MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the three months ended March 31, 2016.

This MD&A should be read in conjunction with Essential's March 31, 2016 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2015 Financial Report to Shareholders for the financial year ended December 31, 2015. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned annual MD&A. Readers should carefully read the sections regarding "Forward-Looking Statements and Information" and "Non-IFRS Measures" in this report. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective May 4, 2016 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on May 4, 2016.

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 or the Company's website at www.essentialenergy.ca.

SELECTED INFORMATION

(in thousands of dollars except per share, percentages and fleet data)	Three months ended March 31, 2016	2015
Revenue	**$ 30,915**	$ 70,419
Gross margin	**1,246**	15,302
Gross margin %	**4%**	22%
EBITDAS[1] before severance costs	**(750)**	12,544
EBITDAS % [1] before severance costs	**(2%)**	18%
EBITDAS[1]	**(2,483)**	10,859
EBITDAS % [1]	**(8%)**	15%
Net (loss) income before impairment loss	**(8,459)**	3,096
Per share – basic and diluted	**(0.07)**	0.02
Net (loss) income	**(53,918)**	3,096
Per share – basic and diluted	**(0.43)**	0.02
Total assets	**246,713**	371,496
Total long-term debt	**27,053**	39,817
Utilization		
Masted coil tubing rigs	**39%**	90%
Service rigs	**18%**	37%
Equipment fleet		
Masted coil tubing rigs	**21**	19
Service rigs	**38**	54

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

HIGHLIGHTS

For the second consecutive year, first quarter oil and gas activity remained well below historical levels as exploration and production ("E&P") companies sharply decreased capital spending in order to preserve cash flow and manage debt. Oilfield service activity was hit hard, with drilling rig utilization reaching 30 year lows. Unseasonably warm weather also hindered activity with the onset of spring break-up conditions throughout the Western Canadian Sedimentary Basin ("WCSB") in early March. Well completions[a] and drilling activity[a] in the WCSB declined 61%[b] and 43%[c] respectively during the first quarter of 2016 compared to the same period in 2015. To preserve cash until industry conditions improve, many E&P companies chose to drill to maintain land holdings and delay well completion work.

Similar to the industry, Essential's first quarter activity declined to levels that were unprecedented and unexpected. Essential reported first quarter 2016 revenue of $30.9 million, 56% lower than the first quarter of 2015. Activity and price declines were experienced across all service lines. In a very challenging environment, Essential managed to maintain positive gross margins and continued to focus on cost management.

Revenue in each of Essential's operations was adversely affected by the significant drop in industry activity. Revenue in coil well service and downhole tools & rentals ("DT&R") was approximately 50% below first quarter 2015. Service rig revenue experienced a sharper decline with revenue 71% lower than the prior year period. Gross margin in each segment was significantly lower than the prior year period, as activity declines were too significant to be offset by cost reductions implemented in 2015. EBITDAS before severance costs was negative $0.8 million for the first quarter 2016 compared to $12.5 million before severance costs for the first quarter 2015.

With the poor start to 2016 and industry uncertainty for the remainder of the year, right-sizing the business is key to long-term sustainability. In the first quarter 2016, management took proactive steps for the second consecutive year to manage costs in an effort to support margins. Compensation and headcount reductions were implemented across the organization. Severance costs totalling $1.7 million (2015 – $1.7 million) were recorded in the first quarter of 2016 in the corporate and eliminations segment.

At March 31, 2016, Essential had $27.1 million of debt outstanding, an increase of $1.5 million from December 31, 2015. At May 4, 2016, Essential had $28.2 million of debt outstanding and reported debt to EBITDAS of 2.7x at the end of the first quarter 2016. The deterioration in the debt to EBITDAS metric since December 31, 2015 is due to the trailing twelve month calculation of EBITDAS. The stronger EBITDAS from the first quarter 2015 was replaced with the weaker EBITDAS from the first quarter 2016.

International Financial Reporting Standards ("IFRS") requires the Company to assess the carrying value of assets in cash generating units ("CGUs") when there are impairment indicators. The first quarter 2016 financial results were much lower than expected and the industry outlook has deteriorated since December 31, 2015, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair value of Essential's well servicing segment was less than its carrying value. The Company recognized an impairment charge in the first quarter of 2016 of $61.7 million: $28.5 million on coil well service equipment, $15.8 million on service rig equipment and $17.4 million on intangible assets.

DIVIDEND SUSPENSION

Since the first quarter of 2012, Essential has maintained a policy of paying dividends on a quarterly basis. In August and November 2015, the Company reduced the dividend to better align the payment with operating conditions at that time. With further deterioration in industry fundamentals and the weak industry outlook, Essential's Board has suspended the dividend until further notice.

(a) Well completions and drilling activity are key indicators of industry activity
(b) Source: June Warren-Nickle's Energy Group
(c) Source: Canadian Association of Oilwell Drilling Contractors

OVERVIEW OF ESSENTIAL

Essential provides oilfield services to E&P companies primarily in western Canada. Essential's operations are focused on meeting the well servicing needs of customers through its coil well service, service rigs, and downhole tools & rentals businesses.

Well Servicing

Coil well service

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

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

There are two primary types of equipment used in Essential's coil well service operation:

- Masted Coil Tubing Rigs – Essential operates the largest masted coil tubing fleet in Canada. Masted coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's masted coil tubing rigs are equipped to work with coil tubing from 2 inches to 2 7/8 inches in diameter and have a depth capacity in excess of 6,500 meters. The increased reel capacity and coil diameter ratings of Essential's masted coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.
- Pumpers – The coil tubing rigs are supported by a fleet of fluid and nitrogen pumpers. Fluid pumpers are used to maintain downhole circulation, provide ancillary acid/solvent treatments and inject friction reducers and other chemicals into the wellbore. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coil of fluids once the coil tubing work has been completed.

Service rigs

Essential's mobile service rig fleet provides well completion and production/work-over services in the 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 perform work-overs on existing wells and completions on new wells.

Downhole Tools & Rentals

Essential's DT&R segment provides production and completion tools, and rentals for horizontal and vertical wells. Operations for this segment are well placed geographically across the WCSB and in the U.S. in Texas, Oklahoma and Kansas.

Essential provides a wide range of downhole tools and rental services for completion and production of oil and natural gas wells, including:

- Tryton MSFS® – Tryton MSFS® tools are used for horizontal well completions, allowing producers to isolate and fracture intervals of the horizontal section of a well separately and continuously.

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

- Conventional Tools – Includes conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and abandonment operations.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers, specialty equipment for steam-assisted gravity drainage wells, and various other tools and handling equipment.

A statement of claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in the Canadian Federal Court, which alleges certain products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes that the suit is without merit and is defending the allegations. Proceedings of this nature can take years to resolve through the court process. The trial date has been set for February 2017. This lawsuit targets only the Tryton MSFS® ball & seat system, which Essential commenced using in 2009. It does not target past or future operations of Essential's conventional tools, other Tryton MSFS® tools or the rentals business.

