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 and six months ended June 30, 2016.

This MD&A should be read in conjunction with Essential's June 30, 2016 unaudited condensed consolidated interim financial statements, the March 31, 2016 unaudited condensed consolidated interim financial statements and MD&A, 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 interim and 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 August 9, 2016 and was approved and authorized for issuance by the Board of Directors of the Company (the "Board") on August 9, 2016.

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares trade on the Toronto Stock Exchange under the symbol ESN. Additional information regarding Essential 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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenue	**$ 15,008**	$ 23,990	**$ 45,923**	$ 94,409
Gross margin	**(1,595)**	580	**(349)**	15,882
Gross margin %	**(11)%**	2%	**(1)%**	17%
EBITDAS[1] before severance costs	**(4,452)**	(2,720)	**(5,202)**	9,824
EBITDAS[1]	**(4,469)**	(2,832)	**(6,952)**	8,027
Net loss before impairment loss	**(7,486)**	(10,495)	**(21,142)**	(7,399)
Per share – basic and diluted	**(0.06)**	(0.08)	**(0.17)**	(0.06)
Net loss	**(7,486)**	(10,495)	**(61,404)**	(7,399)
Per share – basic and diluted	**(0.06)**	(0.08)	**(0.49)**	(0.06)
Utilization				
Masted coil tubing rigs	**19%**	25%	**29%**	57%
Service rigs	**14%**	19%	**16%**	28%

	As at June 30, 2016	As at June 30, 2015
Total assets	**$ 238,450**	$ 337,299
Total long-term debt	**26,894**	27,027
Equipment fleet		
Masted coil tubing rigs	**21**	19
Service rigs	**38**	54

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

HIGHLIGHTS

Oil and natural gas activity for the first half of 2016 was below historical levels as exploration and production ("E&P") companies reduced spending to preserve cash flow and manage debt. Oil and natural gas prices improved in the second quarter 2016 from the lows reached in the first quarter but remained volatile and below thresholds necessary to support significant E&P investment. Limited activity created an environment of excess industry oilfield service equipment and aggressive pricing. The second quarter, which is typically slow due to the seasonality of oil and gas operations in the Western Canadian Sedimentary Basin ("WCSB"), was particularly slow in 2016. Wells drilled[a] in the WCSB in the second quarter 2016 declined 58% compared to the same period in 2015 and drilling rig utilization, at 7%, hit its lowest level in decades.

Essential's second quarter revenue was $15.0 million, 37% lower than the same period of 2015 driven by low activity and aggressive pricing by competitors across all service lines. Utilization was below the same period in 2015 as a result of fewer well completions and less production work. Pricing continued to decline compared to the second quarter 2015.

EBITDAS[1] was negative $4.5 million and negative $7.0 million, respectively, for the three and six months ended June 30, 2016 due to extremely low activity and lower pricing. Negative EBITDAS[1] for the first half of the year is unprecedented for Essential and, in a continued effort to manage costs, margins and debt, a number of strategies were implemented including:

- A second round of significant cost reductions including compensation and headcount reductions across the organization. These were incremental to the compensation and headcount reductions in early 2015;
- Disposition of retired and redundant equipment;
- Suspension of the Company's dividend in May 2016; and
- Renewal of Essential's credit facility with an extension to May 2019 and revisions to certain terms and conditions.

Long-term debt outstanding at June 30, 2016 was $26.9 million, essentially flat to March 31, 2016. With working capital of $43.8 million, working capital exceeded debt by $16.9 million. On August 9, 2016 there was $28.9 million of debt outstanding.

(a) Drilling activity is a key indicator of industry activity
(b) Source: June Warren-Nickle's Energy Group

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 ("DT&R") 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. Essential's masted coil tubing fleet is comprised of Generation II, III and IV masted coil tubing rigs. Depending on the wellsite configuration, the Generation IV masted coil tubing rigs are capable of working with or without the mast.
- 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 primarily in 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.
- 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 per share amounts)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Revenue	**$ 15,008**	$ 23,990	**$ 45,923**	$ 94,409
Operating expenses	**16,603**	23,410	**46,272**	78,527
Gross margin	**(1,595)**	580	**(349)**	15,882
General and administrative expenses	**2,874**	3,412	**6,603**	7,855
EBITDAS(1)	**(4,469)**	(2,832)	**(6,952)**	8,027
Depreciation and amortization	**4,538**	6,464	**11,423**	13,154
Share-based compensation	**188**	460	**715**	614
Impairment loss	**-**	-	**61,652**	-
Other expenses	**517**	1,017	**1,384**	301
Finance costs	**381**	332	**668**	804
Loss before income tax	**(10,093)**	(11,105)	**(82,794)**	(6,846)
Current income tax recovery	**(1,544)**	(4,004)	**(6,631)**	(3,562)
Deferred income tax (recovery) expense	**(1,063)**	3,394	**(14,759)**	4,115
Total income tax (recovery) expense	**(2,607)**	(610)	**(21,390)**	553
Net loss	**$ (7,486)**	$ (10,495)	**$ (61,404)**	$ (7,399)
Net loss per share				
Basic and diluted	**$ (0.06)**	$ (0.08)	**$ (0.49)**	$ (0.06)

