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, 2020.

This MD&A should be read in conjunction with Essential's June 30, 2020 unaudited condensed consolidated interim financial statements and the audited annual consolidated financial statements and MD&A included in Essential's 2019 Financial Report for the year ended December 31, 2019. 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 August 10, 2020 and was approved and authorized for issuance by the Board of Directors of the Company on August 10, 2020.

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares of the Company 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 and percentages)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Revenue	**$ 10,955**	$ 27,086	**$ 52,378**	$ 74,532
Gross margin	**876**	3,607	**9,294**	14,166
Gross margin %	**8%**	13%	**18%**	19%
EBITDAS[1]	**(492)**	1,408	**5,392**	8,952
Net (loss) income before impairment loss[1]	**(6,030)**	(1,357)	**(2,232)**	50
Per share – basic and diluted	**(0.04)**	(0.01)	**(0.02)**	0.00
Net (loss) income	**(6,030)**	(1,357)	**(11,055)**	50
Per share – basic and diluted	**(0.04)**	(0.01)	**(0.08)**	0.00
Operating hours				
Coil tubing rigs	**3,060**	7,126	**16,073**	20,544
Pumpers	**3,712**	9,348	**19,604**	25,430
			As at June 30, **2020**	As at June 30, 2019
Working capital			**$ 44,408**	$ 47,662
Total assets			**161,531**	195,532
Cash			**5,664**	899
Long-term debt			**665**	7,451

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

INDUSTRY OVERVIEW

Industry drilling and well completion activity was significantly below the same prior year period due to the disruptive impact of the COVID-19 pandemic, low oil prices and drastic spending cuts by exploration and production ("E&P") companies. From an oil perspective, the destructive impact of these factors caused the price of West Texas Intermediate ("WTI") to go into negative pricing for some days in April 2020. While recovering somewhat in early May, WTI reached US$35 per barrel in early June and hovered between US$35 per barrel and US$40 per barrel for the remainder of the second quarter, a level considered uneconomic for capital spending by many Canadian E&P companies.

While the second quarter is typically slow due to spring breakup, these macroeconomic issues have slowed activity even further. Second quarter drilling activity in the Western Canadian Sedimentary Basin ("WCSB") was reportedly the lowest in over 35 years with an average of 22 active rigs.

HIGHLIGHTS

Essential was proactive in responding to market conditions in order to preserve cash and retain a low debt position. During April and May, a number of cost cutting initiatives were implemented including:

- Significant reduction in compensation for the Board of Directors and senior management;
- Salary, wage and headcount reductions throughout the organization; and
- The suspension of bonus, incentive and activity-based compensation programs.

Revenue for the three months ended June 30, 2020 was $11.0 million, a 60% decrease from the second quarter of 2019. Both Essential Coil Well Service ("ECWS") and Tryton experienced a significant decrease in activity in the quarter as customers reduced spending or deferred work due to the combined effects of the COVID-19 pandemic and low oil prices.

EBITDAS[(1)] was $(0.5) million, $1.9 million lower than the same prior year period due to lower activity across both segments, offset by reduced expenses as a result of cost cutting initiatives and funding received from the Canadian Emergency Wage Subsidy ("CEWS") program announced in response to the COVID-19 pandemic. The second quarter of 2020 included $2.6 million of CEWS program benefits. EBITDAS[(1)] was negatively impacted by $0.9 million of severance costs included in the second quarter of 2020.

During the second quarter, the provincial governments for each of Alberta, Saskatchewan and British Columbia initiated programs to incentivize E&P companies to spend on site rehabilitation programs ("Site Rehabilitation Programs"). Tryton initiated its applications under these programs in the second quarter. However, as the approval process has been slower than expected, Tryton did not perform any work in the second quarter but expects to begin work under these programs in the third quarter, continuing for the remainder of the year.

At June 30, 2020, Essential was in a strong financial position with cash, net of long-term debt, of $5.0 million and working capital[(1)] of $44.4 million. On August 10, 2020 Essential had $6.7 million of cash, net of long-term debt.

For the six months ended June 30, 2020, Essential reported revenue of $52.4 million, $22.2 million lower than the prior year period due to lower activity across both segments. EBITDAS[(1)] was $5.4 million, a $3.6 million decline from the prior year mainly due to lower activity, offset by cost cutting and benefits received under the CEWS program, as discussed above.

Renewal of Credit Facility

Effective July 9, 2020, Essential amended its June 26, 2018 credit facility agreement (the "2018 Credit Facility"). The amended credit facility (the "Credit Facility") provides Essential an extension of the maturity date to June 30, 2022, along with revisions to certain terms and conditions. The Credit Facility is expected to provide Essential with sufficient liquidity and financial flexibility through to the end of 2021 to navigate these uncertain times. Refer to the Credit Facility section of this MD&A for further information.

OVERVIEW OF ESSENTIAL

Essential safely provides completion, production and wellsite restoration services to E&P companies primarily in western Canada. Services are offered through coil tubing, fluid and nitrogen pumping, and the sale and rental of downhole tools and equipment.

Essential Coil Well Service

Coil Tubing Rigs – Essential operates one of the largest coil tubing fleets in Canada. Coil tubing rigs provide completion, stimulation and work-over services on long-reach horizontal and vertical wells. Essential's coil tubing rigs are equipped to work with coil tubing ranging from 1 ½ inches to 2 ⅞ inches in diameter. The rigs have a depth capacity using 2 ⅜ inch coil of up to 8,000+ meters when the coil is transported on the rig and up to 9,400 meters if the coil is transported separately. Essential's coil tubing fleet is comprised of Generation I, II, III and IV coil tubing rigs, which are differentiated by capability to service wells with varying depths and well pressures. The varied limit, capacity and coil diameter of Essential's coil tubing fleet make this equipment ideally suited to work in all facets of a customer's horizontal well completion and work-over program.

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.

Pumpers – Coil tubing rigs are packaged with and 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. Fluid pumpers also perform stand-alone pump-down work independent of the coil tubing fleet. Nitrogen pumpers are used to pump inert nitrogen gas into the wellbore for stimulation or work-over operations and to purge the coil tubing of fluids once the coil tubing work has been completed.

Tryton

Essential's Tryton segment provides a wide range of downhole tools and rental services across the WCSB and in the U.S. for completion, production and wellsite restoration of oil and natural gas wells, including:

- Tryton Multi-Stage Fracturing System ("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. Tryton offers a variety of MSFS® tools that provide customers with a choice of completion technologies to use on their horizontal well completion program. The completion technology selected will vary based on wellbore characteristics and client preference. Revenue and cost parameters of each completion technology vary depending on the nature of the tools used and the services provided:
    - Ball & Seat – Tryton's Ball & Seat system uses open hole packers and sleeves, which are opened in sequential order by dropping progressively larger balls through a liner, to isolate and fracture each zone along the non-cased horizontal leg of a well. The number of zones, or "stages", that can be fractured using a Ball & Seat system is limited by the size specifications of the balls and seats used.

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

- V-Sleeve – The Tryton V-Sleeve is a cemented-in-liner system that involves cementing a tool string into the wellbore with sliding sleeves set at specified intervals and using a coil-actuated sleeve shifting tool to sequentially open each sliding sleeve. The Tryton V-Sleeve system enables customers to fracture an unlimited number of stages in the horizontal leg.
- Composite Bridge Plug – Tryton's Composite Bridge Plug provides customers the ability to fracture an unlimited number of stages in the horizontal leg. These plugs are relatively quick to mill-out post-fracturing.
- Hybrid MSFS® – Tryton's Hybrid MSFS® combines Tryton's Ball & Seat system, installed closer to the "toe" of the horizontal leg of a well, with Tryton's Composite Bridge Plug, installed towards the "heel" of the well. The Hybrid MSFS® enables customers to fracture an unlimited number of stages in the horizontal leg.

- Conventional Tools – These include conventional packers, tubing anchors, bridge plugs, cement retainers and related accessories that are used in completion, production and wellsite restoration.
- Rentals – The rental business offers a broad range of oilfield equipment, including specialty drill pipe, blowout preventers and various other tools and handling equipment.