RESULTS OF OPERATIONS

(in thousands of dollars, except percentages and per share amounts)	Three months ended March 31, **2016**	2015
Revenue	**$ 30,915**	$ 70,419
Operating expenses	**29,669**	55,117
Gross margin	**1,246**	15,302
General and administrative expenses	**3,729**	4,443
EBITDAS[1]	**(2,483)**	10,859
Depreciation and amortization	**6,885**	6,690
Share-based compensation	**527**	154
Impairment loss	**61,652**	-
Other expense (income)	**867**	(716)
Finance costs	**287**	472
(Loss) income before income tax	**(72,701)**	4,259
Current income tax (recovery) expense	**(5,087)**	442
Deferred income tax (recovery) expense	**(13,696)**	721
Total income tax (recovery) expense	**(18,783)**	1,163
Net (loss) income	**$ (53,918)**	$ 3,096
Net (loss) income per share Basic and diluted	**$ (0.43)**	$ 0.02

SEGMENT RESULTS - *WELL SERVICING*

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended March 31, 2016	2015
Revenue		
Coil well service [i]	**$ 15,756**	$ 31,976
Service rigs	**4,359**	15,026
Total revenue	**20,115**	47,002
Operating expenses	**18,606**	36,288
Gross margin	**$ 1,509**	$ 10,714
Gross margin %	**8%**	23%
Utilization [ii]		
Masted coil tubing rigs		
Utilization	**39%**	90%
Operating hours	**7,285**	15,335
Pumping		
Utilization	**37%**	61%
Operating hours	**10,218**	17,586
Service rigs		
Utilization	**18%**	37%
Operating hours	**6,162**	17,745
Equipment fleet [iii]		
Masted coil tubing rigs	**21**	19
Pumping	**30**	32
Service rigs	**38**	54

(i) Includes revenue from coil tubing rigs, nitrogen and fluid pumping and other ancillary equipment.
(ii) Utilization is calculated using a 10 hour day.
(iii) Fleet data represents the number of units at the end of the period.

Well completions, a key indicator of industry activity, declined 61% as E&P companies limited capital spending amid low commodity prices. Coil well service first quarter revenue decreased 51% compared to the same quarter in 2015 due to lower activity and pricing. Activity was particularly slow in March 2016 as unseasonably warm weather resulted in early spring break-up conditions, limiting the ability to access customer well locations. Masted coil tubing operating hours declined 52% and pumping operating hours declined 42%. Essential continued to work for key customers, but at a slower pace compared to the prior year period. Pumping activity experienced a smaller decline due to stand-alone work independent of masted coil tubing operations. Revenue per hour was down from the first quarter 2015 by 5% to 10% and was consistent with the fourth quarter 2015. During the first quarter of 2016, a Generation IV rig successfully completed a long-reach horizontal well in the Bakken.

Service rig revenue in the first quarter of 2016 declined 71% compared to the first quarter 2015. Activity continued to deteriorate as a result of the industry downturn with operating hours 65% lower than the first quarter 2015. Essential chose to decline work in the first quarter 2016 that was sub-economic, which had a negative impact on utilization. Similar to coil well service activity, service rig activity was negatively impacted by the early onset of spring break-up conditions. Revenue per hour was down approximately 15% compared to the first quarter 2015, but remained consistent with the fourth quarter of 2015.

As revenue declines, fixed costs comprise a larger percentage of revenue, reducing gross margin. Cost containment initiatives implemented in 2015 were not sufficient to offset the significant decline in revenue in the first quarter 2016 and well servicing gross margin was 8% compared to 23% for the same period in 2015. Given this sharp activity decline and industry uncertainty for the remainder of 2016, additional cost reductions, including staff lay-offs and wage rollbacks were taken in March 2016 to further reduce the Company's cost structure.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

(in thousands of dollars, except percentages)	Three months ended March 31, 2016	2015
Revenue	**$ 10,889**	$ 23,611
Operating expenses	**9,713**	16,831
Gross margin	**$ 1,176**	$ 6,780
Gross margin %	**11%**	29%
Downhole Tools & Rentals revenue – % of revenue		
Tryton MSFS®	**40%**	38%
Conventional Tools & Rentals	**60%**	62%

DT&R revenue decreased 54% from the first quarter in 2015 due to lower activity and a decline in pricing of approximately 20%. Canadian MSFS® revenue increased sequentially from the last quarter of 2015 and declined less than the 61% reduction in industry well completions compared to the first quarter 2015. Significant declines, compared to the first quarter 2015, were experienced in Canadian rentals revenue and U.S. downhole tools. Low industry drilling activity and restrained customer spending in the first quarter 2016 contributed to all revenue reductions.

Gross margin as a percentage of revenue in the first quarter 2016 decreased to 11% compared to 29% for the first quarter 2015. Due to the lower activity experienced in the first quarter 2016, fixed costs comprised a greater proportion of revenue, reducing gross margin as a percentage of revenue. DT&R gross margin was further reduced by significant U.S. operating losses and lower contribution from the higher margin rentals business. Cost reductions in the Canadian operations implemented during 2015 and first quarter 2016 offset a portion of the impact of pricing reductions in the period. Cost reductions included staff lay-offs and wage rollbacks in the Canadian operations. Cost reductions in the U.S. operations were implemented in the second quarter of 2016.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars, except percentages)	Three months ended March 31, 2016	2015
General and administrative expenses	**$ 3,729**	$ 4,443
As a % of revenue	**12%**	6%

General and administrative expenses ("G&A") are comprised of wages, severance costs, professional fees, office space and other administrative costs incurred at the corporate and operational levels. G&A expenses for the first quarter 2016 decreased compared to the same period in 2015 due to cost reductions implemented in the prior year, including decreases in employee costs, professional fees and discretionary spending. For the first three months of 2016, $0.4 million of severance costs were included in G&A (2015 – $0.1 million), with the balance included in operating expenses. Due to lower revenue, G&A comprised a greater percentage of revenue in the first quarter 2016 than 2015.

With the sharp reduction in industry activity and uncertainty for the remainder of 2016, additional cost reductions were implemented in the first quarter 2016, including headcount and wage reductions. These are expected to reduce quarterly G&A to approximately $3 million per quarter.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	Three months ended March 31, 2016	2015
Depreciation and amortization expense	**$ 6,885**	$ 6,690

Effective January 1, 2016, certain assets were depreciated prospectively over a reduced expected asset life, resulting in higher depreciation expense quarter-over-quarter. The change in estimate was implemented using information and experience accumulated while operating and maintaining these assets.

SHARE-BASED COMPENSATION

(in thousands of dollars)	Three months ended March 31, 2016	2015
Share-based compensation expense	**$ 527**	$ 154

For the three months ended March 31, 2016, share-based compensation expense increased from first quarter of 2015 due to the improvement of Essential's share price since December 31, 2015.

