, Essential took delivery of one Generation III masted deep coil tubing rig. In the fourth quarter of 2013, Essential expects to take delivery of three more masted deep coil tubing rigs, one Generation III and two Generation IV. Essential's recently announced 2014 capital program will further focus on these state-of-the-art assets including one additional Generation III masted deep coil tubing rig and three Generation IV masted deep coil tubing rigs. With a coil diameter of 2 5/8", the Generation III rigs can reach 4,900 meters and the Generation IV rigs can reach 6,400 meters, making them well suited for deeper, more complex wells.

Essential recently expanded its downhole tool operations into the southern United States, strategically establishing operations near active basins. The business is currently in the early stages of operations.

Essential has a very strong balance sheet with $44.7 million of debt outstanding on November 6, 2013 and a debt to EBITDA ratio of 0.7x. Essential is well positioned to take advantage of future growth opportunities including servicing deep horizontal wells and possible LNG related demand.

## SUMMARY OF QUARTERLY DATA

| ($ Thousands, except per share amounts) | **Sept 30, 2013** | Jun 30, 2013 | Mar 31, 2013 | Dec 31, 2012 | **Sep 30, 2012** | Jun 30, 2012 | Mar 31, 2012 | Dec 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| Well Servicing: | | | | | | | | |
| Coil Well Service | **33,037** | 9,433 | 49,621 | 41,228 | **33,857** | 18,697 | 42,414 | 43,945 |
| Service Rigs | **23,870** | 14,732 | 33,556 | 26,012 | **20,552** | 15,564 | 33,311 | 28,118 |
| Other (i) | - | - | - | 786 | **2,762** | 1,069 | 7,206 | 4,677 |
| Total well servicing | **56,907** | 24,165 | 83,177 | 68,026 | **57,171** | 35,330 | 82,931 | 76,740 |
| Downhole Tools & Rentals (ii) | **28,185** | 14,252 | 37,342 | 27,989 | **26,342** | 15,540 | 35,251 | 32,115 |
| Inter-segment eliminations (iii) | **(582)** | - | - | - | - | - | - | - |
| Total revenue | **84,510** | 38,417 | 120,519 | 96,015 | **83,513** | 50,870 | 118,182 | 108,855 |
| Gross margin | **21,414** | (1,310) | 37,832 | 27,039 | **23,012** | 3,904 | 36,740 | 35,498 |
| Gross margin % | **25%** | (3)% | 31% | 28% | **28%** | 8% | 31% | 33% |
| EBITDA(1) | **17,132** | (5,171) | 33,426 | 22,368 | **19,261** | (42) | 32,755 | 31,733 |
| EBITDA %(1) | **20%** | (13)% | 28% | 23% | **23%** | 0% | 28% | 29% |
| Continuing operations | | | | | | | | |
| Net income (loss) | **4,292** | (8,958) | 19,205 | 8,050 | **8,343** | (5,453) | 19,823 | 17,082 |
| Per share – basic and diluted | **0.03** | $(0.07) | $0.15 | $0.06 | **$0.07** | $(0.04) | $0.16 | $0.14 |
| Net income (loss) attributable to shareholders of Essential | **3,843** | (11,501) | 18,627 | 678 | **8,660** | (5,923) | 18,893 | 17,559 |
| Per share – basic and diluted | **0.03** | $(0.09) | $0.15 | $0.01 | **$0.07** | $(0.05) | $0.15 | $0.14 |
| Total assets | **409,613** | 380,728 | 436,301 | 406,853 | **415,653** | 393,377 | 430,674 | 421,500 |
| Total long-term debt | **40,484** | 14,592 | 35,603 | 35,563 | **50,474** | 41,198 | 57,238 | 63,486 |
| **Utilization** (iv) | | | | | | | | |
| Coil tubing rigs – deep | **73%** | 18% | 110% | 95% | **79%** | 32% | 102% | 111% |
| Coil tubing rigs – other | **12%** | 7% | 15% | 16% | **15%** | 7% | 25% | 30% |
| Pumpers | **47%** | 14% | 73% | 57% | **50%** | 33% | 69% | 71% |
| Service rigs | **50%** | 28% | 69% | 54% | **45%** | 34% | 68% | 59% |
| **Operating Hours** | | | | | | | | |
| Coil tubing rigs – deep | **17,724** | 4,125 | 24,765 | 22,777 | **18,301** | 7,262 | 23,236 | 23,524 |
| Coil tubing rigs – other | **2,016** | 1,185 | 2,511 | 2,757 | **2,819** | 1,596 | 5,494 | 6,778 |
| Pumpers | **14,418** | 4,241 | 20,481 | 15,328 | **11,919** | 7,504 | 13,865 | 13,008 |
| Service rigs | **25,084** | 14,234 | 34,364 | 27,310 | **22,632** | 16,183 | 35,188 | 31,005 |
| **Downhole Tools & Rentals - revenue % of total** | | | | | | | | |
| Tryton MSFS® | **55%** | 40% | 60% | 51% | **52%** | 40% | 47% | 47% |
| Conventional Tools & Rentals | **45%** | 60% | 40% | 49% | **48%** | 60% | 53% | 53% |
| **Equipment fleet** (v) | | | | | | | | |
| **Canada** | | | | | | | | |
| Coil tubing rigs - deep | **27** | 25 | 25 | 27 | **26** | 25 | 25 | 25 |
| Coil tubing rigs - other | **18** | 19 | 19 | 19 | **19** | 20 | 24 | 24 |
| Service rigs | **54** | 56 | 56 | 55 | **55** | 53 | 58 | 57 |
| Nitrogen pumpers | **15** | 15 | 13 | 13 | **10** | 10 | 10 | 10 |
| Fluid pumpers | **18** | 18 | 18 | 18 | **16** | 16 | 15 | 15 |
| Rod rigs | **12** | 14 | 14 | 14 | **14** | 14 | 14 | 14 |