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

SEGMENT RESULTS - *WELL SERVICING*

(in thousands of dollars, except percentages, hours and fleet data)	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Revenue				
Coil well service (i)	**$ 6,422**	$ 9,887	**$ 22,178**	$ 41,863
Service rigs	**3,093**	6,825	**7,452**	21,851
Total revenue	**9,515**	16,712	**29,630**	63,714
Operating expenses	**10,573**	15,677	**29,179**	51,965
Gross margin	**$ (1,058)**	$ 1,035	**$ 451**	$ 11,749
Gross margin %	**(11)%**	6%	**2%**	18%
Utilization (ii)				
Masted coil tubing rigs				
Utilization	**19%**	25%	**29%**	57%
Operating hours	**3,570**	4,341	**10,855**	19,676
Pumping				
Utilization	**16%**	23%	**27%**	43%
Operating hours	**4,336**	6,381	**14,554**	23,967
Service rigs				
Utilization	**14%**	19%	**16%**	28%
Operating hours	**5,010**	9,239	**11,172**	26,984
Equipment fleet (iii)				
Masted coil tubing rigs	**21**	19	**21**	19
Pumping	**30**	30	**30**	30
Service rigs	**38**	54	**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 in-service at the end of the period.

Coil well service revenue decreased 35% in the second quarter 2016 compared to the same period in 2015 due to lower activity and pricing. Masted coil tubing operating hours declined 18% and pumping operating hours declined 32% compared to the second quarter 2015 due to reduced E&P spending and a decrease in stand-alone pumper work. Revenue per hour declined approximately 10% compared to the second quarter 2015 and was consistent with the first quarter 2016.

Essential's Generation IV masted coil tubing rigs experienced relatively strong customer demand in the second quarter 2016. Management and customers were pleased with the performance of these rigs, which completed complex, long-reach wells in the Duvernay, Montney and Bakken.

Second quarter 2016 service rig revenue decreased 55% and operating hours were down 46% compared to the same period in 2015. Limited industry activity continued to result in aggressive pricing by competitors to gain market share. Service rig revenue per hour was down approximately 15% compared to the second quarter 2015.

Well servicing gross margin as a percentage of revenue was negative 11% in the second quarter of 2016. Lower repairs and maintenance costs compared to the same period in 2015 and Essential's second round of cost reductions implemented in March 2016, including staff layoffs and wage rollbacks, limited margin erosion in the second quarter 2016. Revenue in the second quarter 2016 was not sufficient to cover fixed costs.

On a year-to-date basis, well servicing revenue decreased 53% compared to the prior period driven by lower activity and price declines for all services as a result of the continued industry downturn. Essential's second round of cost reduction measures implemented earlier in the year partially offset the impact of the period-over-period revenue decline and maintained positive year-to-date margins.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS*

(in thousands of dollars, except percentages)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Revenue	**$ 5,583**	$ 7,460	**$ 16,472**	$ 31,071
Operating expenses	**5,472**	8,004	**15,185**	24,835
Gross margin	**$ 111**	$ (544)	**$ 1,287**	$ 6,236
Gross margin %	**2%**	(7)%	**8%**	20%
Downhole Tools & Rentals revenue – % of revenue				
Tryton MSFS®	**15%**	16%	**32%**	33%
Conventional Tools & Rentals	**85%**	84%	**68%**	67%

Second quarter 2016 DT&R revenue decreased from the same period in 2015, primarily from lower Canadian and U.S. conventional tools revenue. Conventional tools revenue was negatively impacted by lower production activity and pricing declines. Tryton MSFS® revenue also declined over the same period. Rentals revenue was consistent with the second quarter 2015.

Positive gross margin in the quarter was primarily a result of cost reductions implemented in the Canadian operations in the first quarter of 2016, and in the U.S. operations during the second quarter of 2016. These reductions included staff lay-offs and wage rollbacks. Savings from these cost reductions and higher margin rental activity in the current quarter offset the impact of lower DT&R revenue in the period.

On a year-to-date basis, DT&R revenue was below the prior period in all businesses as a result of lower activity and price declines. Gross margin for the six months ended June 30, 2016, compared to the same period in 2015, decreased due to fixed costs comprising a greater proportion of revenue. The full benefits of cost reductions implemented during the first half of 2016 are not fully reflected in the gross margin for the six months ended June 30, 2016. Those benefits are expected to result in improved margins in the second half of 2016. Higher U.S. losses and a weaker period-over-period contribution from the rentals business also reduced gross margin in the first half of 2016.

GENERAL AND ADMINISTRATIVE

(in thousands of dollars)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
General and administrative expenses	**$ 2,874**	$ 3,412	**$ 6,603**	$ 7,855

General and administrative expenses ("G&A") are comprised of wages, severance costs, professional fees, office space and other administrative costs incurred at corporate and operational levels. G&A expenses for the three and six months ended June 30, 2016 decreased compared to the same periods in 2015 due to cost reductions that were implemented in the first quarter 2016, including headcount and wage reductions.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Depreciation and amortization expense	**$ 4,538**	$ 6,464	**$ 11,423**	$ 13,154

Depreciation and amortization expense for the three and six months ended June 30, 2016 was lower than the same periods in 2015 due to lower net book value of the Company's equipment and intangible assets as a result of the impairment losses recognized in the first quarter of 2016 and fourth quarter of 2015, respectively.

SHARE-BASED COMPENSATION

(in thousands of dollars)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Share-based compensation expense	**$ 188**	$ 460	**$ 715**	$ 614

For the six months ended June 30, 2016, share-based compensation expense is higher than the same period in 2015 due to the increase of Essential's share price since December 31, 2015.