OTHER EXPENSE

(in thousands of dollars)	Three months ended March 31, 2016	2015
Loss on disposal of assets	**$ 94**	$ 268
Foreign exchange loss (gain)	**765**	(1,002)
Other loss	**8**	18
Other expense (income)	**$ 867**	$ (716)

The strengthening of the Canadian dollar in relation to the U.S. dollar during the first three months of the year resulted in a foreign exchange loss in the first quarter of 2016 compared to a foreign exchange gain for the same period in 2015.

IMPAIRMENT LOSS

(in thousands of dollars)	Three months ended March 31, 2016	2015
Impairment loss	**$ 61,652**	$ -

IFRS requires the Company to assess the carrying value of assets in the CGUs when there are impairment indicators. The first quarter 2016 financial results were much lower than expected and the industry outlook has deteriorated since December 31, 2015, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair value of Essential's well servicing segment was less than its carrying value. The Company recognized an impairment charge in the first quarter of 2016 of $61.7 million: $28.5 million on coil well service equipment, $15.8 million on service rig equipment and $17.4 million on intangible assets (2015 – nil).

FINANCE COSTS

(in thousands of dollars)	Three months ended March 31, 2016	2015
Finance costs	**$ 287**	$ 472

For the three months ended March 31, 2016, finance costs decreased over the same period in 2015 due to lower average long-term debt outstanding.

INCOME TAXES

(in thousands of dollars)	Three months ended March 31, 2016	2015
Current income tax (recovery) expense	**$ (5,087)**	$ 442
Deferred income tax (recovery) expense	**(13,696)**	721
Total income tax (recovery) expense	**$ (18,783)**	$ 1,163

For the three months ended March 31, 2016, the current income tax recovery relates to incurring a loss before income tax in the quarter. For the first quarter 2016, Essential's deferred income tax recovery is due to the tax effect on the impairment loss.

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS[1]

(in thousands of dollars, except per share amounts)	Three months ended March 31, 2016	2015
Net cash provided by operating activities	**$ 1,968**	$ 28,346
Changes in non-cash working capital	**(160)**	(16,679)
Funds flow provided by operations[1]	**$ 1,808**	$ 11,667
Per share – basic and diluted	**$ 0.01**	$ 0.09

WORKING CAPITAL

(in thousands of dollars, except ratios)	As at March 31 2016	As at December 31 2015
Current assets	**$ 62,135**	$ 66,599
Current liabilities	**(11,763)**	(15,844)
Working capital [1]	**$ 50,372**	$ 50,755
Working capital ratio	**5.3:1**	4.2:1

Working capital is primarily comprised of accounts receivable and inventory. The accounts receivable portion typically grows through the first, third and fourth quarters of the year when activity is greater. Inventory is comprised of downhole tools and coil tubing inventory, which does not fluctuate as much with activity and in the current industry environment, may take longer to use or sell. Essential uses its revolving credit facility ("Credit Facility") to meet the variable nature of its working capital needs as collection periods for accounts receivable are longer than payment cycles to vendors and employees. In periods of higher activity, debt initially tends to increase and in periods of lower activity, debt initially declines.

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 the lender's consent. The Credit Facility matures on May 31, 2017, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance becomes immediately due and payable on the maturity date. At March 31, 2016, the amount available under the Credit Facility was $30.4 million, below the maximum $100 million credit facility, due to the reduction in trailing 12 month EBITDAS(1) and the Company's funded debt(1) to trailing 12 month EBITDAS(1) financial covenant limitation.

As at March 31, 2016, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date. At the end of the first quarter of 2016, Essential had a consolidated funded debt(1) balance of $27.1 million, which consisted of long-term debt of $27.1 million and bank indebtedness of nil. At March 31, 2016, the Company's funded debt(1) to trailing 12 month EBITDAS(1) was 2.7x. The deterioration in the debt to EBITDAS metric since December 31, 2015 is due to the trailing twelve month calculation of EBITDAS. The stronger EBITDAS from first quarter 2015 was replaced with the weaker EBITDAS from first quarter 2016. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On May 4, 2016, Essential had long-term debt outstanding of $28.2 million.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

	Three months ended March 31,	
(in thousands of dollars)	**2016**	2015
Well Servicing	**$ 3,245**	$ 5,543
Downhole Tools & Rentals	**87**	646
Corporate	**30**	272
Total equipment expenditures	**3,362**	6,461
Less proceeds on disposal of property and equipment	**(411)**	(95)
Net equipment expenditures(1)	**$ 2,951**	$ 6,366

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

	Three months ended March 31,	
(in thousands of dollars)	**2016**	2015
Growth capital(1)	**$ 2,200**	$ 5,343
Maintenance capital(1)	**1,162**	1,118
Total equipment expenditures	**$ 3,362**	$ 6,461

Essential's 2016 capital budget of $9 million is comprised of $6 million of growth capital and $3 million of maintenance capital. Growth capital will be used to complete the Generation IV masted coil tubing rigs. At March 31, 2016, there was $3 million remaining to complete these rigs. One rig is expected to be in service in each of the second, third and fourth quarters of 2016.

Essential's long-term capital build program increases the size and depth capacity of its masted coil tubing fleet. As at May 4, 2016, the Company added four Generation III and three Generation IV masted coil tubing rigs. Upon completion of the $53 million spending program in 2016, Essential will have four Generation III and six Generation IV masted coil tubing rigs. At March 31, 2016, Essential had spent approximately $50 million on this capital program. The Generation III and Generation IV rigs have the capability to work on long-reach horizontal wells and are well-suited to work in deep, high pressure basins including the Montney, Bakken, Duvernay and Horn River. With a coil diameter of 2 3/8", the Generation III rigs can reach 6,300 meters and the Generation IV rigs can reach 7,900 meters. While the Generation IV coil tubing rigs are not in high demand in the current industry environment, management expects demand should increase once industry conditions improve.

The following table shows the expected in-service dates of the major equipment as at May 4, 2016:

Masted coil tubing rigs:	# Rigs In Program	# Rigs In-Service	Expected In-Service Dates
Generation III	4	4	
Generation IV	6	3	Q2'16, Q3'16, Q4'16

SHARE CAPITAL

As at May 4, 2016, there were 125,836,930 common shares and 7,137,000 share options outstanding. Of the 7,137,000 share options, 3,232,824 were exercisable but not "in-the-money".

COMMITMENTS

Operating leases

Essential has entered into operating leases for office and shop premises that provide for minimum annual lease payments, as follows:

(in thousands of dollars)	Amount
2016	$ 4,565
2017	5,560
2018	4,219
2019	3,838
2020	3,269
Thereafter	7,718
As at March 31, 2016	$ 29,169

Other commitments

As part of its capital program, Essential is committed to future capital expenditures of $3.0 million, which is expected to be incurred in 2016.