RESULTS OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands of dollars, except per share amounts)	**2020**	2019	**2020**	2019
Revenue	**$ 10,955**	$ 27,086	**$ 52,378**	$ 74,532
Operating expenses	**10,079**	23,479	**43,084**	60,366
Gross margin	**876**	3,607	**9,294**	14,166
General and administrative expenses	**1,368**	2,199	**3,902**	5,214
EBITDAS(1)	**(492)**	1,408	**5,392**	8,952
Depreciation and amortization	**5,653**	3,890	**9,567**	8,192
Share-based compensation expense (recovery)	**615**	438	**(1,065)**	884
Other expense (income)	**516**	197	**(1,071)**	585
Finance costs	**454**	430	**848**	926
Impairment loss	**-**	-	**10,293**	-
Loss before income taxes	**(7,730)**	(3,547)	**(13,180)**	(1,635)
Current income tax expense	**1**	35	**2**	67
Deferred income tax recovery	**(1,701)**	(2,225)	**(2,127)**	(1,752)
Income tax recovery	**(1,700)**	(2,190)	**(2,125)**	(1,685)
Net (loss) income	**$ (6,030)**	$ (1,357)	**$ (11,055)**	$ 50
Net (loss) income per share Basic and diluted	**$ (0.04)**	$ (0.01)	**$ (0.08)**	$ 0.00

SEGMENT RESULTS – *ESSENTIAL COIL WELL SERVICE*

(in thousands of dollars, except percentages, hours and fleet data)	For the three months ended June 30, 2020	2019	For the six months ended June 30, 2020	2019
Revenue	**$ 6,116**	$ 16,006	**$ 30,655**	$ 42,075
Operating expenses	**4,618**	13,517	**23,344**	33,074
Gross margin	**$ 1,498**	$ 2,489	**$ 7,311**	$ 9,001
Gross margin %	**24%**	16%	**24%**	21%
Operating hours				
Coil tubing rigs	**3,060**	7,126	**16,073**	20,544
Pumpers	**3,712**	9,348	**19,604**	25,430
Active equipment fleet[i]				
Coil tubing rigs	**8**	16	**8**	16
Fluid pumpers	**8**	19	**8**	19
Nitrogen pumpers	**4**	8	**4**	8
Total equipment fleet[i]				
Coil tubing rigs	**29**	29	**29**	29
Fluid pumpers	**19**	19	**19**	19
Nitrogen pumpers	**8**	8	**8**	8

(i) Fleet data represents the number of units at the end of the period. Crewed equipment is less than active equipment.

ECWS revenue for the three months ended June 30, 2020 was $6.1 million, a 62% decrease compared to the second quarter of 2019. The significant decline was due to the drastic reduction in activity as customers reduced spending as a result of the combined effects of the COVID-19 pandemic and the oil price decline. Revenue per hour decreased due to competitive pricing pressure. Historically, activity in June tends to increase after a seasonally slow April and May; however, this was not the case in June 2020.

In the second quarter of 2020, ECWS generated gross margin of $1.5 million as a result of proactive cost reduction initiatives implemented early in the quarter plus benefits received under the CEWS program. After assessing customer demand and their deep coil tubing and pumping requirements, ECWS reduced its active equipment and realized savings in several areas of its operations including labor, repairs and maintenance and logistics costs, offset by severance costs in the quarter.

Gross margin as a percentage of revenue of 24% for the second quarter of 2020 was higher than typical for the seasonably slow second quarter due to cost savings and CEWS program benefits. The government's decision to extend the CEWS program over the remainder of 2020 will continue to support gross margin. However, the impact of the CEWS program, as a percentage of revenue, is expected to diminish as revenue increases.

During the quarter, ECWS set a Canadian record depth with a Generation IV coil tubing rig reaching 7,760 meters on a horizontal well completion while conducting mill-out work.

On a year-to-date basis, ECWS revenue was $30.7 million, 27% lower than the six months ended June 30, 2019 and below the 19%[a] decrease in industry well completions. Gross margin improved to 24%, compared to 21% in the prior year, due to cost management practices and CEWS program benefits.

(a) Source: Daily Oil Bulletin on August 7, 2020.

<u>SEGMENT RESULTS – *TRYTON*</u>

(in thousands of dollars, except percentages)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Revenue	**$ 4,839**	$ 11,080	**$ 21,723**	$ 32,457
Operating expenses	**5,085**	9,745	**19,059**	26,674
Gross margin	**$ (246)**	$ 1,335	**$ 2,664**	$ 5,783
Gross margin %	**(5%)**	12%	**12%**	18%
Tryton revenue – % of revenue				
Tryton MSFS®	**34%**	14%	**35%**	31%
Conventional Tools & Rentals	**66%**	86%	**65%**	69%

Tryton revenue for the second quarter of 2020 was $4.8 million, a decrease of 56% compared to the same quarter in 2019 due to the sharp decline in activity as a result of the COVID-19 pandemic and low oil prices. Tryton's Conventional Tools & Rentals revenue was below prior year as customers reduced production-related work and deferred site restoration work pending funding approvals under the Site Rehabilitation Programs. The review and approval process for these programs was much slower than anticipated and Tryton expects to begin work under these programs in the third quarter, continuing for the remainder of the year. MSFS revenue remained consistent with the same prior year period.

Gross margin for the three months ended June 30, 2020 decreased as a result of lower activity in the quarter and severance costs, partially offset by significant cost cutting measures implemented early in the quarter and CEWS program benefits.

On a year-to-date basis, Tryton revenue was $21.7 million, a 33% decrease compared to the six months ended June 30, 2019 due to a sharp decline in activity as a result of the factors discussed above. Gross margin decreased to 12% as a result of fixed costs comprising a greater percentage of a significantly lower revenue base, offset by cost cutting initiatives and benefits received under the CEWS program.

<u>GENERAL AND ADMINISTRATIVE</u>

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
General and administrative expenses	**$ 1,368**	$ 2,199	**$ 3,902**	$ 5,214

General and administrative expenses ("G&A") are comprised of wages, professional fees and other administrative costs. G&A for the three and six months ended June 30, 2020 decreased compared to the same prior year period due to wage and headcount reductions, changes to employee incentive and benefit plans and CEWS program benefits.

DEPRECIATION AND AMORTIZATION

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Depreciation and amortization expense	**$ 5,653**	$ 3,890	**$ 9,567**	$ 8,192

In the second quarter of 2020, due to current and anticipated market conditions, Essential reviewed the useful life estimates of its assets to ensure proper alignment with future economic benefits. As a result of this review, effective April 1, 2020, Essential adjusted the useful life of certain capital assets resulting in higher depreciation expense for the three and six months ended June 30, 2020. Depreciation expense for the three months ended June 30, 2020 included incremental depreciation expense of $2.2 million related to the change in useful life estimates, of which $0.5 million related to one-time charges for assets fully depreciated on transition.

SHARE-BASED COMPENSATION

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Share-based compensation expense (recovery)	**$ 615**	$ 438	**$ (1,065)**	$ 884

Essential's liability for share-based compensation fluctuates based on Essential's share price. When Essential's share price increases (decreases), the estimated amount of future payments also increases (decreases) and results in higher (lower) share-based compensation expense.

For the three months ended June 30, 2020, Essential's share price increased from $0.14 per share to $0.16 per share which resulted in a higher share-based compensation expense when compared to the same prior year period when the share price remained relatively flat.

During the six months ended June 30, 2020, Essential's share price decreased from $0.38 per share to $0.16 per share which resulted in a share-based compensation recovery. In comparison, during the six months ended June 30, 2019, Essential's share price remained relatively flat compared to December 31, 2018.

OTHER EXPENSE (INCOME)

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Gain on disposal of assets	**$ (96)**	$ (136)	**$ (264)**	$ (281)
Foreign exchange loss (gain)	**628**	329	**(783)**	640
Other (income) expense	**(16)**	4	**(24)**	226
Other expense (income)	**$ 516**	$ 197	**$ (1,071)**	$ 585

Gain on disposal of assets for the three and six months ended June 30, 2020 related to surplus assets that were sold as they were no longer used in operations.