OTHER EXPENSES

(in thousands of dollars)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Loss on disposal of assets	**$ 522**	$ 876	**$ 616**	$ 1,143
Foreign exchange (gain) loss	**(33)**	238	**732**	(763)
Other loss (gain)	**28**	(97)	**36**	(79)
Other expenses	**$ 517**	$ 1,017	**$ 1,384**	$ 301

The loss on disposal of assets included disposal of equipment that was retired or redundant and no longer used in operations. Strengthening of the Canadian dollar in relation to the U.S. dollar resulted in a foreign exchange loss for the six months ended June 30, 2016 compared to a foreign exchange gain for the same period in 2015.

IMPAIRMENT LOSS

(in thousands of dollars)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Impairment loss	**$ -**	$ -	**$ 61,652**	$ -

IFRS requires the Company to assess the carrying value of assets in the cash generating units when there are impairment indicators. Essential completed an impairment assessment at the end of the first quarter 2016 when first quarter financial results were much lower than expected and the outlook for the industry deteriorated. 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 June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Finance costs	**$ 381**	$ 332	**$ 668**	$ 804

For the six months ended June 30, 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 June 30, 2016		2015		Six months ended June 30, 2016		2015
Current income tax recovery	**$**	**(1,544)**	$	(4,004)	**$**	**(6,631)**	$	(3,562)
Deferred income tax (recovery) expense		**(1,063)**		3,394		**(14,759)**		4,115
Total income tax (recovery) expense	**$**	**(2,607)**	$	(610)	**$**	**(21,390)**	$	553

For the three and six months ended June 30, 2016, the current income tax recovery relates to incurring a loss before income tax in the quarter. For the six months ended June 30, 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 June 30, 2016		2015		Six months ended June 30, 2016		2015
Net cash provided by operating activities	**$**	**3,676**	$	23,329	**$**	**5,644**	$	51,675
Changes in non-cash working capital		**(6,342)**		(22,531)		**(6,502)**		(39,210)
Funds flow (used in) provided by operations[1]	**$**	**(2,666)**	$	798	**$**	**(858)**	$	12,465
Per share – basic and diluted	**$**	**(0.02)**	$	0.01	**$**	**(0.01)**	$	0.10

WORKING CAPITAL

(in thousands of dollars, except ratios)		**As at June 30, 2016**		As at December 31, 2015
Current assets	**$**	**55,937**	$	66,599
Current liabilities		**(12,120)**		(15,844)
Working capital [1]	**$**	**43,817**	$	50,755
Working capital ratio		**4.6:1**		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 is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available on the lender's consent. The Credit Facility matures on May 31, 2019, 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 June 30, 2016, the maximum of $40 million under the Credit Facility was available to Essential.

On June 15, 2016, Essential renewed its Credit Facility with its banking syndicate with the following revised terms and conditions:

- a voluntary reduction in the commitment from $100 million to $40 million;
- a voluntary reduction in the accordion feature from $35 million to $20 million;
- revisions to certain financial covenants, including:
  - minimum cumulative EBITDAS[1] as follows: $1 million for the three months ending September 30, 2016, $4 million for the six months ending December 31, 2016, and $6 million for the nine months ending March 31, 2017;
  - funded debt to trailing 12 month EBITDAS[1] is not to exceed 5.25x at June 30, 2016, has been waived for the quarters ending September 30, 2016, December 31, 2016 and March 31, 2017 and is not to exceed 5.25x at June 30, 2017, stepping down to 3.00x by the quarter ending December 31, 2018 and thereafter; and
  - fixed charge coverage ratio is not to be less than 1.25x at June 30, 2016, 2.00x for the quarters ending September 30, 2016, December 31, 2016 and March 31, 2017 and 1.25x for the quarters ending June 30, 2017 and thereafter.
- addition of an equity cure provision;
- addition of a monthly borrowing base; and
- restrictions on dividends and acquisitions when funded debt to EBITDAS[1] is greater than 3.00x or when the covenant is waived.

As at June 30, 2016, all financial covenants were satisfied and all banking requirements under the Credit Facility were up-to-date. At the end of the second quarter of 2016, Essential had a consolidated funded debt[1] balance of $26.7 million, which consisted of long-term debt of $26.9 million, plus deferred financing costs of $0.3 million, less cash of $0.5 million. At June 30, 2016, the Company's funded debt[1] to trailing 12 month EBITDAS[1] was 3.2x. Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities. On August 9, 2016, Essential had $28.9 million of debt outstanding.

EQUIPMENT EXPENDITURES AND FLEET ADDITIONS

	Three months ended June 30,		Six months ended June 30,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Well Servicing	**$ 2,928**	$ 2,131	**$ 6,173**	$ 7,674
Downhole Tools & Rentals	**1,282**	45	**1,369**	691
Corporate	**4**	216	**34**	488
Total equipment expenditures	**4,214**	2,392	**7,576**	8,853
Less proceeds on disposal of equipment	**(1,182)**	(715)	**(1,593)**	(810)
Net equipment expenditures[1]	**$ 3,032**	$ 1,677	**$ 5,983**	$ 8,043

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

	Three months ended June 30,		Six months ended June 30,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
Growth capital[1]	**$ 3,099**	$ 1,669	**$ 5,299**	$ 7,012
Maintenance capital[1]	**1,115**	723	**2,277**	1,841
Total equipment expenditures	**$ 4,214**	$ 2,392	**$ 7,576**	$ 8,853

Essential's 2016 capital budget has been increased from $9 million to $11 million and is comprised of $8 million of growth capital and $3 million of maintenance capital. Growth capital will be primarily used to complete the Generation IV masted coil tubing rigs. The $2 million increase in growth capital consists primarily of the purchase of specialty drill pipe in the current quarter and incremental costs to enhance the Generation IV masted coil tubing rigs. At June 30, 2016, there was $2 million remaining to complete these rigs. Essential took delivery of the fourth

Generation IV masted coil tubing rig in the second quarter 2016 and it is expected to go into service in the third quarter 2016.