NORMAL COURSE ISSUER BID ("NCIB")

On March 24, 2016, the Company's NCIB, under which Essential was allowed to purchase up to 12,316,891 of its issued and outstanding common shares ("Shares"), expired and Essential did not renew it.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO, particularly during the period in which annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Essential reported on disclosure controls and procedures as part of its 2015 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2015, which is available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to disclosure controls and procedures in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Essential reported on ICFR as part of its 2015 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2015, which is available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to ICFR in the current period that have materially affected, or are reasonably likely to affect, the Company's ICFR.

OUTLOOK

Recent increases in the price of oil and successful equity issuances by select E&P companies have created some positive sentiment towards the oil and gas industry. From an oilfield service company perspective, Essential does not believe very much of the incremental customer cash flow will lead to increased oilfield service spending. Instead, E&P companies are typically using available cash to reduce debt and strengthen balance sheets.

Unusually warm weather accelerated industry spring break-up conditions. Industry drilling rig utilization for the month of April was 6%, below the same period in the prior year. In a normal year this early break-up may lead to customers returning to work earlier in the second quarter. That is not expected to occur in this quarter as fewer E&P companies are engaging in oilfield service spending as they strive to preserve cash flow in this difficult market. Essential anticipates that the remaining months of second quarter activity will continue to lag behind the prior year period. Beyond that, the outlook remains unclear as customers assess their plans in a very uncertain macroeconomic environment.

After experiencing an unprecedentedly weak first quarter, combined with a relatively weak outlook for the remainder of the year, managing Essential's margins and debt is a 2016 priority. Accordingly, Essential has implemented the following strategies:

- Implementation of further cost reductions. Headcount has been reduced by an additional 40%, which represents a reduction of 240 salaried and field staff since the beginning of 2016. Since the end of 2014, Essential's headcount has been reduced by 65%. A second round of salary reductions were implemented across the organization;
- Disposition of retired and redundant equipment; and
- Suspension of the Company's dividend.

Essential has been operating with a highly variable cost structure for a number of years, with the majority of field employees working on a variable compensation model. This helps support margins in periods of slow activity.

Essential's annual debt service costs and future capital commitments are low. Given the outlook for 2016, it may be difficult for Essential to significantly reduce its debt position during the year, but appropriate steps are being taken to mitigate the likelihood of an increase in long-term debt. With working capital of $50.4 million, working capital exceeded long-term debt by $23.3 million at March 31, 2016.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity is directly impacted by seasonality. With the exception of the first quarter 2016, activity is traditionally higher in the first, third and fourth quarters of the year and lower in the second quarter. With the onset of spring, melting snow renders many roadways incapable of supporting heavy equipment. In addition, certain areas in Canada are typically only accessible during the winter months. The following table provides the Company's quarterly information for the past eight quarters:

(in thousands of dollars, except per share amounts, percentages and fleet data)	**Mar 31, 2016**	Dec 31, 2015	Sept 30, 2015	Jun 30, 2015	**Mar 31, 2015**	Dec 31, 2014	Sept 30, 2014	Jun 30, 2014
Well Servicing:								
Coil well service	**15,756**	23,833	24,432	9,887	**31,976**	41,426	39,233	17,398
Service rigs	**4,359**	7,516	7,682	6,825	**15,026**	22,034	22,105	16,437
Total Well Servicing	**20,115**	31,349	32,114	16,712	**47,002**	63,460	61,338	33,835
Downhole Tools & Rentals	**10,889**	11,278	15,919	7,460	**23,611**	35,921	35,261	19,521
Inter-segment eliminations	**(89)**	(147)	(209)	(182)	**(194)**	(527)	(463)	(604)
Total revenue	**30,915**	42,480	47,824	23,990	**70,419**	98,854	96,136	52,752
Gross margin	**1,246**	7,786	11,927	580	**15,302**	27,330	27,515	5,222
Gross margin %	**4%**	18%	25%	2%	**22%**	28%	29%	10%
EBITDAS[(1)]	**(2,483)**	4,930	8,503	(2,832)	**10,859**	21,992	22,657	440
EBITDAS %[(1)]	**(8)%**	12%	18%	(12)%	**15%**	22%	24%	1%
Net (loss) income [(i)]	**(53,918)**	(18,082)	2,996	(10,495)	**3,096**	(38,323)	10,777	(5,425)
Per share – basic	**(0.43)**	(0.14)	0.02	(0.08)	**0.02**	(0.30)	0.09	(0.04)
Per share – diluted	**(0.43)**	(0.14)	0.02	(0.08)	**0.02**	(0.30)	0.08	(0.04)
Total assets	**246,713**	317,244	346,564	337,299	**371,496**	397,351	454,745	408,964
Long-term debt	**27,053**	25,543	34,738	27,027	**39,817**	55,253	65,043	38,433
Utilization [(ii)]								
Masted coil tubing rigs	**39%**	65%	70%	25%	**90%**	104%	105%	42%
Pumping [(iii)]	**37%**	55%	57%	23%	**61%**	72%	66%	34%
Service rigs	**18%**	30%	24%	19%	**37%**	49%	48%	34%
Operating hours								
Masted coil tubing rigs	**7,285**	12,039	12,319	4,341	**15,335**	17,469	15,524	6,094
Pumping [(iii)]	**10,218**	15,049	15,747	6,381	**17,586**	20,885	19,397	9,861
Conventional coil tubing rigs	**2,392**	1,778	1,174	1,088	**3,665**	3,951	4,426	2,942
Service rigs	**6,162**	10,391	10,418	9,239	**17,745**	24,394	23,997	16,907
Downhole Tools & Rentals - % of revenue								
Tryton MSFS®	**40%**	24%	40%	16%	**38%**	45%	46%	25%
Conventional Tools & Rentals	**60%**	76%	60%	84%	**62%**	55%	54%	75%
Equipment fleet [(iv)]								
Masted coil tubing rigs	**21**	20	19	19	**19**	19	17	17
Fluid pumpers	**18**	18	18	18	**18**	18	18	18
Nitrogen pumpers	**12**	12	12	12	**14**	14	14	14
Conventional coil tubing rigs[(v)]	**11**	11	11	11	**17**	17	29	30
Service rigs	**38**	38	48	54	**54**	54	54	55

(i) The quarters ended March 31, 2016, December 31, 2015 and December 31, 2014 include an impairment loss of $61.6 million, $13.2 million and $47.2 million, respectively.
(ii) Utilization is calculated using a 10 hour day.
(iii) Pumping includes both fluid and nitrogen pumpers.
(iv) Fleet data represents the number of units at the end of the period.
(v) Effective April 1, 2016, the conventional coil tubing fleet was reduced to five rigs.