The strengthening of the Canadian dollar in relation to the U.S. dollar during the three months ended June 30, 2020 resulted in an unrealized foreign exchange loss in the period. For the six months ended June 30, 2020, the weakening of the Canadian dollar in relation to the U.S. dollar resulted in an unrealized foreign exchange gain.

IMPAIRMENT LOSS

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands of dollars)	**2020**	2019	**2020**	2019
Impairment loss	**$ -**	$ -	**$ 10,293**	$ -

During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American E&P companies' 2020 drilling and completion programs. At March 31, 2020, Essential completed an impairment assessment which determined that the fair value of ECWS and Tryton segments were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on Tryton goodwill (2019 – $nil).

For the quarter ended June 30, 2020, Essential did not identify any new impairment indicators that would require the Company to complete an impairment assessment.

FINANCE COSTS

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands of dollars)	**2020**	2019	**2020**	2019
Finance costs	**$ 454**	$ 430	**$ 848**	$ 926

Finance costs for the three months ended June 30, 2020 increased compared to the same prior year period as the deferred financing costs related to the 2018 Credit Facility were expensed in the current quarter. Refer to the Credit Facility section below for more information.

For the six months ended June 30, 2020, lower average long-term debt outstanding in 2020 resulted in lower interest expense, offset by the write-off of deferred financing costs related to the 2018 Credit Facility.

INCOME TAXES

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands of dollars)	**2020**	2019	**2020**	2019
Current income tax expense	**$ 1**	$ 35	**$ 2**	$ 67
Deferred income tax recovery	**(1,701)**	(2,225)	**(2,127)**	(1,752)
Income tax recovery	**$ (1,700)**	$ (2,190)	**$ (2,125)**	$ (1,685)

For the three months ended June 30, 2020, deferred income tax recovery decreased compared to 2019 due to legislation that was enacted during the second quarter of 2019 that decreased the Alberta provincial corporate income tax rate over the next four years from 12% to 8% by 2022. The rate decrease resulted in the revaluation of the deferred income tax liability as at June 30, 2019.

For the six months ended June 30, 2020, the increase in the deferred income tax recovery is due to the tax effect of the impairment loss.

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW

(in thousands of dollars, except per share amounts)		For the three months ended June 30, 2020		2019		For the six months ended June 30, 2020		2019
Net cash provided by operating activities	**$**	**13,317**	$	7,641	**$**	**13,786**	$	20,480
Increases in non-cash working capital[1]		**14,782**		6,961		**6,113**		13,161
Funds flow[1]	**$**	**(1,465)**	$	680	**$**	**7,673**	$	7,319
Per share – basic and diluted	**$**	**(0.01)**	$	0.00	**$**	**0.05**	$	0.05

WORKING CAPITAL

(in thousands of dollars, except ratios)		**As at June 30, 2020**		As at December 31, 2019
Current assets	**$**	**52,897**	$	63,794
Current liabilities		**(8,489)**		(16,643)
Working capital[1]	**$**	**44,408**	$	47,151
Working capital ratio		**6.2:1**		3.8:1

Working capital[1] is comprised primarily of accounts receivable and inventory, net of accounts payable. Working capital[1] typically grows through the first and third quarters of the year when industry activity is stronger. Essential uses its Credit Facility to meet the variable nature of its working capital[1] requirements for the cost of carrying customer accounts receivable and inventory. Collection periods for accounts receivable are typically longer than payment cycles to vendors and employees. In periods of higher activity, debt tends to increase, and in periods of lower activity, debt tends to decline.

CREDIT FACILITY

On July 9, 2020, Essential amended its 2018 Credit Facility with a syndicate of lenders (the "Lenders") with revised terms and conditions. The Credit Facility matures on June 30, 2022, is renewable at the Lenders' 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.

The primary amendments to the terms and conditions in the Credit Facility include, among others, the following:

- a decrease in the commitment from $50.0 million to the lesser of: i) $25.0 million, ii) the Borrowing Base (as defined in the Credit Facility, if applicable), and iii) $15.0 million during the Covenant Relief Period (as described below);
- creation of a Covenant Relief Period, as described below;
- the equity cure provision has been removed; and
- Essential cannot distribute cash in the form of dividends or implement a normal course issuer bid.

The covenant relief period is available until December 31, 2021 (the "Covenant Relief Period") and provides for the following:

- the amount that can be drawn under the Credit Facility during the Covenant Relief Period is the lesser of $15.0 million and a Borrowing Base calculation;
- the funded debt to capitalization ratio cannot exceed 20%;
- the funded debt to bank EBITDA ratio and the fixed charge coverage ratio covenants will not be tested; and
- the addition of a minimum trailing 12 month bank EBITDA covenant of not lower than negative $10.0 million.

The financial covenants after the Covenant Relief Period include the following:

- the funded debt to capitalization ratio cannot exceed 50%;
- the funded debt to bank EBITDA ratio cannot exceed 3.5x; and
- the fixed charge coverage ratio must not be less than 1.25x.

Essential does not anticipate financial resource or liquidity issues to restrict its future operating, investing or financing activities.

Financial Covenants

As at June 30, 2020, all financial debt covenants and banking requirements under the 2018 Credit Facility were satisfied. Effective July 9, 2020, as part of the Credit Facility discussed above, Essential will test covenants in accordance with the financial covenants required during the Covenant Relief Period. As at June 30, 2020, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

(in millions of dollars, except percentages)	Covenant Threshold		**As at June 30, 2020**
Funded debt[1] to capitalization[1]	≤ 20%		**(4.0)%**
Minimum trailing 12 month bank EBITDA	≥ $(10.0)	**$**	**9.4**

EQUIPMENT EXPENDITURES

	For the three months ended June 30,				For the six months ended June 30,			
(in thousands of dollars)		**2020**		2019		**2020**		2019
ECWS	**$**	**71**	$	804	**$**	**810**	$	1,118
Tryton		**12**		859		**578**		2,126
Corporate		**30**		7		**30**		91
Total equipment expenditures		**113**		1,670		**1,418**		3,335
Less proceeds on disposal of equipment		**(833)**		(872)		**(1,311)**		(1,829)
Net equipment (proceeds) expenditures[1]	**$**	**(720)**	$	798	**$**	**107**	$	1,506

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

	For the three months ended June 30,				For the six months ended June 30,			
(in thousands of dollars)		**2020**		2019		**2020**		2019
Growth capital[1]	**$**	**-**	$	89	**$**	**-**	$	719
Maintenance capital[1]		**113**		1,581		**1,418**		2,616
Total equipment expenditures	**$**	**113**	$	1,670	**$**	**1,418**	$	3,335

Essential's 2020 capital forecast is unchanged at $2 million and is focused on critical maintenance activities. Capital spending is expected to be funded with cash from operations and the Credit Facility.

SHARE CAPITAL

As at August 10, 2020, there were 141,856,813 common shares and 3,263,583 share options ("Share Options") outstanding. Of the 3,263,583 Share Options, 2,964,247 were exercisable of which nil were "in-the-money".

COMMITMENTS

Leases

Essential has entered into leases for office and shop premises that provide for contractual undiscounted lease payments as follows:

(in thousands of dollars)		Amount
Less than one year	$	**4,118**
One to five years		**10,952**
More than five years		**1,540**
As at June 30, 2020	$	**16,610**

DISCLOSURE CONTROLS AND PROCEDURES

The Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide 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 2019 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2019, 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 the Company's 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 International Financial Reporting Standards ("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 2019 annual disclosure requirements (please refer to the MD&A for the year-ended December 31, 2019, 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.

RISKS AND UNCERTAINTIES

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an unprecedented economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and total extent of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company.

The COVID-19 pandemic has resulted in reduced demand for oil, disruptions to global supply chains and volatile financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which has affected commodity prices, borrowing rates and credit risk. This is having negative implications to the North American oil industry. The duration and total extent of demand destruction from COVID-19 is unknown and, in addition to impacting the oil industry, could also have negative implications to the North American natural gas industry. COVID-19 has the potential to spread rapidly and may result in loss of the Company's key personnel, the inability to retain or recruit skilled personnel, or potential disruptions to an employees' ability to perform their duties. This could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows.