The following table shows the expected in-service dates for the Generation IV masted coil tubing rigs as at August 9, 2016:

	# Rigs In Program	# Rigs In-Service	Expected In-Service Dates
Generation IV masted coil tubing rigs	6	3	Q3’16, Q4’16(2)

SHARE CAPITAL

As at August 9, 2016, there were 125,836,930 common shares and 7,769,916 share options outstanding. Of the 7,769,916 share options, 3,364,487 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 (for the six months ending December 31)	$ 3,036
2017	5,584
2018	4,219
2019	3,838
2020	3,269
Thereafter	7,718
As at June 30, 2016	$ 27,664

Other commitments

As part of its capital program, Essential is committed to future capital expenditures of $2 million, which are expected to be incurred in 2016.

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, interim or other reports 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

Oil and natural gas prices improved in the second quarter from lows reached earlier in the year creating some industry optimism. However, while higher than the first quarter, commodity prices remain volatile. Industry activity in the WCSB has improved over the seasonally slow second quarter but remains unsettled and industry drilling rig utilization to-date in the third quarter is approximately 50% below the same period in 2015. Longer term industry perspectives seem more positive as forecasters anticipate excess oil and natural gas production and supply to be corrected through the inevitable production profile decline of existing wells. In Canada, industry activity is further complicated by market access issues and discounted Canadian prices.

Essential is seeing some improvement in activity following the second quarter but activity to date is lower than the prior year and is expected to continue to be below 2015 for the remainder of the third quarter. Muted activity and excess oilfield service equipment in the WCSB are expected to continue to put downward pricing pressure on oilfield services. Service pricing is being heavily discounted as companies compete for market share.

Essential has taken significant steps to manage costs and management continues to seek the right balance between cost reductions, in an effort to generate positive margins, and retention of key employees, to ensure there is a viable business that can respond and grow when the industry begins to pull out of the prolonged downturn. Essential's highly variable cost structure, with the majority of field employees working on a variable compensation model, helps support margins in periods of slow activity.

The 2016 capital budget has increased from $9 million to $11 million. The increase is primarily for the purchase of specialty drill pipe to meet a specific customer request. At June 30, 2016, $8 million had been spent, so capital commitments for the remainder of the year are low.

The renewed Credit Facility provides an appropriate level of flexibility to meet anticipated operating needs as well as capital spending requirements. On August 9, 2016, debt was $28.9 million and on June 30, 2016, working capital of $43.8 million exceeded long-term debt by $16.9 million.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity is directly impacted by seasonality. 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 industry downturn since early 2015 has disrupted typical historic oilfield services seasonal patterns in western Canada as E&P companies are driven by constrained cash flow in addition to weather and access issues.

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)	**Jun 30, 2016**	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	**Jun 30, 2015**	Mar 31, 2015	Dec 31, 2014	Sept 30, 2014
Well Servicing:								
Coil well service	**6,422**	15,756	23,833	24,432	**9,887**	31,976	41,426	39,233
Service rigs	**3,093**	4,359	7,516	7,682	**6,825**	15,026	22,034	22,105
Total Well Servicing	**9,515**	20,115	31,349	32,114	**16,712**	47,002	63,460	61,338
Downhole Tools & Rentals	**5,583**	10,889	11,278	15,919	**7,460**	23,611	35,921	35,261
Inter-segment eliminations	**(90)**	(89)	(147)	(209)	**(182)**	(194)	(527)	(463)
Total revenue	**15,008**	30,915	42,480	47,824	**23,990**	70,419	98,854	96,136
Gross margin	**(1,595)**	1,246	7,786	11,927	**580**	15,302	27,330	27,515
Gross margin %	**(11)%**	4%	18%	25%	**2%**	22%	28%	29%
EBITDAS[(1)]	**(4,469)**	(2,483)	4,930	8,503	**(2,832)**	10,859	21,992	22,657
Net (loss) income [(i)]	**(7,486)**	(53,918)	(18,082)	2,996	**(10,495)**	3,096	(38,323)	10,777
Per share – basic	**(0.06)**	(0.43)	(0.14)	0.02	**(0.08)**	0.02	(0.30)	0.09
Per share – diluted	**(0.06)**	(0.43)	(0.14)	0.02	**(0.08)**	0.02	(0.30)	0.08
Total assets	**238,450**	246,713	317,244	346,564	**337,299**	371,496	397,351	454,745
Long-term debt	**26,894**	27,053	25,543	34,738	**27,027**	39,817	55,253	65,043
Utilization [(ii)]								
Masted coil tubing rigs	**19%**	39%	65%	70%	**25%**	90%	104%	105%
Pumping [(iii)]	**16%**	37%	55%	57%	**23%**	61%	72%	66%
Service rigs	**14%**	18%	30%	24%	**19%**	37%	49%	48%
Operating hours								
Masted coil tubing rigs	**3,570**	7,285	12,039	12,319	**4,341**	15,335	17,469	15,524
Pumping [(iii)]	**4,336**	10,218	15,049	15,747	**6,381**	17,586	20,885	19,397
Conventional coil tubing rigs	**278**	2,392	1,778	1,174	**1,088**	3,665	3,951	4,426
Service rigs	**5,010**	6,162	10,391	10,418	**9,239**	17,745	24,394	23,997
Downhole Tools & Rentals - % of revenue								
Tryton MSFS®	**15%**	40%	24%	40%	**16%**	38%	45%	46%
Conventional Tools & Rentals	**85%**	60%	76%	60%	**84%**	62%	55%	54%
Equipment fleet [(iv)]								
Masted coil tubing rigs	**21**	21	20	19	**19**	19	19	17
Fluid pumpers	**18**	18	18	18	**18**	18	18	18
Nitrogen pumpers	**12**	12	12	12	**12**	14	14	14
Conventional coil tubing rigs	**5**	11	11	11	**11**	17	17	29
Service rigs	**38**	38	38	48	**54**	54	54	54

(i) The quarters ended March 31, 2016, December 31, 2015 and December 31, 2014 include an impairment loss of $61.7 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 in-service at the end of the period.