FORWARD-LOOKING STATEMENTS AND INFORMATION

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

Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "continues", "projects", "potential", "budget" and similar expressions, or are events or conditions that "will", "would", "may", "could" or "should" occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: industry activity; right-sizing the business is key to long-term sustainability; impact of cost reductions; capital spending; cash flow and earnings; the Credit Facility and the impact of financial covenant limitations thereunder; the impact of Essential's financial resources or liquidity on its future operating, investing and financing activities; the Company's belief that the Packers Plus Energy Services Inc. claim is without merit and the length of time it will take to resolve the claim; Essential's long-term build program and the addition of new masted coil rigs; the future demand for Generation IV coil tubing rigs, the costs and timing associated with such program and the delivery of the equipment, the positioning advantage for the rigs; the amount expected to be paid for Essential's "other commitments"; general and administration expenses for the remainder of 2016; industry spending and use of available cash; timing of customers' return to work; second quarter activity relative to the prior year; and implementation of strategies to manage Essential's margins and debt.

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

Actual performance and results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: known and unknown risks, including those set forth in the Company's Annual Information Form (a copy of which can be found under Essential's profile on SEDAR at www.sedar.com); 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 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 importance or reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive.

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

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

[1]Non-IFRS Measures

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

EBITDAS (Earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal of equipment, write-down of assets, impairment loss, foreign exchange gains or losses, and share-based compensation, which includes both equity-settled and cash-settled transactions) – These adjustments are relevant as they provide another measure which is considered an indicator of Essential's ability to generate funds flow in order to fund required working capital, service debt and invest in capital programs.

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

The following table reconciles EBITDA, EBITDAS and EBITDAS before severance costs to the IFRS measure, net (loss) income:

	Three months ended March 31,	
(in thousands of dollars)	**2016**	2015
EBITDAS before severance costs	**$ (750)**	$ 12,544
Severance costs	**1,733**	1,685
EBITDAS	**$ (2,483)**	$ 10,859
Share-based compensation	**527**	154
Other expense (income)	**867**	(716)
EBITDA	**(3,877)**	11,421
Impairment loss	**61,652**	-
Depreciation and amortization	**6,885**	6,690
Finance costs	**287**	472
(Loss) income before income tax	**(72,701)**	4,259
Total income tax (recovery) expense	**(18,783)**	1,163
Net (loss) income	**$ (53,918)**	$ 3,096

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt including current portion of long-term debt plus bank indebtedness.

Funds flow or funds flow provided by operations[(i)] – This measure is an indicator of Essential's ability to generate funds flow[(i)] 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.

(i) Funds flow is reconciled to the IFRS measure, net cash flow from operating activities, in the table "Funds Flow from Operations".

(ii)

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 revenue and funds flow to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired 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[ii] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to the financing of Essential's capital program.

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

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

Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

March 31, 2016

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

(in thousands of dollars)	**As at March 31 2016**	As at December 31 2015
Assets		
Current		
Cash	**$ -**	$ 1,042
Trade and other accounts receivable *(note 3)*	**29,291**	32,251
Inventories *(note 4)*	**30,452**	30,609
Prepayments	**2,392**	2,697
	62,135	66,599
Non-current		
Property and equipment *(note 5)*	**178,217**	225,479
Intangible assets *(note 6)*	**2,800**	21,347
Goodwill	**3,561**	3,799
	184,578	250,625
Total assets	**$ 246,713**	$ 317,224
Liabilities		
Current		
Bank indebtedness	**$ 25**	$ -
Trade and other accounts payable *(note 7)*	**11,360**	15,466
Dividends payable *(note 8)*	**378**	378
	11,763	15,844
Non-current		
Long-term debt *(note 9)*	**27,053**	25,543
Deferred tax liabilities	**17,583**	31,279
	44,636	56,822
Total liabilities	**56,399**	72,666
Commitments and contingencies *(note 14)*		
Equity		
Share capital *(note 10)*	**262,977**	262,977
Deficit	**(77,891)**	(23,595)
Other reserves *(note 11)*	**5,228**	5,176
Total equity	**190,314**	244,558
Total liabilities and equity	**$ 246,713**	$ 317,224

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

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

	For the three months ended March 31,	
(in thousands of dollars, except per share amounts)	**2016**	2015
Revenue	**$ 30,915**	$ 70,419
Operating expenses	**29,669**	55,117
Gross margin	**1,246**	15,302
General and administrative expenses	**3,729**	4,443
	(2,483)	10,859
Depreciation and amortization *(notes 5 and 6)*	**6,885**	6,690
Share-based compensation *(note 12)*	**527**	154
Impairment loss *(notes 5 and 6)*	**61,652**	-
Other expenses (income)	**867**	(716)
Operating (loss) income	**(72,414)**	4,731
Finance costs	**287**	472
(Loss) income before income taxes	**(72,701)**	4,259
Current income tax (recovery) expense	**(5,087)**	442
Deferred income tax (recovery) expense	**(13,696)**	721
Income tax (recovery) expense	**(18,783)**	1,163
Net (loss) income	**$ (53,918)**	$ 3,096
Unrealized foreign exchange (loss) gain *(note 11)*	**(48)**	248
Comprehensive (loss) income	**$ (53,966)**	$ 3,344
Net (loss) income per share *(note 13)*		
Basic and diluted	**$ (0.43)**	$ 0.02
Comprehensive (loss) income per share *(note 13)*		
Basic and diluted	**$ (0.43)**	$ 0.03

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

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

(in thousands of dollars)	For the three months ended March 31, **2016**	2015
Equity:		
Share capital		
Balance, January 1	**$ 262,977**	$ 262,871
Exercise of options *(note 10)*	**-**	106
Balance, March 31	**$ 262,977**	$ 262,977
Accumulated deficit		
Balance, January 1	**$ (23,595)**	$ 8,706
Net (loss) income	**(53,918)**	3,096
Dividends *(note 8)*	**(378)**	(3,775)
Balance, March 31	**$ (77,891)**	$ 8,027
Other reserves		
Balance, January 1	**$ 5,176**	$ 4,433
Other comprehensive (loss) income *(note 11)*	**(48)**	248
Equity-settled share-based compensation *(note 11)*	**100**	65
Exercise of options *(note 11)*	**-**	(38)
Balance, March 31	**$ 5,228**	$ 4,708
Total equity	**$ 190,314**	$ 275,712