A significant oversupply of oil globally, resulting from the combined effects of the reduction in worldwide demand for oil as a result of COVID-19 and the end to oil production curtailment policies adopted by The Organization of the Petroleum Exporting Countries ("OPEC") and Russia, resulted in a sharp decline in the price of oil in March 2020. While production cuts by OPEC and allied members were announced in April 2020, for May and June and extended to July, with an announcement in June 2020, the reductions have not been enough to offset the reduced demand and incremental oil supply and the price of oil has remained depressed. The decrease in the price of oil is negatively affecting current and forecasted drilling and production levels in Canada and the United States and is decreasing the demand for oilfield services by E&P companies. In addition, the ability for Essential's customers to pay for work completed, in its entirety, or on a timely basis, could be hindered. These developments could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows. The duration and extent of business disruption and the financial impact cannot be reasonably estimated.

The breadth of the impact of the COVID-19 pandemic on investors, business, the global economy and financial and commodity markets may also have a material adverse impact on the Company's business, financial conditions, results of operations, cash flows and the trading price of the Company's securities.

For a further discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form ("AIF") for the year ended December 31, 2019, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

OUTLOOK

Third quarter industry drilling and completion activity continued to be slow during the month of July. Wet weather and the same issues faced by the industry in the second quarter, including COVID-19 social and economic disruption, high North American oil inventory and a sub-economic oil price, continued to overshadow the industry. Improved pricing for liquids and a lower differential on Canadian oil has generally improved E&P company cash flows, but further recovery in oil demand is required before the global oversupply of oil is brought back into balance and prices return to pre-COVID-19 levels. There continues to be some optimism for natural-gas related work. The price of AECO is trading relatively high and with less volatility than occurred through most of 2019. In aggregate, however, these factors are expected to continue to decrease oilfield services spending by E&P companies in the third quarter of 2020, compared to the prior year.

Consistent with industry trends, Essential's activity in July was slower than the prior year. For the remainder of the third quarter, Essential is anticipating lower demand for its services. Essential's services are suitable for both oil and natural-gas focused work. As in the second quarter, ECWS expects to continue to maintain an active fleet of eight coil tubing and pumping packages to ensure suitable equipment is available for differing customer and regional needs. This contrasts with an active fleet of 16 packages in the first quarter of 2020. ECWS crew counts in the third quarter will be maintained to operate up to five packages. The active and crewed fleet can be adjusted to meet changing customer needs.

Tryton has submitted applications to provide downhole tool work under the Site Rehabilitation Programs to restore and decommission inactive and orphan wells. Approved work under these programs, initially announced in April 2020, has been slow to occur as rules and processes are established by the provincial governments. Tryton continues to work closely with the industry groups, government agencies and customers to monitor changing rules and secure funding approvals. Tryton expects to be awarded work under the Alberta and Saskatchewan programs in the third and fourth quarters. The Site Rehabilitation Programs are expected to evolve and increase activity as 2020 progresses when additional phases to the programs are introduced. The Site Rehabilitation Programs are expected to benefit Tryton, and possibly ECWS, into 2021 and 2022.

During this challenging time, Essential has managed to a net cash position, with cash exceeding long-term debt by $6.7 million on August 10, 2020. Operational and financial discipline includes significant compensation reductions, employee layoffs, cost cutting, redundant asset sales and modest capital spending. Essential expects to continue to benefit from the CEWS program until the conclusion of the program on December 21, 2020. The value and importance of Essential's low-debt strategy over the past few years has never been more apparent than it is now. When industry activity increases, Essential expects to have the credit capacity to fund working capital requirements. Essential's Credit Facility is expected to provide sufficient liquidity and financial flexibility to meet financial needs through to the end of 2021.

SUMMARY OF QUARTERLY DATA

Essential operates primarily in western Canada, where activity is directly impacted by seasonality. Activity is traditionally lowest in the second quarter. With the onset of spring, melting snow and thawing ground frost renders many roadways incapable of supporting heavy equipment. In addition, certain areas in western Canada are typically only accessible during the winter months.

The unprecedented economic and industry downturn has disrupted typical historic oilfield services seasonal and quarterly patterns in western Canada as E&P companies' spending decisions 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, hours and fleet data)	**June 30, 2020**	Mar 31, 2020	Dec 31, 2019	Sept 30, 2019	**June 30, 2019**	Mar 31, 2019	Dec 31, 2018	Sept 30, 2018
Essential Coil Well Service	**6,116**	24,539	14,278	22,609	**16,006**	26,069	18,334	27,831
Tryton	**4,839**	16,884	13,045	16,669	**11,080**	21,377	22,852	22,805
Total revenue	**10,955**	41,423	27,323	39,278	**27,086**	47,446	41,186	50,636
Gross margin	**876**	8,418	3,016	8,873	**3,607**	10,559	5,261	10,112
Gross margin %	**8%**	20%	11%	23%	**13%**	22%	13%	20%
EBITDAS(1)(ii)	**(492)**	5,884	1,729	6,294	**1,408**	7,544	1,690	7,047
Bank EBITDA(1)	**(691)**	4,687	498	4,943	**135**	6,378	2,170	7,264
Net (loss) income(i)(ii)(iii)	**(6,030)**	(5,025)	(3,161)	1,555	**(1,357)**	1,407	(13,654)	2,228
Per share – basic and diluted	**(0.04)**	(0.04)	(0.02)	0.01	**(0.01)**	0.01	(0.10)	0.02
Total assets	**161,531**	183,999	191,395	202,503	**195,532**	207,704	201,270	229,358
Cash	**5,664**	959	846	1,020	**899**	988	410	870
Long-term debt	**665**	8,544	6,563	10,782	**7,451**	12,827	21,388	23,667
Operating hours								
Coil tubing rigs	**3,060**	13,013	7,110	11,098	**7,126**	13,418	8,262	13,236
Pumpers	**3,712**	15,892	9,894	13,449	**9,348**	16,082	12,146	17,237
Tryton - % of revenue								
Tryton MSFS®	**34%**	35%	17%	29%	**14%**	40%	43%	41%
Conventional Tools & Rentals	**66%**	65%	83%	71%	**86%**	60%	57%	59%

(i) The quarter ended March 31, 2020 includes an impairment loss of $10.3 million.
(ii) The quarter ended December 31, 2018 includes an onerous lease contract expense of $0.5 million.
(iii) The quarter ended December 31, 2018 includes an asset write-down of $17.9 million.

CHANGE IN ACCOUNTING POLICY

For the quarter ended June 30, 2020, other than as described below, there have been no changes to Essential's accounting policies or estimates from the accounting policies in place at December 31, 2019.

NEW ACCOUNTING POLICY

During the six month period ending June 30, 2020, Essential adopted the following accounting policy as a result of qualifying for the CEWS program and the U.S. Paycheck Protection Program ("PPP Loans") implemented by the governments of Canada and the United States, respectively, in response to the COVID-19 pandemic.

GOVERNMENT GRANTS

Government grants that compensate Essential for expenses incurred are recognized in the consolidated interim statements of net (loss) income and comprehensive (loss) income in the periods in which the expenses are recognized. For government grants with specific conditions, Essential recognizes associated amounts in the consolidated interim statements of net (loss) income and comprehensive (loss) income only if there is reasonable assurance that Essential will comply with the conditions.

Government grants of $2.6 million, related to the CEWS program, are included in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2020. $2.1 million has been recorded as a reduction of operating expenses and $0.5 million has been shown as a reduction of general and administrative expenses.

As at June 30, 2020, Essential had received $0.7 million of PPP Loans. The PPP Loans will be used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they are incurred. The Company expects that the majority of the PPP Loans will be forgivable if all conditions are met. Interest on the PPP Loans will accrue at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. No forgivable amounts have been recognized in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2020.