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: impact of cost reductions and the expectation of improved margins in the second half of 2016; capital spending, including increases to the capital budget; cash flow and earnings; the Credit Facility and the impact of financial covenant limitations thereunder; the Credit Facility providing an appropriate level of flexibility to meet anticipated operating needs and capital spending requirements; 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, timing, anticipated delivery and in-service dates associated with such program; the amount expected to be paid for Essential's "other commitments"; industry spending and use of available cash; the Company's ability to use or sell inventory and equipment; short and long-term outlook on industry activity; Essential's third quarter activity; continued downward pricing pressure on oilfield services; 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 for the year ended December 31, 2015 (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 June 30,		Six months ended June 30,	
(in thousands of dollars)	**2016**	2015	**2016**	2015
EBITDAS before severance costs	**$ (4,452)**	$ (2,720)	**$ (5,202)**	$ 9,824
Severance costs	**17**	112	**1,750**	1,797
EBITDAS	**$ (4,469)**	$ (2,832)	**$ (6,952)**	$ 8,027
Share-based compensation	**188**	460	**715**	614
Other expenses	**517**	1,017	**1,384**	301
EBITDA	**$ (5,174)**	$ (4,309)	**$ (9,051)**	$ 7,112
Impairment loss	**-**	-	**61,652**	-
Depreciation and amortization	**4,538**	6,464	**11,423**	13,154
Finance costs	**381**	332	**668**	804
Loss before income tax	**(10,093)**	(11,105)	**(82,794)**	(6,846)
Total income tax (recovery) expense	**(2,607)**	(610)	**(21,390)**	553
Net loss	**$ (7,486)**	$ (10,495)	**$ (61,404)**	$ (7,399)

Funded debt – Funded debt is generally defined in Essential's Credit Facility as long-term debt including current portion of long-term debt plus deferred financing costs and bank indebtedness, net of cash.

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".

Growth capital – Growth capital is capital spending which is intended to result in incremental 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, replace or extend the life of previously acquired equipment. Such additions do not provide incremental revenue.

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.

June 30, 2016

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

(in thousands of dollars)		**As at June 30 2016**		As at December 31 2015
Assets				
Current				
Cash	**$**	**486**	$	1,042
Trade and other accounts receivable *(note 3)*		**22,671**		32,251
Inventories *(note 4)*		**30,523**		30,609
Prepayments		**2,257**		2,697
		55,937		66,599
Non-current				
Property and equipment *(note 5)*		**176,358**		225,479
Intangible assets *(note 6)*		**2,584**		21,347
Goodwill		**3,571**		3,799
		182,513		250,625
Total assets	**$**	**238,450**	$	317,224
Liabilities				
Current				
Trade and other accounts payable *(note 7)*	**$**	**12,120**	**$**	15,466
Dividends payable *(note 8)*		**-**		378
		12,120		15,844
Non-current				
Long-term debt *(note 9)*		**26,894**		25,543
Deferred tax liabilities		**16,520**		31,279
		43,414		56,822
Total liabilities		**55,534**		72,666
Commitments and contingencies *(note 14)*				
Equity				
Share capital *(note 10)*		**262,977**		262,977
Deficit		**(85,377)**		(23,595)
Other reserves *(note 11)*		**5,316**		5,176
Total equity		**182,916**		244,558
Total liabilities and equity	**$**	**238,450**	$	317,224

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

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

(in thousands of dollars, except per share amounts)	For the three months ended June 30, **2016**	For the three months ended June 30, 2015	For the six months ended June 30, **2016**	For the six months ended June 30, 2015
Revenue	**$ 15,008**	$ 23,990	**$ 45,923**	$ 94,409
Operating expenses	**16,603**	23,410	**46,272**	78,527
Gross margin	**(1,595)**	580	**(349)**	15,882
General and administrative expenses	**2,874**	3,412	**6,603**	7,855
	(4,469)	(2,832)	**(6,952)**	8,027
Depreciation and amortization *(notes 5 and 6)*	**4,538**	6,464	**11,423**	13,154
Share-based compensation *(note 12)*	**188**	460	**715**	614
Impairment loss *(notes 5 and 6)*	**-**	-	**61,652**	-
Other expenses	**517**	1,017	**1,384**	301
Operating loss	**(9,712)**	(10,773)	**(82,126)**	(6,042)
Finance costs	**381**	332	**668**	804
Loss before income taxes	**(10,093)**	(11,105)	**(82,794)**	(6,846)
Current income tax recovery	**(1,544)**	(4,004)	**(6,631)**	(3,562)
Deferred income tax (recovery) expense	**(1,063)**	3,394	**(14,759)**	4,115
Income tax (recovery) expense	**(2,607)**	(610)	**(21,390)**	553
Net loss	**$ (7,486)**	$ (10,495)	**$ (61,404)**	$ (7,399)
Unrealized foreign exchange (loss) gain *(note 11)*	**(4)**	(61)	**(52)**	187
Comprehensive loss	**$ (7,490)**	$ (10,556)	**$ (61,456)**	$ (7,212)
Loss per share *(note 13)*				
Basic and diluted	**$ (0.06)**	$ (0.08)	**$ (0.49)**	$ (0.06)
Comprehensive loss per share *(note 13)*				
Basic and diluted	**$ (0.06)**	$ (0.08)	**$ (0.49)**	$ (0.06)