(i) Other revenue included revenue from Essential's drilling operation until its disposal in November 2012.
(ii) Revenue for Downhole Tools & Rentals included revenue from Essential's wireline business which was disposed of in February 2012.
(iii) Transactions between segments are eliminated upon consolidation.
(iv) Utilization is calculated using a 10 hour day.
(v) Fleet data represents the number of units at the end of the period.

Essential reviews the economic circumstance of each rig near the end of its service period to determine whether the rig should be retired or refurbished. During the nine months ended September 30, 2013, Essential retired the following assets from its fleet:

- One double service rig, one single service rig and two rod rigs in the third quarter;
- One double service rig in the second quarter; and
- Two masted coil tubing rigs in the first quarter.

## 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 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 that development of possible LNG projects on the west coast will increase the demand for oilfield services including the demand for deep coil tubing and downhole tools, 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, expectations of the opportunity for growth through expansion into the United States, expectations that the results of the conventional deep coil tubing fleet may continue to lag below prior year levels through the rest of the year, and expectations that the addition of the new masted deep coil tubing rigs will position Essential to meet the growing demand for long-reach coil tubing rigs.

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 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, capital programs and pay dividends. 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, depreciation, amortization, transaction costs, non-controlling interest earnings, losses or gains on disposal of equipment, results of discontinued operations and share-based compensation, which includes both equity-settled and cash-settled transactions) – This measure is considered an indicator of Essential's ability to generate funds flow in order to fund required working capital, service debt, fund capital programs and pay dividends.

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, capital programs and pay dividends. 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.

[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.

September 30, 2013

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

| *(Thousands)* | **As at September 30 2013** | As at December 31 2012 |
|---|---|---|
| **Assets** | | |
| Current | | |
| Trade and other receivables *(note 4)* | **$ 67,145** | $ 71,835 |
| Inventories *(note 5)* | **25,444** | 20,699 |
| Prepayments | **3,921** | 3,306 |
| | **96,510** | 95,840 |
| Non-current | | |
| Property and equipment *(note 6)* | **221,611** | 211,304 |
| Intangible assets | **32,063** | 36,555 |
| Goodwill | **55,014** | 55,014 |
| | **308,688** | 302,873 |
| Assets held for sale *(note 3)* | **4,415** | 8,140 |
| Total assets | **$ 409,613** | $ 406,853 |
| **Liabilities** | | |
| Current | | |
| Bank indebtedness | **$ 503** | $ 1,835 |
| Trade and other payables *(note 7)* | **28,404** | 32,354 |
| Dividends payable *(note 8)* | **3,755** | 3,100 |
| Current portion of long-term debt *(note 9)* | **4,394** | - |
| Income taxes payable | **-** | 305 |
| | **37,056** | 37,594 |
| Non-current | | |
| Long-term debt *(note 9)* | **36,090** | 35,563 |
| Deferred tax liabilities *(note 10)* | **30,094** | 29,560 |
| | **66,184** | 65,123 |
| Liabilities held for sale *(note 3)* | **822** | 1,731 |
| Total liabilities | **104,062** | 104,448 |
| Commitments and contingencies *(note 16)* | | |
| **Equity** | | |
| Share capital *(note 11)* | **261,460** | 258,772 |
| Retained earnings | **39,262** | 38,276 |
| Other reserves | **5,027** | 5,363 |
| Equity attributable to shareholders of Essential | **305,749** | 302,411 |
| Non-controlling interest *(note 12)* | **(198)** | (6) |
| Total equity | **305,551** | 302,405 |
| Total liabilities and equity | **$ 409,613** | $ 406,853 |