CHANGE IN ESTIMATE

PROPERTY AND EQUIPMENT

The estimated useful lives, residual values and methods of depreciation for all asset classes are assessed as part of the Company's annual review of estimates. Adjustments, where applicable, are made on a prospective basis. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.
In the second quarter of 2020, due to current and anticipated market conditions, Essential reviewed all asset classes to ensure proper alignment with future economic benefits. As a result of this review, effective April 1, 2020, Essential has adjusted the useful life of certain assets as follows:

- Coil tubing rigs and equipment – will be depreciated with an average life of 10 years (previously 8-20 years); and
- Other oilfield equipment – will be depreciated with an average life of 10 years (previously 10-15 years).

This change to the useful life of these assets will result in additional depreciation expense for the year ended December 31, 2020 of approximately $4.9 million. Depreciation expense for the three months ended June 30, 2020 included incremental depreciation expense of $2.2 million related to the change in useful life estimates, of which $0.5 million related to one-time charges for assets fully depreciated on transition.

SUBSEQUENT EVENT

Effective July 9, 2020, Essential amended its 2018 Credit Facility. The amended facility provides Essential an extension of the maturity date to June 30, 2022, along with revisions to certain terms and conditions. Refer to the Credit Facility section for further information.

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”, “future”, “forecasts”, “potential”, “outlook” and similar expressions, or are events or conditions that “will”, “would”, “may”, “likely”, “could”, “should”, “can”, “typically”, “traditionally” or “tends to” occur or be achieved. This MD&A contains forward-looking statements, pertaining to, among other things, the following: the impact of Essential’s financial resources or liquidity on its future operating, investing and financing activities; the carrying values of Essential’s assets and liabilities; Essential’s capital spending forecast and expectations of how it will be funded; near-term impacts from the COVID-19 pandemic; oil and natural gas industry and oilfield services sector activity and outlook; the Company’s capital management strategy and financial position; the impact of governmental and Company measures implemented in response to the COVID-19 pandemic; Essential’s outlook, activity levels, active and inactive equipment, crew counts, cost cutting and its implications; benefits under the Site Rehabilitation Programs, including the anticipated work for Essential arising from the programs and the timing of the same; benefits under the CEWS Program, the timing of the same and the impact on gross margin as a percent of revenue; benefits under the PPP Loans; and Essential’s credit capacity, liquidity and ability to meet its financial needs through to the end of 2021.

The forward-looking statements contained in this MD&A reflect several material factors and expectations and assumptions of Essential including, without limitation: the COVID-19 pandemic, unprecedented economic slow down and low oil prices, and the duration and impact thereof that Essential will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; availability of debt and/or equity sources to fund Essential's capital and operating requirements as needed; and certain cost assumptions.

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 AIF (a copy of which can be found under Essential’s profile on SEDAR at www.sedar.com); a significant expansion of COVID-19 pandemic and the impacts thereof; the risks associated with the oilfield services sector, including 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, market 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 including those in the event of an epidemic, natural disaster or other event; 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; potential industry developments; 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 and should refer to “Risk Factors” set out in the AIF.

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 under IFRS are used to analyze Essential's operations. In addition to the primary measures of net loss and net loss 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 and net loss per share as calculated in accordance with IFRS.

Funds Flow – Funds flow is generally defined as net cash provided by operating activities before changes in non-cash operating working capital. Funds flow is presented on the Consolidated Interim Statements of Cash Flows.

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. It does not include the lease liability.

Capitalization – Capitalization is defined in Essential's Credit Facility as the aggregate of its funded debt and equity.

Bank EBITDA – Bank EBITDA is generally defined in Essential's Credit Facility as EBITDAS, excluding severance costs ("Permitted Adjustments") and excluding the impact of IFRS 16.

EBITDAS – EBITDAS is earnings before finance costs, income taxes, depreciation, amortization, transaction costs, losses or gains on disposal, 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 results from its principal business activities.

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

(in thousands of dollars)	For the three months ended June 30, **2020**	2019	For the six months ended June 30, **2020**	2019
Bank EBITDA	**$ (691)**	$ 135	**$ 3,996**	$ 6,513
Impact of lease accounting under IFRS	**(1,076)**	(1,282)	**(2,301)**	(2,528)
Permitted adjustments	**877**	9	**905**	89
EBITDAS	**$ (492)**	$ 1,408	**$ 5,392**	$ 8,952
Share-based compensation expense (recovery)	**615**	438	**(1,065)**	884
Other expense (income)	**516**	197	**(1,071)**	585
EBITDA	**$ (1,623)**	$ 773	**$ 7,528**	$ 7,483
Impairment loss	**-**	-	**10,293**	-
Depreciation and amortization	**5,653**	3,890	**9,567**	8,192
Finance costs	**454**	430	**848**	926
Loss before income tax	**$ (7,730)**	$ (3,547)	**$ (13,180)**	$ (1,635)
Total income tax recovery	**(1,700)**	(2,190)	**(2,125)**	(1,685)
Net (loss) income	**$ (6,030)**	$ (1,357)	**$ (11,055)**	$ 50

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 to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish, replace or extend the life of existing equipment.

Net equipment expenditures[(i)] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to describe net cash outflows related to managing Essential's property and equipment.

Net (loss) income before impairment loss – This measure is net (loss) income before impairment loss, net of taxes. Management believes it is a relevant measure as it provides an indication of Essential's results from its principal business activities. For the six months ended June 30, 2020, net (loss) income before impairment loss is calculated as loss before income taxes of $(13.2) million adjusted for impairment loss of $10.3 million and deferred income tax recovery of $0.7 million.

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

(i) 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".

Unaudited Condensed Consolidated Interim Financial Statements

Essential Energy Services Ltd.

June 30, 2020

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

(in thousands of dollars)		**As at June 30, 2020**		As at December 31, 2019
Assets				
Current				
Cash	**$**	**5,664**	$	846
Trade and other accounts receivable *(note 5)*		**10,768**		24,543
Income taxes receivable		**2**		-
Inventory *(note 6)*		**34,065**		36,616
Prepayments and deposits		**2,398**		1,789
		52,897		63,794
Non-current				
Property and equipment *(note 7)*		**97,338**		111,141
Right-of-use lease asset *(note 10)*		**11,078**		12,600
Intangible assets		**218**		295
Goodwill *(note 7)*		**-**		3,565
		108,634		127,601
Total assets	**$**	**161,531**	$	191,395
Liabilities				
Current				
Trade and other accounts payable *(note 8)*	**$**	**4,697**	$	11,513
Share-based compensation *(note 13)*		**442**		1,189
Income taxes payable		**-**		32
Current portion of lease liability *(note 10)*		**3,350**		3,909
		8,489		16,643
Non-current				
Share-based compensation *(note 13)*		**1,250**		2,740
Long-term debt *(note 9)*		**665**		6,563
Deferred tax liability		**496**		2,624
Long-term lease liability *(note 10)*		**11,061**		12,154
		13,472		24,081
Total liabilities		**21,961**		40,724
Equity				
Share capital *(note 11)*		**272,732**		272,732
Deficit		**(139,455)**		(128,400)
Other reserves *(note 12)*		**6,293**		6,339
Total equity		**139,570**		150,671
Total liabilities and equity	**$**	**161,531**	$	191,395

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)