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 six months ended June 30, **2016**	2015
Equity:		
Share capital		
Balance, January 1	**$ 262,977**	$ 262,871
Exercise of options *(note 10)*	**-**	106
Balance, June 30	**$ 262,977**	$ 262,977
Accumulated deficit		
Balance, January 1	**$ (23,595)**	$ 8,706
Net loss	**(61,404)**	(7,399)
Dividends *(note 8)*	**(378)**	(7,551)
Balance, June 30	**$ (85,377)**	$ (6,244)
Other reserves		
Balance, January 1	**$ 5,176**	$ 4,433
Other comprehensive (loss) income *(note 11)*	**(52)**	187
Equity-settled share-based compensation *(note 11)*	**192**	143
Exercise of options *(note 11)*	**-**	(38)
Balance, June 30	**$ 5,316**	$ 4,725
Total equity	**$ 182,916**	$ 261,458

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

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

(in thousands of dollars)	For the six months ended June 30, **2016**	2015
Operating activities:		
Net loss	**$ (61,404)**	$ (7,399)
Non-cash adjustments to reconcile net loss for the period to operating cash flow:		
Depreciation and amortization	**11,423**	13,154
Deferred income tax (recovery) expense	**(14,759)**	4,115
Equity-settled share-based compensation *(note 12)*	**192**	143
Provision for impairment of trade accounts receivable *(note 3)*	**754**	505
Finance costs	**668**	804
Impairment loss *(notes 5 and 6)*	**61,652**	-
Loss on disposal of assets	**616**	1,143
Operating cash flow before changes in non-cash operating working capital	**(858)**	12,465
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**15,487**	55,441
Income tax receivable	**(6,250)**	(4,426)
Inventories	**86**	3,777
Prepayments	**440**	(228)
Trade and other accounts payable	**(3,261)**	(15,354)
Net cash provided by operating activities	**5,644**	51,675
Investing activities:		
Purchase of property, equipment and intangible assets *(notes 5 and 6)*	**(7,576)**	(8,853)
Non-cash investing working capital in trade and other accounts payable	**(85)**	(4,846)
Proceeds on disposal of equipment	**1,593**	810
Net cash used in investing activities	**(6,068)**	(12,889)
Financing activities:		
Increase (repayment) of long-term debt	**1,351**	(28,226)
Proceeds from exercise of options	**-**	68
Dividends paid *(note 8)*	**(755)**	(7,548)
Finance costs	**(668)**	(804)
Net cash used in financing activities	**(72)**	(36,510)
Foreign exchange (loss) gain on cash held in a foreign currency	**(60)**	176
Net (decrease) increase in cash	**(556)**	2,452
Cash (bank indebtedness), beginning of period	**1,042**	(991)
Cash, end of period	**$ 486**	$ 1,461
Supplemental cash flow information		
Cash taxes (refunded) paid	**$ (381)**	$ 840
Cash interest and standby fees paid	**$ 514**	$ 731

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 and six months ended June 30, 2016 and 2015 were approved by the Board of Directors of Essential ("Board of Directors") on August 9, 2016. Essential is a publicly traded oilfield services company incorporated under the *Business Corporations Act* (Alberta). Essential is listed on the Toronto Stock Exchange and trades under the symbol ESN.

Based in Calgary, Alberta, Essential provides oilfield services to oil and natural 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 and six months ended June 30, 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 consolidated 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 June 30 2016	As at December 31 2015
Trade receivables, net of provision	**$ 12,269**	$ 28,023
Income tax receivable	**10,041**	3,791
Other receivables	**361**	437
	$ 22,671	$ 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 June 30 2016	As at December 31 2015
Canadian dollar	**$ 11,483**	$ 26,848
U.S. dollar	**786**	1,175
	$ 12,269	$ 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 June 30 2016	As at December 31 2015
< 31 days	**$ 7,401**	$ 11,334
31-60 days	**2,307**	10,021
61-90 days	**1,149**	4,473
>90 days	**1,412**	2,195
	$ 12,269	$ 28,023

The provision for impairment of receivables of $0.7 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 June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
Balance, beginning of period	**$ 433**	$ 1,433	**$ 925**	$ 1,148
Provision for receivables impairment	**350**	150	**754**	505
Receivables written off against the provision	**(101)**	(254)	**(992)**	(324)
Foreign exchange	**1**	-	**(4)**	-
Balance, end of period	**$ 683**	$ 1,329	**$ 683**	$ 1,329

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

4. INVENTORIES

	As at June 30 2016	As at December 31 2015
Downhole tools	**$ 21,343**	$ 23,146
Coil well service	**9,180**	7,463
	$ 30,523	$ 30,609

Inventory charged through operating expenses in the consolidated interim statements of net loss and comprehensive loss for the three and six months ended June 30, 2016 was $2.6 million and $8.8 million (2015 – $4.0 million and $13.9 million), respectively.