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

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

| *(Thousands, except per share amounts)* | For the three months ended September 30 **2013** | 2012 | For the nine months ended September 30 **2013** | 2012 |
|---|---|---|---|---|
| Revenue | **$ 84,510** | $ 83,513 | **$ 243,445** | $ 252,566 |
| Operating expenses | **63,096** | 60,501 | **185,510** | 188,911 |
| Gross margin | **21,414** | 23,012 | **57,935** | 63,655 |
| General and administrative expenses | **4,282** | 3,751 | **12,549** | 11,682 |
| | **17,132** | 19,261 | **45,386** | 51,973 |
| Depreciation and amortization *(note 6)* | **6,515** | 6,339 | **19,565** | 19,538 |
| Share-based compensation *(note 14)* | **585** | 492 | **1,197** | 1,427 |
| Other (income) expense *(note 6)* | **3,493** | 117 | **3,546** | (1,102) |
| Operating profit from continuing operations | **6,539** | 12,313 | **21,078** | 32,110 |
| Finance costs *(note 13)* | **375** | 510 | **1,153** | 1,699 |
| Earnings before income taxes from continuing operations | **6,164** | 11,803 | **19,925** | 30,411 |
| Income taxes expense | | | | |
| Current | **1,396** | 1,625 | **4,852** | 4,092 |
| Deferred | **476** | 1,835 | **534** | 3,605 |
| Total income tax expense *(note 10)* | **1,872** | 3,460 | **5,386** | 7,697 |
| Net income from continuing operations | **$ 4,292** | $ 8,343 | **$ 14,539** | $ 22,714 |
| Net income (loss) from discontinued operations, net of tax *(note 3)* | **(473)** | 373 | **(3,758)** | (1,274) |
| Net Income | **$ 3,819** | $ 8,716 | **$ 10,781** | $ 21,440 |
| Unrealized foreign exchange gain (loss) on discontinued operations | **(56)** | 197 | **(243)** | 1,204 |
| Other comprehensive income (loss) from discontinued operations *(note 3)* | **(56)** | 197 | **(243)** | 1,204 |
| Comprehensive income | **$ 3,763** | $ 8,913 | **$ 10,538** | $ 22,644 |
| Net income (loss) attributable to: | | | | |
| Shareholders of Essential | **$ 3,843** | $ 8,660 | **$ 10,969** | $ 21,631 |
| Non-controlling interest *(note 12)* | **(24)** | 56 | **(188)** | (191) |
| | **$ 3,819** | $ 8,716 | **$ 10,781** | $ 21,440 |
| Comprehensive income (loss) attributable to: | | | | |
| Shareholders of Essential | **$ 3,783** | $ 8,826 | **$ 10,730** | $ 22,672 |
| Non-controlling interest *(note 12)* | **(20)** | 87 | **(192)** | (28) |
| | **$ 3,763** | $ 8,913 | **$ 10,538** | $ 22,644 |
| Net income per share from continuing operations *(note 15)* | | | | |
| Basic and diluted, attributable to shareholders of Essential | **$ 0.03** | $ 0.07 | **$ 0.12** | $ 0.18 |
| Net income per share *(note 15)* | | | | |
| Basic and diluted, attributable to shareholders of Essential | **$ 0.03** | $ 0.07 | **$ 0.09** | $ 0.17 |
| Comprehensive income per share *(note 15)* | | | | |
| Basic and diluted, attributable to shareholders of Essential | **$ 0.03** | $ 0.07 | **$ 0.09** | $ 0.18 |

*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 nine months ended September 30 **2013** | 2012 |
|---|---|---|
| **Equity attributable to shareholders of Essential:** | | |
| Share capital | | |
| Balance, January 1 | **$ 258,772** | $ 257,775 |
| Exercise of options *(note 11)* | **3,774** | 974 |
| Shares repurchased in normal course issuer bid *(note 11)* | **(1,086)** | - |
| Balance, September 30 | **$ 261,460** | $ 258,749 |
| Retained earnings | | |
| Balance, January 1 | **$ 38,276** | $ 28,651 |
| Net income | **10,969** | 21,631 |
| Dividends *(note 8)* | **(9,983)** | (9,290) |
| Equity transferred | **-** | (5) |
| Balance, September 30 | **$ 39,262** | $ 40,987 |
| Other reserves | | |
| Balance, January 1 | **$ 5,363** | $ 2,402 |
| Other comprehensive income (loss) | **(238)** | 1,041 |
| Equity-settled share based compensation | **919** | 1,427 |
| Shares cancelled under normal course issuer bid *(note 11)* | **(140)** | - |
| Exercise of options | **(877)** | (294) |
| Balance, September 30 | **$ 5,027** | $ 4,576 |
| Total equity attributable to shareholders of Essential | **$ 305,749** | $ 304,312 |
| **Equity attributable to non-controlling interest:** | | |
| Balance, January 1 | **$ (6)** | $ 75 |
| Net loss | **(188)** | (191) |
| Other comprehensive income (loss) | **(4)** | 163 |
| Equity transferred | **-** | 5 |
| Balance, September 30 | **$ (198)** | $ 52 |
| **Total equity** | **$ 305,551** | $ 304,364 |