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

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

	For the three months ended March 31,	
(in thousands of dollars)	**2016**	2015
Operating activities:		
Net (loss) income	**$ (53,918)**	$ 3,096
Non-cash adjustments to reconcile net income for the period to operating cash flow:		
Depreciation and amortization	**6,885**	6,690
Deferred income tax (recovery) expense	**(13,696)**	721
Share-based compensation *(note 12)*	**100**	65
Provision for impairment of trade accounts receivable *(note 3)*	**404**	355
Finance costs	**287**	472
Impairment loss *(notes 5 and 6)*	**61,652**	-
Loss on disposal of assets	**94**	268
Operating cash flow before changes in non-cash operating working capital	**1,808**	11,667
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**7,942**	21,545
Inventories	**157**	2,844
Prepayments	**305**	940
Trade and other accounts payable	**(3,236)**	(8,250)
Current income taxes	**(5,008)**	(400)
Net cash provided by operating activities	**1,968**	28,346
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 5 and 6)*	**(3,362)**	(6,461)
Non-cash investing working capital in trade and other accounts payable	**(870)**	(3,500)
Proceeds on disposal of equipment	**411**	95
Net cash used in investing activities	**(3,821)**	(9,866)
Financing activities:		
Increase (repayment) of long-term debt	**1,510**	(15,437)
Proceeds from exercise of options	**-**	68
Dividends paid *(note 8)*	**(378)**	(3,773)
Finance costs	**(287)**	(472)
Net cash provided by (used in) financing activities	**845**	(19,614)
Foreign exchange (loss) gain on cash held in a foreign currency	**(59)**	27
Net decrease in cash	**(1,067)**	(1,107)
Cash (bank indebtedness), beginning of period	**1,042**	(991)
Bank indebtedness, end of period	**$ (25)**	$ (2,098)
Supplemental cash flow information		
Cash taxes (received) paid	**$ (79)**	$ 840
Cash interest and standby fees paid	**$ 268**	$ 448

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

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

1. AUTHORIZATION OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements ("Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the three months ended March 31, 2016 and 2015 were approved by the Board of Directors of Essential ("Board of Directors") on May 4, 2016. Essential is a publicly traded oilfield services company incorporated under the *Business Corporations Act* (Alberta). Essential is listed on the Toronto Stock Exchange ("TSX") and trades under the symbol ESN.

Based in Calgary, Alberta, Essential provides oilfield services to oil and gas exploration and production companies primarily in western Canada. The address of the registered office is 3400, 350 – 7 Avenue S.W., Calgary, Alberta, Canada, T2P 3N9.

2. SUMMARY OF COMPLIANCE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements as at and for the three months ended March 31, 2016 were prepared in accordance with IAS 34 *Interim Financial Reporting,* as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Financial Statements as were followed in the preparation of the Company's annual financial statements for the year ended December 31, 2015. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

3. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at March 31 2016	As at December 31 2015
Trade receivables, net of provision	**$ 19,813**	$ 28,023
Income tax receivable	**8,799**	3,791
Other receivables	**679**	437
	$ 29,291	$ 32,251

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

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

	As at March 31 2016	As at December 31 2015
Canadian dollar	**$ 19,102**	$ 26,848
U.S. dollar	**711**	1,175
	$ 19,813	$ 28,023

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

The aging analysis of trade receivables is as follows:

	As at March 31 2016	As at December 31 2015
< 31 days	**$ 5,233**	$ 11,334
31-60 days	**9,534**	10,021
61-90 days	**3,906**	4,473
>90 days	**1,140**	2,195
	$ 19,813	$ 28,023

The provision for impairment of receivables of $0.4 million (December 31, 2015 – $0.9 million) is included in the amounts over 90 days old. The movements in the provision during the period were as follows:

	For the three months ended March 31,	
	2016	2015
Balance, beginning of period	**$ 925**	$ 1,148
Provision for receivables impairment	**404**	355
Receivables written off against the provision	**(891)**	(70)
Foreign exchange	**(5)**	-
Balance, end of period	**$ 433**	$ 1,433

Provisions for impairment of receivables has been included in operating expenses in the consolidated statements of net (loss) income and comprehensive (loss) income. Uncollectable amounts included in the provision are generally written off against the provision when there is no expectation of recovery.

4. INVENTORIES

	As at March 31 2016	As at December 31 2015
Downhole tools	**$ 21,687**	$ 23,146
Coil well service	**8,765**	7,463
	$ 30,452	$ 30,609

Inventory charged through operating expenses in the consolidated statements of net (loss) income and comprehensive (loss) income for the three months ended March 31, 2016 was $6.2 million (2015 – $9.9 million).

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

5. PROPERTY AND EQUIPMENT

As at March 31, 2016	Cost	Accumulated Depreciation	Net Book Value
Coil well service, rigs and equipment	**$ 147,877**	**$ 59,358**	**$ 88,519**
Service rigs and equipment	**86,561**	**43,011**	**43,550**
Oilfield equipment	**50,491**	**24,113**	**26,378**
Vehicles	**31,756**	**15,119**	**16,637**
Office and computer equipment	**4,410**	**3,145**	**1,265**
Land	**482**	**-**	**482**
Other	**4,785**	**3,399**	**1,386**
	$ 326,362	**$ 148,145**	**$ 178,217**

As at December 31, 2015	Cost	Accumulated Depreciation	Net Book Value
Coil well service, rigs and equipment	$ 147,484	$ 34,589	$ 112,895
Service rigs and equipment	88,566	29,635	58,931
Oilfield equipment	49,639	20,845	28,794
Vehicles	31,149	9,989	21,160
Office and computer equipment	4,426	3,006	1,420
Land	482	-	482
Other	4,787	2,990	1,797
	$ 324,433	$ 98,954	$ 225,479

Included in coil well service rigs and equipment, service rigs and equipment and oilfield equipment is $19.4 million of assets under construction (December 31, 2015 – $23.1 million), which will not be depreciated until put into use.

	For the three months ended March 31, 2016	2015
Net book value, beginning of period	**$ 225,479**	$ 239,696
Additions	**3,356**	6,461
Disposals	**(542)**	(362)
Impairment loss	**(44,291)**	-
Depreciation	**(5,751)**	(5,599)
Currency translation adjustment	**(34)**	66
Net book value, end of period	**$ 178,217**	$ 240,262

For the three months ended March 31, 2016, an impairment loss of $61.7 million was recorded, of which $28.5 million related to coil well service equipment, $15.8 million related to service rig equipment and $17.4 million related to intangible assets (2015 – nil).

Each reporting period, Essential assesses the carrying value of assets when there are impairment indicators. The first quarter 2016 financial results were much lower than expected and the industry outlook has deteriorated since December 31, 2015, requiring Essential to complete an impairment assessment. The impairment assessment determined that the fair value of Essential's well servicing segment was less than its carrying value.

The recoverable amounts of Essential's cash generating units ("CGUs") was based a on value in use calculation, determined using discounted cash flow projections for a five-year period from financial forecasts extrapolated thereafter at a growth rate of 2.5% per annum (2015 – 2.5%) and discounted at a rate ranging from 15.1% to

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

15.4% (2015 – 15.1% to 15.4%). Financial forecasts were based on expectations of future outcomes taking into account historical experience, industry considerations, and economic conditions and trends.