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

5. PROPERTY AND EQUIPMENT

As at June 30, 2016	Cost	Accumulated Depreciation	Net Book Value
Coil well service rigs and equipment	**$ 146,002**	**$ 56,942**	**$ 89,060**
Service rigs and equipment	**88,575**	**45,538**	**43,037**
Oilfield equipment	**52,223**	**26,111**	**26,112**
Vehicles	**29,650**	**14,485**	**15,165**
Office and computer equipment	**4,381**	**3,280**	**1,101**
Land	**482**	**-**	**482**
Other	**4,784**	**3,383**	**1,401**
	$ 326,097	**$ 149,739**	**$ 176,358**

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
	$ 326,533	$ 101,054	$ 225,479

Included in coil well service rigs and equipment and oilfield equipment is $20.3 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 June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
Net book value, beginning of period	**$ 178,217**	$ 240,262	**$ 225,479**	$ 239,696
Additions	**4,186**	1,537	**7,517**	7,998
Disposals	**(1,755)**	(1,598)	**(2,272)**	(1,960)
Impairment loss	**-**	-	**(44,291)**	-
Depreciation	**(4,293)**	(5,346)	**(10,044)**	(10,945)
Currency translation adjustment	**3**	(13)	**(31)**	53
Net book value, end of period	**$ 176,358**	$ 234,842	**$ 176,358**	$ 234,842

For the six months ended June 30, 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).

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

6. INTANGIBLE ASSETS

As at June 30, 2016	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 38,503**	**$ 37,489**	**$ 1,014**
Computer software	**5,534**	**4,206**	**1,328**
Non-compete agreement	**428**	**186**	**242**
	$ 44,465	**$ 41,881**	**$ 2,584**

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 June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
Net book value, beginning of period	**$ 2,800**	$ 23,650	**$ 21,347**	$ 24,599
Additions	**28**	854	**59**	855
Impairment loss	**-**	-	**(17,361)**	-
Amortization	**(245)**	(1,118)	**(1,379)**	(2,209)
Currency translation adjustment	**1**	(19)	**(82)**	122
Net book value, end of period	**$ 2,584**	$ 23,367	**$ 2,584**	$ 23,367

For the six months ended June 30, 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 June 30 2016	As at December 31 2015
Trade accounts payable	**$ 3,612**	$ 6,894
Accrued payables	**3,969**	3,437
Accrued payroll	**2,536**	3,236
Other	**2,003**	1,899
	$ 12,120	$ 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 June 30 2016	As at December 31 2015
Canadian dollar	**$ 3,416**	$ 6,709
U.S. dollar	**196**	185
	$ 3,612	$ 6,894

8. DIVIDENDS PAYABLE

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

In May 2016, the Board of Directors suspended the dividend until further notice.

9. LONG-TERM DEBT

	As at June 30 2016	As at December 31 2015
Term loan	**$ 27,150**	$ 25,600
Deferred financing costs	**(256)**	(57)
Non-current portion of long-term debt	**$ 26,894**	$ 25,543

Essential's credit facility with its banking syndicate was renewed on June 15, 2016 and is comprised of a $40 million revolving term loan facility with a $20 million accordion feature available on the lender's consent (the "Credit Facility"). The Credit Facility matures on May 31, 2019, 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 June 30, 2016, the maximum of $40 million under the Credit Facility was available to Essential.

As at June 30, 2016, all financial debt covenants were satisfied and all banking requirements under the Credit Facility were up-to-date.

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

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.

	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 June 30, 2016	**125,837**	**$ 262,977**

11. OTHER RESERVES

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Total
As at January 1, 2015	$ 4,426	$ 7	$ 4,433
Equity-settled 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
Equity-settled share-based compensation	**192**	**-**	**192**
Unrealized foreign exchange loss on foreign operations	**-**	**(52)**	**(52)**
As at June 30, 2016	**$ 4,943**	**$ 373**	**$ 5,316**

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 June 30, 2016, the maximum number of share options and RSUs allowed for issuance was 11,325,324 (2015 – 11,325,324).

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

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

	For three months ended June 30,		For the six months ended June 30,	
	2016	2015	**2016**	2015
Equity-settled share options	**$ 92**	$ 78	**$ 192**	$ 143
Restricted share units	**67**	315	**437**	418
Cash-settled deferred share units	**29**	67	**86**	53
Total share-based compensation expense	**$ 188**	$ 460	**$ 715**	$ 614

a) Share Option Plan

Under the Company's Share Option Plan, participants 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 six months ended June 30, 2016		For the six months ended June 30, 2015	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of year	**6,393**	**$ 1.91**	5,024	$ 2.19
Issued	**2,841**	**0.57**	2,025	1.19
Exercised	**-**	**-**	(59)	1.15
Expired	**(1,295)**	**2.12**	-	-
Forfeited	**(131)**	**2.00**	(345)	2.17
Outstanding, end of period	**7,808**	**$ 1.39**	6,645	$ 1.90
Exercisable, end of period	**3,403**	**$ 2.05**	3,855	$ 2.13

The fair value of the share options issued for the six month end June 30, 2016 was between \$0.15 – \$0.24 per option (2015 – \$0.15 – \$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 – 49.0%**	41.6 – 43.3%
Expected term	**3.2 – 4.7 years**	3.7 – 5.0 years
Expected forfeiture rate	**7.0 – 15.8%**	7.5 – 16.5%
Dividend yield	**nil – 2.3%**	8.7 – 10.6%

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 June 30, 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 June 30, 2016				
\$0.55 – \$1.00	**2,841**	**4.52**	**\$ 0.57**	**-**
\$1.01 – \$2.00	**2,015**	**3.34**	**\$ 1.20**	**685**
\$2.01 – \$2.90	**2,952**	**1.26**	**\$ 2.30**	**2,718**
	7,808	**2.89**	**\$ 1.39**	**3,403**
As at June 30, 2015				
\$1.12 – \$2.00	2,580	3.99	\$ 1.32	548
\$2.01 – \$2.90	4,065	1.84	\$ 2.27	3,307
	6,645	2.67	\$ 1.90	3,855

During the six months ended June 30, 2016, Essential issued 2,841,249 share options with a weighted average exercise price of \$0.57 per option.