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

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

| *(Thousands)* | | For the nine months ended September 30 **2013** | | 2012 |
|---|---|---|---|---|
| **Operating activities:** | | | | |
| Net income from continuing operations | **$** | **14,539** | $ | 22,714 |
| Non-cash adjustments to reconcile net income to net cash flow: | | | | |
| Depreciation and amortization *(note 6)* | | **19,565** | | 19,538 |
| Deferred income tax expense *(note 10)* | | **534** | | 3,605 |
| Equity-settled share-based compensation *(note 14)* | | **919** | | 1,427 |
| Provision (recovery) for impairment of trade receivables *(note 4)* | | **660** | | (237) |
| Finance costs *(note 13)* | | **1,153** | | 1,705 |
| (Gain) loss on disposal of assets *(note 6)* | | **3,883** | | (413) |
| Operating cash flow before changes in working capital | | **41,253** | | 48,339 |
| Changes in working capital: | | | | |
| Decrease in trade and other receivables before provision | | **4,167** | | 16,750 |
| Increase in inventories | | **(4,746)** | | (1,854) |
| Increase in prepayments | | **(614)** | | (825) |
| Decrease in income taxes payable | | **(1,520)** | | (6,697) |
| Decrease in trade and other accounts payables | | **(7,023)** | | (11,862) |
| Net cash flows from operating activities | | **31,517** | | 43,851 |
| **Investing activities:** | | | | |
| Purchase of property and equipment & intangibles *(note 6)* | | **(30,958)** | | (33,240) |
| Non-cash investing working capital in trade and other accounts payable | | **3,073** | | - |
| Proceeds on disposal of equipment *(note 6)* | | **1,601** | | 8,284 |
| Net cash flows used in investing activities | | **(26,284)** | | (24,956) |
| **Financing activities:** | | | | |
| Borrowings (repayment) of long-term debt | | **4,921** | | (12,249) |
| Dividends paid | | **(9,328)** | | (6,190) |
| Issuance of share capital upon exercise of options | | **2,897** | | 684 |
| Repurchase of shares | | **(1,226)** | | - |
| Finance costs *(note 13)* | | **(1,153)** | | (1,705) |
| Net cash flows used in financing activities | | **(3,889)** | | (19,460) |
| Foreign exchange loss on cash held in a foreign currency | | **(12)** | | (27) |
| Net increase (decrease) in cash | | **1,332** | | (592) |
| Net decrease in cash, discontinued operations *(note 3)* | | **-** | | (1,029) |
| Cash, beginning balance, discontinued operations *(note 3)* | | **-** | | 1,269 |
| Bank indebtedness, beginning of period | | **(1,835)** | | (1,105) |
| Bank indebtedness, end of period | **$** | **(503)** | $ | (1,457) |
| Supplemental cash flow information | | | | |
| Cash taxes paid | **$** | **6,370** | $ | 10,906 |
| Cash interest and standby fees paid | | **970** | | 1,477 |

*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 and nine month periods ended September 30, 2013 and 2012 were authorized by the Board of Directors on November 6, 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 and nine month periods ended September 30, 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 and nine month periods ended September 30, 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 and IAS 19 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

Results of the Colombian operations have been presented as discontinued operations for the current and prior year. The following table represents the balances that have been reclassified on the consolidated balance sheet as assets and liabilities held for sale:

| | **As at September 30 2013** | As at December 31 2012 |
|---|---|---|
| Assets held for sale: | | |
| Cash | **$ 1,180** | $ 261 |
| Trade and other receivables | **-** | 868 |
| Inventories | **147** | 153 |
| Prepayments | **335** | 273 |
| Property and equipment | **2,753** | 6,585 |
| | **$ 4,415** | $ 8,140 |
| Liabilities held for sale: | | |
| Trade and other payables | **$ 822** | $ 1,731 |
| | **$ 822** | $ 1,731 |

Income (losses) from discontinued operations related to Colombia are as follows:

| (Thousands, except per share amounts) | For the three months ended September 30 **2013** | 2012 | For the nine months ended September 30 **2013** | 2012 |
|---|---|---|---|---|
| Revenue | **$ 24** | $ 1,382 | **$ 1,887** | $ 4,243 |
| Expenses | **350** | 1,685 | **2,740** | 5,673 |
| Disposal costs | **147** | - | **532** | - |
| Loss on revaluation of discontinued operations | - | - | **2,373** | - |
| Loss before income taxes | **(473)** | (303) | **(3,758)** | (1,430) |
| Deferred income tax (recovery) | - | (676) | - | (156) |
| Net income (loss) from discontinued operations, net of tax | **(473)** | 373 | **(3,758)** | (1,274) |
| Unrealized foreign exchange gain (loss) on discontinued operations | **(56)** | 197 | **(243)** | 1,204 |
| Comprehensive income (loss) from discontinued operations, net of tax | **$ (529)** | $ 570 | **$ (4,001)** | $ (70) |
| Comprehensive income (loss) from discontinued operations attributable to: | | | | |
| Shareholders of Essential | **$ (509)** | $ 483 | **$ (3,809)** | $ (42) |
| Non-controlling interest | **(20)** | 87 | **(192)** | (28) |
| | **$ (529)** | $ 570 | **$ (4,001)** | $ (70) |
| Net income (loss) from discontinued operations | **$ (473)** | $ 373 | **$ (3,758)** | $ (1,274) |
| Net loss per share from discontinued operations Basic and dilutive | **$ 0.00** | $ 0.00 | **$ (0.03)** | $ (0.01) |
| Net cash flows incurred by discontinued operations: | | | | |
| Operating | **$ 171** | $ 156 | **$ (24)** | $ 264 |
| Investing | **977** | (88) | **942** | (533) |
| Financing | - | 17 | - | (760) |
| | **$ 1,148** | $ 85 | **$ 918** | $ (1,029) |