6. INTANGIBLE ASSETS

As at March 31, 2016	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 38,498**	**$ 37,390**	**$ 1,108**
Computer software	**5,507**	**4,079**	**1,428**
Non-compete agreement	**428**	**164**	**264**
	$ 44,433	**$ 41,633**	**$ 2,800**

As at December 31, 2015	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 38,602	$ 19,084	$ 19,518
Computer software	5,475	3,952	1,523
Non-compete agreement	458	152	306
	$ 44,535	$ 23,188	$ 21,347

	For the three months ended March 31, 2016	2015
Net book value, beginning of period	**$ 21,347**	$ 24,599
Additions	**6**	1
Re-classified	**25**	-
Impairment loss	**(17,362)**	-
Amortization	**(1,134)**	(1,091)
Currency translation adjustment	**(82)**	141
Net book value, end of period	**$ 2,800**	$ 23,650

For the three months ended March 31, 2016, an impairment loss of $61.7 million was recorded, of which $28.5 million related to coil well service equipment, $15.8 million related to service rig equipment and $17.4 million related to intangible assets (2015 – nil).

7. TRADE AND OTHER ACCOUNTS PAYABLE

	As at March 31 2016	As at December 31 2015
Trade accounts payable	**$ 4,466**	$ 6,894
Accrued payables	**2,205**	3,437
Accrued payroll	**2,867**	3,236
Other	**1,822**	1,899
	$ 11,360	$ 15,466

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

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

	As at March 31 2016	As at December 31 2015
Canadian dollar	**$ 4,340**	$ 6,709
U.S. dollar	**126**	185
	$ 4,466	$ 6,894

8. DIVIDENDS PAYABLE

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

Record date	**Payment date**	**Total dividend**	**Amount per share**
2016			
March 31, 2016	**April 15, 2016**	**$ 378**	**$ 0.003**
2015			
December 31, 2015	January 15, 2016	$ 378	$ 0.003
September 30, 2015	October 15, 2015	$ 1,888	$ 0.015
June 30, 2015	July 15, 2015	$ 3,775	$ 0.030
March 31, 2015	April 15, 2015	$ 3,775	$ 0.030

9. LONG-TERM DEBT

	As at March 31 2016	As at December 31 2015
Term loan	**$ 27,100**	$ 25,600
Deferred financing costs	**(47)**	(57)
Non-current portion of long-term debt	**$ 27,053**	$ 25,543

Essential's credit facility with its banking syndicate was renewed in May 2014 and is comprised of a $100 million revolving term loan facility with a $35 million accordion feature available on the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2017, is renewable at the lender's consent and is secured by a general security agreement over the Company's assets. To the extent the Credit Facility is not renewed, the balance would be immediately due and payable on the maturity date. At March 31, 2016, $30.4 million under the Credit Facility was available to Essential.

As at March 31, 2016, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

10. SHARE CAPITAL

Authorized

The authorized share capital of Essential consists of an unlimited number of common shares ("Common Shares") and preferred shares. Common Shares are without par value and are entitled to any dividend declared on this class of 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.

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

	Number of Common Shares (000's)	Amount
As at January 1, 2015	125,778	$ 262,871
Shares issued on exercise of options	59	106
As at December 31, 2015 and March 31, 2016	**125,837**	**$ 262,977**

On March 24, 2016, the Company's normal course issuer bid, under which Essential was allowed to purchase up to 12,316,891 of its issued and outstanding Common Shares, expired and Essential did not renew it.

11. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2015	$ 4,426	$ 7	$ 4,433
Share-based compensation	363	-	363
Exercise of options	(38)	-	(38)
Unrealized foreign exchange gain on foreign operations	-	418	418
As at December 31, 2015	$ 4,751	$ 425	$ 5,176
Share-based compensation	**100**	**-**	**100**
Unrealized foreign exchange loss on foreign operations	**-**	**(48)**	**(48)**
As at March 31, 2016	**$ 4,851**	**$ 377**	**$ 5,228**

12. SHARE-BASED COMPENSATION

The Company offers the following share-based compensation plans: Share Option Plan, Restricted Shares Unit ("RSU") Plan and Deferred Share Unit ("DSU") Plan.

The maximum number of share options issuable under the Share Option Plan and RSUs issued prior to December 9, 2015 under the RSU Plan, together may not exceed 9% of the Company's outstanding Common Shares. RSUs granted after December 9, 2015 represent the right to receive a cash payment only, at the time of vesting, and as such, are not included in the maximum number of share options or RSUs allowed for issuance. As at March 31, 2016, the maximum number of share options and RSUs allowed for issuance was 11,325,324 (2015 – 11,325,324).

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

	For the three months ended March 31, **2016**	2015
Equity-settled share options	**$ 100**	$ 65
Restricted share units	**370**	103
Cash-settled deferred share units	**57**	(14)
Total share-based compensation expense	**$ 527**	$ 154

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

a) Share Option Plan

Under the Company's Share Option Plan, senior management and executives 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 at the time of the grant. The options currently outstanding vest over three years with one-third of the options exercisable on each anniversary date from the date of the original grant.

	For the three months ended March 31, 2016		For the three months ended March 31, 2015	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**6,393**	**$ 1.91**	5,024	$ 2.19
Issued	**1,785**	**0.55**	410	1.46
Exercised	**-**	**-**	(59)	1.15
Expired	**(984)**	**2.16**	-	-
Forfeited	**(5)**	**2.90**	(141)	2.21
Outstanding, end of period	**7,189**	**$ 1.54**	5,234	$ 2.15
Exercisable, end of period	**3,248**	**$ 2.19**	3,988	$ 2.12

The fair value of the share options issued during the period was between $0.15– $0.17 per option (2015 – $0.23 – $0.24), estimated using the Black-Scholes Option Pricing Model using the following underlying assumptions:

	2016	2015
Risk-free interest rate	**0.5 – 0.6%**	1.0 – 1.1%
Expected volatility	**43.9 – 45.6%**	41.5 – 43.0%
Expected term	**3.6 – 4.6 years**	3.7 – 4.5 years
Expected forfeiture rate	**7.0 – 15.8%**	7.6 – 16.4%
Dividend yield	**2.3%**	9.0%

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.

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

The following table summarizes information with respect to the share options outstanding as at March 31, 2016 and 2015:

Exercise Prices	**Options Outstanding (000's)**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price (per option)**	**Number of Options Exercisable (000's)**
As at March 31, 2016				
$0.55 – $1.00	**1,785**	**4.78**	**$ 0.55**	**-**
$1.01 – $2.00	**2,355**	**3.57**	**$ 1.30**	**467**
$2.01 – $2.90	**3,049**	**1.50**	**$ 2.30**	**2,781**
	7,189	**2.99**	**$ 1.54**	**3,248**
As at March 31, 2015				
$1.20 – $2.00	1,012	2.56	$ 1.66	595
$2.01 – $2.90	4,222	2.08	$ 2.26	3,393
	5,234	2.17	$ 2.15	3,988

On January 7, 2016, Essential issued 1,785,000 share options to certain senior management and executives of the Company with an exercise price of $0.55 per option.

b) Restricted Share Units

The RSU Plan authorizes the Board of Directors to grant RSUs to certain employees and executives of the Company. RSUs granted to a participant prior to December 9, 2015 represent a right to receive a cash payment or its equivalent in Common Shares at the time of vesting, at the option of the Company. RSUs granted to participants after December 9, 2015 represent the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments; contain a time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at March 31, 2016 is $0.8 million (December 31, 2015 – $0.8 million) of which $0.5 million is due within one year.