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. 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 time vesting and/or performance vesting feature(s). The performance based criteria vest conditionally. Under the terms of the plan, when dividends are paid, RSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The associated liability related to the RSUs as at June 30, 2016 was \$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 six months ended June 30,	
Number of RSUs (000's)	**2016**	2015
Outstanding, beginning of year	**2,875**	1,103
Issued (including dividend equivalents)	**2,770**	2,320
Vested	**(680)**	(431)
Forfeited	**(331)**	(163)
Outstanding, end of period	**4,634**	2,829

During the six months ended June 30, 2016, Essential issued 2,752,098 RSUs.

c) Deferred Share Units

The Board of Directors is authorized to grant DSUs to participants under the DSU Plan. A DSU gives the participant a right of redemption in the form of a lump sum cash payment, less applicable withholding taxes, when the participant ceases to be a director or employee of the Company. Under the terms of the plan, when dividends are paid, DSUs are eligible for dividend equivalents, which are re-invested at each dividend record date. The carrying amount of the liability as at June 30, 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 six months ended June 30,	
Number of DSUs (000's)	**2016**	2015
Outstanding, beginning of year	**398**	243
Issued (including dividend equivalents)	**2,647**	12
Redeemed	**-**	(32)
Outstanding, end of period	**3,045**	223

For the six months ended June 30, 2016 Essential issued 2,644,615 DSUs.

13. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net loss 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 settled 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 June 30,		For the six months ended June 30,	
(000's)	**2016**	2015	**2016**	2015
Basic and diluted	**125,837**	125,837	**125,837**	125,835

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 (for the six months ending December 31, 2016)	$ 3,036
2017	5,584
2018	4,219
2019	3,838
2020	3,269
Thereafter	7,718
	$ 27,664

Other commitments

As part of its capital program, Essential is committed to future capital expenditures in 2016 of $2 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 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 primarily 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.

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

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 and six months ended June 30, 2016 and 2015 for the Corporate and Eliminations segment substantially represents corporate office and certain operational costs.

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

As at and for the three months ended June 30, 2016	**Well Servicing**	**Downhole Tools & Rentals**	**Corporate & Eliminations**	**Consolidated**
Revenue	**$ 9,515**	**$ 5,583**	**$ (90)**	**$ 15,008**
Loss before income taxes	**$ (5,385)**	**$ (1,137)**	**$ (3,571)**	**$ (10,093)**
Depreciation and amortization	**$ 3,343**	**$ 905**	**$ 290**	**$ 4,538**
Total assets	**$ 177,333**	**$ 52,193**	**$ 8,924**	**$ 238,450**
Total liabilities	**$ 21,481**	**$ 4,088**	**$ 29,965**	**$ 55,534**
Property, equipment and intangible asset expenditures	**$ 2,928**	**$ 1,282**	**$ 4**	**$ 4,214**

As at and for the three months ended June 30, 2015	Well Servicing	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	$ 16,712	$ 7,460	$ (182)	$ 23,990
Loss before income taxes	$ (5,521)	$ (2,157)	$ (3,427)	$ (11,105)
Depreciation and amortization	$ 5,235	$ 935	$ 294	$ 6,464
Total assets	$ 269,433	$ 61,637	$ 6,229	$ 337,299
Total liabilities	$ 38,152	$ 3,497	$ 34,192	$ 75,841
Property, equipment and intangible asset expenditures	$ 2,131	$ 45	$ 216	$ 2,392

As at and for the six months ended June 30, 2016	**Well Servicing**	**Downhole Tools & Rentals**	**Corporate & Eliminations**	**Consolidated**
Revenue	**$ 29,630**	**$ 16,472**	**$ (179)**	**$ 45,923**
Loss before income taxes	**$ (71,747)**	**$ (1,584)**	**$ (9,463)**	**$ (82,794)**
Depreciation and amortization	**$ 8,934**	**$ 1,907**	**$ 582**	**$ 11,423**
Impairment loss	**$ 61,652**	**$ -**	**$ -**	**$ 61,652**
Property, equipment and intangible asset expenditures	**$ 6,173**	**$ 1,369**	**$ 34**	**$ 7,576**

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

As at and for the six months ended June 30, 2015	Well Servicing	Downhole Tools & Rentals	Corporate & Eliminations	Consolidated
Revenue	$ 63,714	$ 31,071	$ (376)	$ 94,409
(Loss) income before income taxes	$ (1,559)	$ 3,228	$ (8,515)	$ (6,846)
Depreciation and amortization	$ 10,687	$ 1,910	$ 557	$ 13,154
Property, equipment and intangible asset expenditures	$ 7,674	$ 691	$ 488	$ 8,853

17. COMPARATIVE FIGURES

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

C O R P O R A T E I N F OR M A T I O N

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

Stock Exchange Listing

TSX: ESN

Calgary Office

Livingston Place West

1100, 250 2nd Street SW

Calgary, Alberta T2P 0C1

Phone: (403) 263-6778

Fax: (403) 263-6737

Email: service@essentialenergy.ca

Website: www.essentialenergy.ca