## 4. TRADE AND OTHER RECEIVABLES

| | **As at September 30 2013** | As at December 31 2012 |
|---|---|---|
| Trade receivables, net of provision | **$ 65,650** | $ 69,271 |
| Other receivables | **1,495** | 2,564 |
| | **$ 67,145** | $ 71,835 |

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

| | | |
|---|---|---|
| Canadian dollar | **$ 64,023** | $ 68,118 |
| United States dollar | **1,627** | 1,153 |
| | **$ 65,650** | $ 69,271 |

The aging analysis of trade receivables is as follows:

| | | **As at September 30 2013** | | As at December 31 2012 |
|---|---|---|---|---|
| < 31 days | **$** | **35,254** | $ | 30,955 |
| 31-60 days | | **19,705** | | 26,187 |
| 61-90 days | | **7,773** | | 7,585 |
| >90 days | | **2,918** | | 4,544 |
| | **$** | **65,650** | $ | 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 of doubtful accounts receivable is $0.8 million (December 31, 2012 – $0.3 million) which is included in the amount over 90 days balance. The movements in the provision during the period were as follows:

| | For the three months ended September 30 | | | | For the nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2013** | | 2012 | | **2013** | | 2012 |
| Balance, beginning of the period | **$** | **442** | $ | 913 | **$** | **314** | $ | 1,642 |
| Provision for receivables impairment | | **380** | | 75 | | **660** | | 105 |
| Receivables written off during the period as uncollectible | | **(10)** | | - | | **(162)** | | (417) |
| Unused amount reversed | | **-** | | - | | **-** | | (342) |
| Balance, end of the period | **$** | **812** | $ | 988 | **$** | **812** | $ | 988 |

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 are with customers in the oil and gas industry and are subject to normal industry credit risks. These receivables represent the Company's total credit exposure. During the nine month period ended September 30, 2013, the Company earned revenues from more than 500 customers (2012 – 500 customers) with five of these customers representing approximately 29% of revenue (2012 – 24%). As at September 30, 2013, approximately 33% of the total trade accounts receivable was due from five companies (December 31, 2012 – 24%).

## 5. INVENTORIES

| | | **As at September 30 2013** | | As at December 31 2012 |
|---|---|---|---|---|
| Downhole tools | **$** | **17,790** | $ | 13,632 |
| Coil tubing products | | **7,654** | | 7,067 |
| | **$** | **25,444** | $ | 20,699 |

Inventory charged through operating expenses in the consolidated statement of net income and comprehensive income for the three and nine month periods ended September 30, 2013 was $12.7 million and $36.6 million, respectively (2012 - $12.1 million and $32.1 million, respectively).

## 6. PROPERTY AND EQUIPMENT

| **As at September 30, 2013** | **Cost** | **Accumulated Depreciation** | **Net Book Value** |
|---|---|---|---|
| **Service rigs and equipment** | **$ 129,307** | **$ 30,109** | **$ 99,198** |
| **Coil tubing rigs and equipment** | **90,139** | **15,437** | **74,702** |
| **Oilfield equipment** | **40,300** | **15,152** | **25,148** |
| **Vehicles** | **25,777** | **7,270** | **18,507** |
| **Office and computer equipment** | **3,622** | **1,991** | **1,631** |
| **Land** | **482** | **-** | **482** |
| **Other** | **4,261** | **2,318** | **1,943** |
| | **$ 293,888** | **$ 72,277** | **$ 221,611** |

| 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 $23.1 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 September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Net book value, beginning of the period | **$ 219,107** | $ 217,513 | **$ 211,304** | $ 211,764 |
| Additions | **12,420** | 10,759 | **30,958** | 33,520 |
| Disposals | **(4,694)** | (113) | **(5,484)** | (7,738) |
| Depreciation | **(5,222)** | (5,016) | **(15,167)** | (15,504) |
| Currency translation adjustment | **-** | (173) | - | 928 |
| Net book value, end of the period | **$ 221,611** | $ 222,970 | **$ 221,611** | $ 222,970 |

Included in disposals is approximately $3.6 million in impaired deposits. The amounts had been paid to a fabrication company for two coil tubing rigs previously recorded as assets under construction within coil tubing and other equipment. During the third quarter, the fabricator was placed into receivership and as a result Essential will not take delivery of these two coil tubing rigs. The impairment of the deposits has been charged to other expense in the three months ended September 30, 2013.