The following table summarizes information with respect to RSUs outstanding:

	For the three months ended March 31,	
Number of RSUs (000's)	**2016**	2015
Outstanding, beginning of period	**2,875**	1,103
Issued	**2,107**	978
Vested	**(680)**	(431)
Forfeited	**(138)**	(54)
Outstanding, end of period	**4,164**	1,596

c) Deferred Share Units

Participation in the DSU Plan is restricted to non-employee directors ("Eligible Directors") of the Company. A DSU gives the participant a right of redemption in the form of a lump sum cash payment, less applicable withholding taxes, within fifteen days of the participant ceasing to be an Eligible Director of the Company. Under the terms of the plan, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at March 31, 2016 is $0.2 million (December 31, 2015 – $0.2 million).

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

The following table summarizes information with respect to DSUs outstanding:

	For the three months ended March 31,	
Number of DSUs (000's)	**2016**	2015
Outstanding, beginning of period	**398**	243
Issued	**2**	7
Outstanding, end of period	**400**	250

13. EARNINGS PER SHARE

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

In calculating the diluted earnings per share, share options and RSUs outstanding, that can be settle in cash or equity at the discretion of the Board, have been taken into account where the impact of these is dilutive. During periods of net loss, the dilutive effect on Common Shares from share options and RSUs are not used in calculating net loss per share, as their effect is anti-dilutive.

	For the three months ended March 31,	
(000's)	**2016**	2015
Basic	**125,837**	125,832
Dilutive Common Shares from share options and RSUs	**-**	1,561
Total diluted	**125,837**	127,393

14. COMMITMENTS AND CONTINGENCIES

Operating leases

Essential has entered into operating leases for office and shop premises that provide for minimum annual lease payments, as follows:

	Amount
2016	$ 4,565
2017	5,560
2018	4,219
2019	3,838
2020	3,269
Thereafter	7,718
	$ 29,169

Other commitments

As part of its capital program, Essential is committed to future capital expenditures in 2016 of $3.0 million.

Contingencies

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.

A statement of claim was filed on October 23, 2013 by Packers Plus Energy Services Inc. against Essential in the Canadian Federal Court, which alleges certain products and methods associated with the Tryton MSFS® infringe a patent issued to Packers Plus Energy Services Inc. Essential believes that the suit is without merit and is defending the allegations. Proceedings of this nature can take years to resolve through the court process. The trial date has been set for February 2017. This lawsuit targets only the Tryton MSFS® ball & seat system, which Essential commenced using in 2009. It does not target past or future operations of Essential's conventional tools, other Tryton MSFS® tools or rentals business.

15. SEASONALITY OF OPERATIONS

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

The recent industry downturn since early 2015 has disrupted typical historic oilfield services seasonal patterns in western Canada as exploration and production companies are driven by constrained cash flow in addition to weather and access issues.

16. SEGMENTED INFORMATION

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

Essential has chosen to identify its reportable segments based on services offered. The basis of accounting for transactions between reportable segments is done at fair market value.

a) Well Servicing

The Well Servicing segment provides well completion, production and workover services throughout the Western Canadian Sedimentary Basin ("WCSB"). The Well Servicing segment is comprised of a fleet of coil tubing rigs, service rigs, fluid and nitrogen pumpers and ancillary equipment. Service lines within the Well Servicing segment were aggregated on the basis they provide similar services to the same customers, achieve similar long-term margins, share infrastructure and operate within the WCSB throughout western Canada.

b) Downhole Tools & Rentals

The Downhole Tools & Rentals segment provides downhole tools and rental services in the WCSB and the United States.

c) Corporate and Eliminations

The Corporate and Eliminations segment is comprised of: i) corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments; and ii) eliminations, which includes transactions between segments which are eliminated upon consolidation. Loss before income taxes for the three months ended March 31, 2016 and 2015 for the Corporate and Eliminations segment substantially represents corporate office and certain operational costs.

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

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

As at and for the three months ended March 31, 2016	**Well Servicing**	**Downhole Tools & Rentals**	**Corporate & Eliminations**	**Consolidated**
Revenue	**$ 20,115**	**$ 10,889**	**$ (89)**	**$ 30,915**
(Loss) income before income taxes	**$ (66,362)**	**$ (447)**	**$ (5,892)**	**$ (72,701)**
Depreciation and amortization	**$ 5,591**	**$ 1,002**	**$ 292**	**$ 6,885**
Impairment loss	**$ 61,652**	**$ -**	**$ -**	**$ 61,652**
Total assets	**$ 182,195**	**$ 54,207**	**$ 10,311**	**$ 246,713**
Total liabilities	**$ 20,716**	**$ 278**	**$ 35,405**	**$ 56,399**
Property, equipment and intangible asset expenditures	**$ 3,245**	**$ 87**	**$ 30**	**$ 3,362**

As at and for the three months ended March 31, 2015	Well Servicing	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	$ 47,002	$ 23,611	$ (194)	$ 70,419
Income (loss) before income taxes	$ 3,961	$ 5,385	$ (5,087)	$ 4,259
Depreciation and amortization	$ 5,452	$ 975	$ 263	$ 6,690
Total assets	$ 295,140	$ 73,345	$ 3,011	$ 371,496
Total liabilities	$ 38,790	$ 1,624	$ 55,370	$ 95,784
Property, equipment and intangible asset expenditures	$ 5,543	$ 646	$ 272	$ 6,461

17. COMPARATIVE FIGURES

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

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Michael J. Black[3]

Robert T. German[1,3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2]

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

Auditors

Ernst & Young LLP

Bankers

National Bank of Canada

The Toronto-Dominion Bank

HSBC Bank Canada

Canadian Western Bank

Legal Counsel

Fasken Martineau DuMoulin LLP

Transfer Agent

Computershare Trust Company of Canada

Management

Garnet K. Amundson
President and Chief Executive Officer

Don A. K. Webster
Chief Operating Officer

Allan Mowbray
Vice President, Finance and Chief Financial Officer

Jeff B. Newman
Senior Vice President, Business Development

Kevin W. Job
Senior Vice President, Corporate

Karen Perasalo
Vice President, Investor Relations & Corporate Secretary

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