(in thousands of dollars, except per share amounts)		For the three months ended June 30, **2020**		2019		For the six months ended June 30, **2020**		2019
Revenue	**$**	**10,955**	$	27,086	**$**	**52,378**	$	74,532
Operating expenses		**10,079**		23,479		**43,084**		60,366
Gross margin		**876**		3,607		**9,294**		14,166
General and administrative expenses		**1,368**		2,199		**3,902**		5,214
Depreciation and amortization *(notes 7 & 10)*		**5,653**		3,890		**9,567**		8,192
Share-based compensation expense (recovery) *(note 13)*		**615**		438		**(1,065)**		884
Impairment loss *(note 7)*		**-**		-		**10,293**		-
Other expense (income)		**516**		197		**(1,071)**		585
Operating loss		**(7,276)**		(3,117)		**(12,332)**		(709)
Finance costs		**454**		430		**848**		926
Loss before income taxes		**(7,730)**		(3,547)		**(13,180)**		(1,635)
Current income tax expense		**1**		35		**2**		67
Deferred income tax recovery		**(1,701)**		(2,225)		**(2,127)**		(1,752)
Income tax recovery		**(1,700)**		(2,190)		**(2,125)**		(1,685)
Net (loss) income		**(6,030)**		(1,357)		**(11,055)**		50
Unrealized foreign exchange gain (loss)		**212**		32		**(57)**		65
Comprehensive (loss) income	**$**	**(5,818)**	$	(1,325)	**$**	**(11,112)**	$	115
Net (loss) income per share *(note 14)*								
Basic and diluted	**$**	**(0.04)**	$	(0.01)	**$**	**(0.08)**	$	0.00
Comprehensive (loss) income per share *(note 14)*								
Basic and diluted	**$**	**(0.04)**	$	(0.01)	**$**	**(0.08)**	$	0.00

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, **2020**		2019
Equity:			
Share capital			
Balance, January 1 and June 30 *(note 11)*	**$**	**272,732**	$ 272,732
Deficit			
Balance, January 1	**$**	**(128,400)**	$ (126,734)
Adjustment on adoption of IFRS 16 (net of tax)		-	(110)
Net (loss) income		**(11,055)**	50
Balance, June 30	**$**	**(139,455)**	$ (126,794)
Other reserves			
Balance, January 1	**$**	**6,339**	$ 6,184
Other comprehensive (loss) gain		**(57)**	65
Share-based compensation *(note 13)*		**11**	34
Balance, June 30	**$**	**6,293**	$ 6,283
Total equity	**$**	**139,570**	$ 152,221

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, **2020**	2019
Operating activities:		
Net (loss) income	**$ (11,055)**	$ 50
Non-cash adjustments to reconcile net (loss) income to operating cash flow:		
Depreciation and amortization *(notes 7 and 10)*	**9,567**	8,192
Deferred income tax recovery	**(2,127)**	(1,752)
Share-based compensation *(note 13)*	**11**	34
Provision for impairment of trade accounts receivable *(note 5)*	**400**	150
Finance costs	**848**	926
Impairment loss *(note 7)*	**10,293**	-
Gain on disposal of assets	**(264)**	(281)
Funds flow	**7,673**	7,319
Changes in non-cash operating working capital:		
Trade and other accounts receivable before provision	**13,115**	12,436
Inventory	**2,416**	3,398
Income taxes payable (receivable)	**(34)**	35
Prepayments and deposits	**(609)**	(654)
Trade and other accounts payable	**(6,538)**	(2,019)
Share-based compensation	**(2,237)**	(35)
Net cash provided by operating activities	**13,786**	20,480
Investing activities:		
Purchase of property, equipment and intangible assets *(note 7)*	**(1,418)**	(3,335)
Non-cash investing working capital in trade and other accounts payable	**(278)**	(1,631)
Proceeds on disposal of equipment	**1,311**	1,829
Net cash used in investing activities	**(385)**	(3,137)
Financing activities:		
Decrease in long-term debt *(note 9)*	**(6,085)**	(14,000)
Net finance costs paid	**(208)**	(333)
Payments of lease liability *(note 10)*	**(2,301)**	(2,528)
Net cash used in financing activities	**(8,594)**	(16,861)
Foreign exchange gain on cash held in a foreign currency	**11**	7
Net increase in cash	**4,818**	489
Cash, beginning of period	**846**	410
Cash, end of period	**$ 5,664**	$ 899
Supplemental cash flow information		
Cash taxes paid	**$ 45**	$ 29
Cash interest and standby fees paid	**$ 209**	$ 308

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

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, 2020 and 2019 were approved by the Board of Directors of Essential ("Board of Directors") on August 10, 2020.

Based in Calgary, Alberta, Essential provides oilfield services to oil and natural gas exploration and production companies primarily in western Canada. Essential is publicly traded, was incorporated under the *Business Corporations Act* (Alberta) and is listed under the symbol ESN on the Toronto Stock Exchange. 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, 2020 were prepared in accordance with IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Except for the new accounting policy and change in estimate described in note 3, 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, 2019. Accordingly, these Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019.

3. CHANGE IN ACCOUNTING POLICIES

NEW ACCOUNTING POLICY

During the six month period ending June 30, 2020, Essential adopted the following accounting policy as a result of qualifying for the Canadian Emergency Wage Subsidy ("CEWS") program and the U.S. Paycheck Protection Program ("PPP Loans") implemented by the governments of Canada and the United States, respectively, in response to the COVID-19 pandemic.

GOVERNMENT GRANTS

Government grants that compensate Essential for expenses incurred are recognized in the consolidated interim statements of net (loss) income and comprehensive (loss) income in the periods in which the expenses are recognized. For government grants with specific conditions, Essential recognizes associated amounts in the consolidated interim statements of net (loss) income and comprehensive (loss) income only if there is reasonable assurance that Essential will comply with the conditions.

Government grants of $2.6 million, related to the CEWS program, are included in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2020. $2.1 million has been recorded as a reduction of operating expenses and $0.5 million has been shown as a reduction of general and administrative expenses.

As at June 30, 2020, Essential had received $0.7 million of PPP Loans. The PPP Loans will be used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they are incurred. The Company expects that the majority of the PPP Loans will be forgivable if all conditions are met. Interest on the PPP Loans will accrue at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. No forgivable amounts have been recognized in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2020.

CHANGE IN ESTIMATE

PROPERTY AND EQUIPMENT

The estimated useful lives, residual values and methods of depreciation for all asset classes are assessed as part of the Company's annual review of estimates. Adjustments, where applicable, are made on a prospective basis. These estimates involve uncertainties inherent in making assumptions regarding unknown future outcomes and events.
In the second quarter of 2020, due to current and anticipated market conditions, Essential reviewed all asset classes to ensure proper alignment with future economic benefits. As a result of this review, effective April 1, 2020, Essential has adjusted the useful life of certain assets as follows:

- Coil tubing rigs and equipment – will be depreciated with an average life of 10 years (previously 8-20 years); and
- Other oilfield equipment – will be depreciated with an average life of 10 years (previously 10-15 years).

This change to the useful life of these assets will result in additional depreciation expense for the year ended December 31, 2020 of approximately $4.9 million. Depreciation expense for the three months ended June 30, 2020 included incremental depreciation expense of $2.2 million related to the change in useful life estimates, of which $0.5 million related to one-time charges for assets fully depreciated on transition.

4. RISKS AND UNCERTAINTIES

The COVID-19 pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an unprecedented economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and total extent of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company.

The COVID-19 pandemic has resulted in reduced demand for oil, disruptions to global supply chains and volatile financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which has affected commodity prices, borrowing rates and credit risk. This is having negative implications to the North American oil industry. The duration and total extent of demand destruction from COVID-19 is unknown and, in addition to impacting the oil industry, could also have negative implications to the North American natural gas industry. COVID-19 has the potential to spread rapidly and may result in loss of the Company's key personnel, the inability to retain or recruit skilled personnel, or potential disruptions to an employees' ability to perform their duties. This could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows.

A significant oversupply of oil globally, resulting from the combined effects of the reduction in worldwide demand for oil as a result of COVID-19 and the end to oil production curtailment policies adopted by The Organization of the Petroleum Exporting Countries ("OPEC") and Russia, resulted in a sharp decline in the price of oil in March 2020. While production cuts by OPEC and allied members were announced in April 2020, for May and June and extended to July, with an announcement in June 2020, the reductions have not been enough to offset the reduced demand and incremental oil supply and the price of oil has remained depressed. The decrease in the price of oil is negatively affecting current and forecasted drilling and production levels in Canada and the United States and is decreasing the demand for oilfield services by exploration and production ("E&P") companies. In addition, the ability for Essential's customers to pay for work completed, in its entirety, or on a timely basis, could be hindered. These developments could have a material adverse effect on Essential's business, financial condition, results of operations and cash flows. The duration and extent of business disruption and the financial impact cannot be reasonably estimated.