## 7. TRADE AND OTHER PAYABLES

| | | As at September 30 2013 | | As at December 31 2012 |
|---|---|---|---|---|
| Trade accounts payable | $ | **12,044** | $ | 17,409 |
| Accrued payables | | **5,806** | | 4,920 |
| Payroll | | **8,998** | | 9,879 |
| Other | | **1,556** | | 146 |
| | $ | **28,404** | $ | 32,354 |

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

| | | As at September 30 2013 | | As at December 31 2012 |
|---|---|---|---|---|
| Canadian dollar | $ | **11,969** | $ | 17,084 |
| United States dollar | | **75** | | 325 |
| | $ | **12,044** | $ | 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 |
| Second quarter | June 28, 2013 | July 15, 2013 | $ 0.025 |
| Third quarter | September 30, 2013 | October 15, 2013 | $ 0.030 |

## 9. LONG-TERM DEBT

| | | As at September 30 2013 | | As at December 31 2012 |
|---|---|---|---|---|
| Term loan | $ | **40,600** | $ | 35,811 |
| Deferred financing costs | | **(116)** | | (248) |
| | $ | **40,484** | $ | 35,563 |

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $100 million revolving term loan facility plus a $35 million accordion feature available on lender's consent. The $100 million 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.

As at September 30, 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 term loan repayments, excluding interest, in the event that the Credit Facility is not renewed.

| | **As at September 30 2013** | As at December 31 2012 |
|---|---|---|
| Repayments are required as follows: | | |
| Within one year | **$ 4,394** | $ - |
| Between one and two years | **13,533** | 7,210 |
| Between two and three years | **22,557** | 11,917 |
| Between three and four years | **-** | 16,436 |
| | **$ 40,484** | $ 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 September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Operating profits from continuing operations | **$ 6,164** | $ 11,803 | **$ 19,925** | $ 30,411 |
| Statutory tax rate | **25%** | 25% | **25%** | 25% |
| Expected income tax expense | **$ 1,541** | $ 2,951 | **$ 4,981** | $ 7,603 |
| Increase (decrease) resulting from: | | | | |
| Share-based compensation | **77** | 123 | **230** | 357 |
| Items not deductible for tax | **271** | 76 | **359** | 203 |
| Adjustment in respect to prior years | - | (124) | **(166)** | (124) |
| Other | **(17)** | 434 | **(18)** | (342) |
| Income tax expense | **$ 1,872** | $ 3,460 | **$ 5,386** | $ 7,697 |

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

| | **As at September 30 2013** | As at December 31 2012 |
|---|---|---|
| Property and equipment | **$ (22,139)** | $ (20,648) |
| Intangible assets | **(4,482)** | (6,069) |
| Loss carry forwards | **45** | 929 |
| Deferred partnership income | **(2,808)** | (3,293) |
| Share issue costs | **252** | 354 |
| Other | **(962)** | (833) |
| | **$ (30,094)** | $ (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 | **1,681** | | **3,774** |
| Shares repurchased in normal course issuer bid | **(520)** | | **(1,086)** |
| **As at September 30, 2013** | **125,152** | **$** | **261,460** |

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 through the facilities of the TSX. On November 6, 2013, Essential amended the Form 12 with the TSX to allow for purchases of shares to occur on other alternative trading systems, in addition to the TSX. Purchases are made at the discretion of management at prevailing market prices. For the nine months period ended September 30, 2013 a total of 520,052 Shares were acquired and cancelled under the NCIB at an average cost of $2.36 per share. Any excess amount paid for these shares, relative to their carrying amount, was transferred to contributed surplus.

## 12. NON-CONTROLLING INTEREST

| | | **As at September 30 2013** | | As at December 31 2012 |
|---|---|---|---|---|
| Balance, January 1 | **$** | **(6)** | $ | 75 |
| Contribution | | **-** | | 294 |
| Loss attributed to non-controlling interest | | **(188)** | | (445) |
| Other comprehensive income (loss) | | **(4)** | | 70 |
| Balance, end of period | **$** | **(198)** | $ | (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 earnings are allocated accordingly.

## 13. FINANCE COSTS

| | For the three months ended September 30 | | | | For the nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2013** | | 2012 | | **2013** | | 2012 |
| Interest on bank borrowings | **$** | **375** | $ | 510 | **$** | **1,153** | $ | 1,699 |

## 14. SHARE-BASED COMPENSATION

The Company offers the following share-based payment plans: Share Options, Restricted Share Units (RSUs) and Deferred Share Units (DSUs). The purpose of the plans are to recognize the contribution of the participants to the growth of the Company and to encourage share ownership in the Company.

The maximum number of share options issuable under the Share Option Plan and RSUs issuable under the RSU Plan together may not exceed 9% of the Company's outstanding shares, which at September 30, 2013 accumulated to a threshold of 11,263,719 (2012 – 12,398,140) share options.

Components of the Company's share-based compensation expense are as follows:

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Equity-settled Share Options | **$ 307** | $ 492 | **$ 919** | $ 1,427 |
| Restricted Share Units | **242** | - | **242** | - |
| Cash-settled Deferred Share Units | **36** | - | **36** | - |
| Total share-based compensation expense | **$ 585** | $ 492 | **$ 1,197** | $ 1,427 |

**Share Option Plan**

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.

| | **For the nine months ended September 30 2013** | | For the nine months ended September 30 2012 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price** | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | **7,374** | **$ 1.91** | 6,271 | $ 2.04 |
| Issued | **819** | **2.26** | 2,575 | 2.10 |
| Exercised | **(1,681)** | **1.78** | (542) | 1.26 |
| Expired | **(396)** | **2.66** | (199) | 8.91 |
| Forfeited | **(219)** | **2.16** | (498) | 2.10 |
| Outstanding, end of period | **5,897** | **$ 1.94** | 7,607 | $ 1.93 |
| Exercisable, end of period | **2,979** | **$ 1.75** | 3,505 | $ 1.83 |

The fair value of share options issued during the period were between \$0.53 – \$0.76 per option (2012 - \$0.58 - \$1.10) estimated using the Black-Scholes option pricing model using the following underlying assumptions:

| | **2013** | 2012 |
|---|---|---|
| Risk-free interest rate | **1.1 – 1.6%** | 0.9 – 1.4% |
| Expected volatility | **45.0 – 58.5%** | 48.9 – 72.2% |
| Expected term | **2.7 – 4.2 years** | 2.8 – 4.4 years |
| Expected forfeiture rate | **7.9 – 18.2%** | 8.0 – 19.2% |
| Dividend yield | **4.3 – 4.6%** | nil – 4.7% |

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.

**Restricted Share Units**

The RSU Plan authorizes the Board of Directors of the Company to grant RSUs to persons who are officers and employees of, and consultants to, the Company. RSUs granted to a Participant represent a right to receive a cash payment or its equivalent in fully paid shares at the time of vesting. The redemption value of each RSU will be equal to the volume weighted average trading price of the Company's common shares for the five trading days immediately preceding the vesting date.

On August 12, 2013, 587,500 RSUs were granted to officers and employees of the Company, vesting in three equal instalments of one-third on each of the following dates: January 6, 2014, 2015 and 2016, respectively. The RSUs that vest on January 6, 2014 will be settled in cash and will be paid to participants, less statutory withholdings, within fifteen days of the vesting date. The RSUs that vest on January 6, 2015 and 2016 may be settled with cash or shares, as determined by the Board.

The liability for the RSUs is measured at fair value on the grant date and is subsequently revalued at the end of each reporting period, with any changes in fair value recognized in the statement of net income and comprehensive income recorded in "share-based compensation". The liability is recognized over the vesting period, with corresponding charges expensed over the vesting term on a graded vesting schedule representing the fair value of the granted units. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of units that will eventually vest.

Compensation expense related to the RSUs for the three and nine months ended September 30, 2013 are $0.2 million and $0.2 million, respectively. The carrying amount of the liability at September 30, 2013 is $0.2 million (2012 – nil). The total number of RSUs outstanding at September 30, 2013 is 587,500.

**Deferred Share Units**

Participation in the DSU Plan is restricted to non-employee directors ("Eligible Directors"), officers and employees of the Company. A DSU gives the DSU Participant a right of redemption in the form of a lump sum cash payment, less applicable withholding taxes, within fifteen days of the DSU Participant ceasing to be an Eligible Director, officer or employee of the Company. The redemption value of each DSU will be equal to the volume weighted average trading price of the Company's common shares for the five trading days preceding the date a DSU Participant ceases to be an Eligible Director, officer or employee of the Company.

On August 14, 2013, 100,000 DSUs were granted to Eligible Directors of the Company, vesting one year from the grant date. The liability for the DSUs is measured at fair value on the grant date and is subsequently revalued at the end of each reporting period, with any changes in fair value recognized in the statement of net income and comprehensive income and recorded in "share-based compensation". The DSU Plan expense recorded for the three and nine months ended September 30, 2013 is $0.04 million and $0.04 million, respectively. The carrying amount of the liability at September 30, 2013 is $0.04 million (2012 – nil). The total number of DSUs outstanding at September 30, 2013 is 100,000. There were no DSUs redeemed during the three and nine months ended September 30, 2013.

## 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 September 30 | | | | For the nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2013** | | 2012 | | **2013** | | 2012 |
| Basic, weighted average number of shares | | **125,084** | | 123,902 | | **124,434** | | 123,756 |
| Dilutive common shares from share options | | **1,962** | | 1,209 | | **1,488** | | 1,477 |
| Diluted, weighted average number of shares | | **127,046** | | 125,111 | | **125,922** | | 125,233 |
| Net income attributable to Essential from continuing operations | **$** | **4,292** | $ | 8,343 | **$** | **14,539** | $ | 22,714 |
| Net Income attributable to Essential | **$** | **3,843** | $ | 8,660 | **$** | **10,969** | $ | 21,631 |
| Comprehensive income attributable to Essential | **$** | **3,783** | $ | 8,826 | **$** | **10,730** | $ | 22,672 |
| Net income per share from continuing operations | | | | | | | | |
| Basic and diluted, attributable to shareholders of Essential | **$** | **0.03** | $ | 0.07 | **$** | **0.12** | $ | 0.18 |
| Net income per share | | | | | | | | |
| Basic and diluted, attributable to shareholders of Essential | **$** | **0.03** | $ | 0.07 | **$** | **0.09** | $ | 0.17 |
| Comprehensive income per share | | | | | | | | |
| Basic and diluted, attributable to shareholders of Essential | **$** | **0.03** | $ | 0.07 | **$** | **0.09** | $ | 0.18 |

## 16. COMMITMENTS AND CONTINGENCIES

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 | $ | 4,798 |
| In the second year to fifth years inclusive | | 15,816 |
| After five years | | 5,719 |
| | $ | 26,333 |

In addition to the above, Essential entered into agreements to build certain assets for $25.7 million which are expected to be paid in 2013 through to 2015.