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

The breadth of the impact of the COVID-19 pandemic on investors, business, the global economy and financial and commodity markets may also have a material adverse impact on the Company's business, financial conditions, results of operations, cash flows and the trading price of the Company's securities.

For a further discussion of the risks and uncertainties which apply to Essential's business and its operating results, please refer to the Company's Annual Information Form ("AIF") for the year ended December 31, 2019, which is available on SEDAR (www.sedar.com). Investors should carefully consider the risks and uncertainties described in Essential's AIF. The risks and uncertainties in Essential's AIF are not the only ones it faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cashflows.

5. TRADE AND OTHER ACCOUNTS RECEIVABLE

	As at June 30, 2020	As at December 31, 2019
Trade accounts receivable, net of provision	**$ 10,055**	$ 22,849
Other receivables	**713**	1,694
	$ 10,768	$ 24,543

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

Trade accounts receivable includes accrued receivables which primarily relate to Essential's rights to consideration for work completed but not invoiced at the reporting date.

The aging analysis of trade accounts receivable is as follows:

	As at June 30, 2020	As at December 31, 2019
< 30 days	**$ 3,467**	$ 8,698
31-60 days	**1,650**	7,036
61-90 days	**1,590**	5,929
> 91 days	**3,348**	1,186
	$ 10,055	$ 22,849

Essential considers a trade accounts receivable balance past due when it exceeds normal customer payment terms, which can range from 30 days to greater than 90 days. The provision for impairment of trade accounts receivable is included in the amounts over 90 days and has been included in operating expenses in the consolidated interim statements of net (loss) income and comprehensive (loss) income. Uncollectable amounts included in the provision are written off against the provision when there is no expectation of recovery. The movements in the provision during the period were as follows:

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

	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
Balance, beginning of period	**$ 1,068**	$ 715
Provision for receivables impairment	**400**	500
Receivables written off against the provision	**-**	(147)
Balance, end of period	**$ 1,468**	$ 1,068

6. INVENTORY

	As at June 30, 2020	As at December 31, 2019
Tryton tools	**$ 22,233**	$ 24,610
Coil tubing and supplies	**11,832**	12,006
	$ 34,065	$ 36,616

Inventory charged through operating expenses in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2020 was $3.8 million and $13.9 million (2019 – $7.2 million and $19.6 million), respectively.

7. PROPERTY AND EQUIPMENT

As at June 30, 2020	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Coil tubing rigs, pumpers and equipment	**$ 147,058**	**$ 85,151**	**$ 61,907**
Other oilfield equipment	**58,006**	**36,736**	**21,270**
Vehicles	**31,397**	**18,620**	**12,777**
Office and computer equipment	**3,517**	**3,136**	**381**
Other	**4,694**	**3,691**	**1,003**
	$ 244,672	**$ 147,334**	**$ 97,338**

As at December 31, 2019	Cost	Accumulated Depreciation	Net Book Value
Coil tubing rigs, pumpers and equipment	$ 146,665	$ 77,709	$ 68,956
Other oilfield equipment	59,535	34,022	25,513
Vehicles	34,022	18,914	15,108
Office and computer equipment	4,056	3,613	443
Other	4,693	3,572	1,121
	$ 248,971	$ 137,830	$ 111,141

Included in property and equipment is $0.2 million (December 31, 2019 – $nil) of assets under construction which will not be depreciated until put into use.

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

	For the three months ended June 30, 2020	2019	For the six months ended June 30, 2020	2019
Net book value, beginning of period	**$ 102,768**	$ 115,795	**$ 111,141**	$ 118,249
Additions	**83**	1,662	**1,388**	3,316
Transfers	**22**	-	**139**	-
Disposals	**(758)**	(1,349)	**(1,066)**	(2,161)
Depreciation	**(4,751)**	(2,930)	**(7,733)**	(6,219)
Impairment loss	**-**	-	**(6,559)**	-
Currency translation adjustment	**(26)**	(9)	**28**	(16)
Net book value, end of period	**$ 97,338**	$ 113,169	**$ 97,338**	$ 113,169

During the first quarter of 2020, the industry outlook significantly deteriorated with the compounded impact of the COVID-19 pandemic, a sharp decrease in demand for oil and a significant reduction in North American E&P companies' 2020 drilling and completion programs. At March 31, 2020, Essential completed an impairment assessment which determined that the fair value of Essential Coil Well Service ("ECWS") and Tryton segments were less than their carrying values. The Company recognized an impairment loss in the first quarter of 2020 of $10.3 million consisting of: $5.2 million on ECWS equipment, $1.4 million on Tryton rental assets and $3.7 million on Tryton goodwill (2019 – $nil).

In the impairment assessment completed by Essential at March 31, 2020, the recoverable amount of the ECWS cash generating unit ("CGU") was determined based on fair value less costs to sell. The recoverable amounts of Essential's Tryton Tools and Rentals CGUs were based on a value in use calculation, determined using discounted cash flow projections for a five-year period extrapolated thereafter at a growth rate of 2.2% per annum and using a discount rate of 14.75%. Refer to Essential's March 31, 2020 unaudited condensed consolidated interim financial statements for further information.

8. TRADE AND OTHER ACCOUNTS PAYABLE

	As at June 30, 2020	As at December 31, 2019
Trade accounts payable	**$ 1,650**	$ 5,739
Accrued payroll	**1,540**	3,360
Accrued payables	**1,468**	2,284
Other	**39**	130
	$ 4,697	$ 11,513

9. LONG-TERM DEBT

	As at June 30, 2020	As at December 31, 2019
Paycheck Protection Program Loans ("PPP Loans")	**$ 665**	$ -
Term loan	**-**	6,750
Deferred financing costs	**-**	(187)
	$ 665	$ 6,563

On July 9, 2020, Essential amended its June 26, 2018 agreement (the "2018 Credit Facility") with a syndicate of lenders (the "Lenders") with revised terms and conditions. The amended revolving credit agreement (the "Credit Facility") is now available up to the lesser of: i) $25.0 million, ii) the borrowing base (if applicable), and iii) $15.0 million during the covenant relief period ("Covenant Relief Period"). The Covenant Relief Period is available until December 31, 2021. During the Covenant Relief Period, the funded debt to capitalization ratio cannot exceed 20% and the trailing 12 month bank EBITDA cannot be lower than negative $10.0 million. The Credit Facility matures on June 30, 2022, is renewable at the Lenders' 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.

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

As at June 30, 2020, Essential had received $0.7 million under the PPP Loans. One loan for $0.2 million matures on June 1, 2022, and the second loan for $0.5 million matures on June 26, 2025. The PPP Loans will be used to cover eligible U.S. expenses, including payroll and utility costs, in the period in which they are incurred. The Company expects that the majority of the PPP Loans will be forgivable if all conditions are met. Interest on the PPP Loans will accrue at 1%. The PPP Loans may be prepaid without penalties by Essential at any time prior to maturity. No forgivable amounts have been recognized in the consolidated interim statements of net (loss) income and comprehensive (loss) income for the three and six months ended June 30, 2020.

As at June 30, 2020, all financial debt covenants and banking requirements under the 2018 Credit Facility were satisfied. Effective July 9, 2020, as part of the Credit Facility discussed above, Essential will test covenants in accordance with the financial covenants required during the covenant relief period. As at June 30, 2020, all financial debt covenants and banking requirements under the Credit Facility were satisfied.

The following table reconciles the change in long-term debt to cash flow arising from financing activities:

	For the six months ended June 30, **2020**	2019
Balance, beginning of period	**$ 6,563**	$ 21,388
Cash changes:		
Decrease in long-term debt	**(6,085)**	(14,000)
Non-cash changes:		
Amortization of deferred financing costs	**187**	63
Balance, end of period	**$ 665**	$ 7,451

10. LEASES

Essential's leases are primarily related to office and shop premises.