A Statement of Claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in Federal Court. The Statement of Claim alleges products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes the suit is without merit and will actively defend against the allegations.

In addition, 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 & Eliminations, where transactions between segments are eliminated upon consolidation.

### a) Well Servicing

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

### b) Downhole Tools & Rentals

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

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

**As at and for the three months ended September 30, 2013**

| | Well Servicing | Downhole Tools & Rentals | Corporate & Eliminations | Consolidated |
|---|---|---|---|---|
| **Revenue** | **$ 56,907** | **$ 28,185** | **$ (582)** | **$ 84,510** |
| **Net income (loss) before income taxes** | **$ 4,062** | **$ 7,804** | **$ (5,702)** | **$ 6,164** |
| **Depreciation and amortization** | **$ 5,689** | **$ 644** | **$ 182** | **$ 6,515** |
| **Total assets** | **$ 340,437** | **$ 60,244** | **$ 4,517** | **$ 405,198** |
| **Total liabilities** | **$ 47,835** | **$ 5,028** | **$ 50,377** | **$ 103,240** |
| **Equipment expenditures** | **$ 11,180** | **$ 584** | **$ 490** | **$ 12,254** |

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

| | Well Servicing | Downhole Tools & Rentals | Corporate & Eliminations | Consolidated |
|---|---|---|---|---|
| Revenue | $ 57,171 | $ 26,342 | $ - | $ 83,513 |
| Net income (loss) before income taxes | $ 8,952 | $ 7,851 | $ (5,000) | $ 11,803 |
| Depreciation and amortization | $ 5,333 | $ 688 | $ 318 | $ 6,339 |
| Total assets | $ 359,812 | $ 49,548 | $ 6,293 | $ 415,653 |
| Total liabilities | $ 37,211 | $ 6,624 | $ 67,454 | $ 111,289 |
| Equipment expenditures | $ 10,401 | $ 159 | $ 115 | $ 10,675 |

| **As at and for the nine months ended September 30, 2013** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Well Servicing** | | **Downhole Tools & Rentals** | | **Corporate & Eliminations** | | **Consolidated** |
| **Revenue** | **$** | **164,249** | **$** | **79,779** | **$** | **(582)** | **$** | **243,445** |
| **Net income (loss) before income taxes** | **$** | **13,475** | **$** | **22,740** | **$** | **(16,290)** | **$** | **19,925** |
| **Depreciation and amortization** | **$** | **16,798** | **$** | **2,003** | **$** | **764** | **$** | **19,565** |
| **Total assets** | **$** | **340,437** | **$** | **60,244** | **$** | **4,517** | **$** | **405,198** |
| **Total liabilities** | **$** | **47,835** | **$** | **5,028** | **$** | **50,377** | **$** | **103,240** |
| **Equipment expenditures** | **$** | **27,688** | **$** | **2,325** | **$** | **945** | **$** | **30,958** |

| As at and for the nine months ended September 30, 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Well Servicing | | Downhole Tools & Rentals | | Corporate & Eliminations | | Consolidated |
| Revenue | $ | 175,433 | $ | 77,133 | $ | - | $ | 252,566 |
| Net income (loss) before income taxes | $ | 21,018 | $ | 23,436 | $ | (14,043) | $ | 30,411 |
| Depreciation and amortization | $ | 16,189 | $ | 2,390 | $ | 959 | $ | 19,538 |
| Total assets | $ | 359,812 | $ | 49,548 | $ | 6,293 | $ | 415,653 |
| Total liabilities | $ | 37,211 | $ | 6,624 | $ | 67,454 | $ | 111,289 |
| Equipment expenditures | $ | 31,035 | $ | 1,381 | $ | 825 | $ | 33,241 |

## 19. COMPARATIVE AMOUNTS

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

# CORPORATE INFORMATION

## DIRECTORS

James Banister, Chairman[2]

Garnet Amundson[3]

Michael Black [2]

Robert German [1,3]

Nicholas Kirton [1,2]

Robert Michaleski[1]

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

Karen Perasalo
VICE PRESIDENT, INVESTOR RELATIONS &
CORPORATE SECRETARY

## AUDITORS

Ernst & Young LLP

## BANKERS

National Bank of Canada

Toronto Dominion Bank

HSBC Bank Canada

Canadian Western Bank

## LEGAL COUNSEL

Fasken Martineau DuMoulin LLP

## TRANSFER AGENT

Olympia Trust Company

## CALGARY OFFICE

Livingston Place West
1100, 250 2nd Street SW
Calgary, Alberta T2P 0C1

Phone: 403-263-6778
Fax: 403-263-6737

Email: service@essentialenergy.ca
Website: www.essentialenergy.ca

## STOCK EXCHANGE LISTING

TSX: ESN