Right-of-use lease asset

	For the six months ended June 30, 2020	For the twelve months ended December 31, 2019
Beginning of period	**$ 12,600**	$ 14,102
Leases added in period	**-**	1,451
Lease modification	**191**	449
Depreciation	**(1,726)**	(3,381)
Foreign exchange gain (loss)	**13**	(21)
End of period	**$ 11,078**	$ 12,600

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

Lease liability

		As at June 30, 2020		As at December 31, 2019
Maturity analysis – contractual undiscounted cash flow				
Less than one year	$	**4,118**	$	4,754
One to five years		**10,952**		11,475
More than five years		**1,540**		2,409
Total undiscounted lease liability, end of period	$	**16,610**	$	18,638
Discounted value of future lease payments				
Current portion of lease liability	$	**3,350**	$	3,909
Long-term portion of lease liability		**11,061**		12,154
Lease liability included in the statements of financial position	$	**14,411**	$	16,063

For the six months ended June 30, 2020, Essential recognized $0.5 million (2019 - $0.5 million) of finance costs related to the lease liabilities in its consolidated interim statements of net (loss) income and comprehensive (loss) income. For the six months ended June 30, 2020, Essential recognized $2.3 million (2019 - $2.5 million) of total cash outflow for leases in the consolidated interim statement of cash flows.

11. 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 shares. 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 June 30, 2020, December 31, 2019 and January 1, 2019	**141,857**	$	**272,732**

12. OTHER RESERVES

		Contributed Surplus		Accumulated Other Comprehensive Income		Total
As at January 1, 2019	$	5,787	$	397	$	6,184
Share-based compensation		83		-		83
Unrealized foreign exchange gain		-		72		72
As at December 31, 2019	$	5,870	$	469	$	6,339
Share-based compensation		**11**		**-**		**11**
Unrealized foreign exchange loss		**-**		**(57)**		**(57)**
As at June 30, 2020	**$**	**5,881**	**$**	**412**	**$**	**6,293**

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

13. SHARE-BASED COMPENSATION

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	**2020**	2019
Share options	**$ 5**	$ 28	**$ 11**	$ 34
Restricted share units	**317**	283	**(41)**	656
Deferred share units	**293**	127	**(1,035)**	194
Share-based compensation expense (recovery)	**$ 615**	$ 438	**$ (1,065)**	$ 884

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.

At June 30, 2020, the maximum number of share options issuable under the Share Option Plan may not exceed 6% (2019 – 6%) of the Company's outstanding Common Shares. As at June 30, 2020, the maximum number of share options allowed for issuance was 8,511,409 (2019 – 8,511,409).

	For the six months ended June 30, 2020		For the six months ended June 30, 2019	
	Number of Options (000's)	**Weighted Average Exercise Price**	Number of Options (000's)	Weighted Average Exercise Price
Outstanding, beginning of period	**4,428**	**$ 0.77**	5,821	$ 0.99
Issued	**-**	**-**	532	0.32
Expired	**(1,164)**	**1.19**	(465)	2.90
Forfeited	**-**	**-**	(1,430)	0.80
Outstanding, end of period	**3,264**	**$ 0.62**	4,458	$ 0.77
Exercisable, end of period	**2,964**	**$ 0.65**	3,666	$ 0.82

(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:

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, 2020				
$0.32 – $0.58	**1,494**	**1.42**	**$ 0.48**	**1,194**
$0.59 – $0.83	**1,770**	**1.31**	**$ 0.74**	**1,770**
	3,264	**1.36**	**$ 0.62**	**2,964**
As at June 30, 2019				
$0.32 – $1.00	3,263	2.36	$ 0.62	2,471
$1.01 – $1.46	1,195	0.87	$ 1.19	1,195
	4,458	1.96	$ 0.77	3,666

b) Restricted Share Units

The Board of Directors is authorized to grant RSUs to participants under the RSU Plan. An RSU gives the participant the right to receive a cash payment at the time of vesting. The grants vest in three equal instalments and may contain time vesting and/or performance vesting feature(s). The performance-based criteria vest conditionally. Essential's liability as at June 30, 2020 was $0.7 million (December 31, 2019 – $1.8 million) of which $0.4 million is due within one year (December 31, 2019 – $1.2 million).

The following table summarizes information with respect to RSUs outstanding:

	For the six months ended June 30,	
Number of RSUs (000's)	**2020**	2019
Outstanding, beginning of period	**8,077**	4,930
Issued	**10,720**	5,976
Vested	**(3,119)**	(2,147)
Forfeited	**(70)**	(848)
Outstanding, end of period	**15,608**	7,911

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 when the participant ceases to be a director or employee of the Company. Essential's liability at June 30, 2020 was $1.0 million (December 31, 2019 – $2.1 million) of which $nil is due within one year (December 31, 2019 – $nil).

(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)	**2020**	2019
Outstanding, beginning of period	**5,551**	6,231
Issued	**4,622**	601
Redeemed	**(328)**	(646)
Forfeited	**-**	(94)
Outstanding, end of period	**9,845**	6,092

14. EARNINGS PER SHARE

Basic earnings per share is 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 have been taken into account where the impact is dilutive. During periods of net loss, the dilutive effect on Common Shares from share options 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)	**2020**	2019	**2020**	2019
Basic and diluted	**141,857**	141,857	**141,857**	141,857

15. FINANCIAL INSTRUMENTS

Fair value hierarchy

The fair value hierarchy establishes three levels to classify the inputs for valuation techniques used to measure fair value as follows:

i. Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
ii. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means; and
iii. Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company does not use any Level 3 inputs.

16. 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 and third quarters of the year and lower in the second and fourth quarters.

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

17. SEGMENTED INFORMATION

Essential has two operating segments, ECWS and Tryton, and a non-operating segment, corporate ("Corporate").

Essential's reportable segments are based on services offered. The basis of accounting for transactions between reportable segments is done at fair market value.

a) ECWS

The ECWS segment provides well completion and production services throughout the Western Canadian Sedimentary Basin. The ECWS segment is comprised of a fleet of coil tubing rigs, fluid pumpers, nitrogen pumpers and ancillary equipment.

b) Tryton

The Tryton segment provides downhole tools and rental services in Canada and the U.S.

c) Corporate

The Corporate segment is comprised of corporate office and certain operational costs, which are managed on a group basis and are not allocated to the operating segments. (Loss) income before income taxes for the three and six months ended June 30, 2020 for the Corporate segment includes corporate office and certain operational costs of $1.5 million and $4.1 million (June 30, 2019 - $2.1 million and $5.2 million), respectively, and foreign exchange loss/gain due to the movement of the Canadian dollar in relation to the U.S. dollar.

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

As at and for the three months ended June 30, 2020		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	$	6,116	$	4,839	$	-	$	10,955
Loss before income taxes	$	(2,061)	$	(2,088)	$	(3,581)	$	(7,730)
Depreciation and amortization	$	3,680	$	1,718	$	255	$	5,653
Total assets	$	101,548	$	53,211	$	6,772	$	161,531
Total liabilities	$	13,282	$	8,814	$	(135)	$	21,961
Property, equipment and intangible asset expenditures	$	71	$	12	$	30	$	113

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

As at and for the three months ended June 30, 2019		ECWS		Tryton		Corporate		Consolidated
Revenue	$	16,006	$	11,080	$	-	$	27,086
Income (loss) before income taxes	$	227	$	(225)	$	(3,549)	$	(3,547)
Depreciation and amortization	$	2,326	$	1,244	$	320	$	3,890
Total assets	$	123,165	$	68,337	$	4,030	$	195,532
Total liabilities	$	17,574	$	11,858	$	13,879	$	43,311
Property, equipment and intangible asset expenditures	$	804	$	859	$	7	$	1,670

As at and for the six months ended June 30, 2020		**ECWS**		**Tryton**		**Corporate**		**Consolidated**
Revenue	**$**	**30,655**	**$**	**21,723**	**$**	**-**	**$**	**52,378**
Loss before income taxes	**$**	**(4,116)**	**$**	**(6,209)**	**$**	**(2,855)**	**$**	**(13,180)**
Impairment	**$**	**5,159**	**$**	**5,134**	**$**	**-**	**$**	**10,293**
Depreciation and amortization	**$**	**6,073**	**$**	**2,947**	**$**	**547**	**$**	**9,567**
Property, equipment and intangible asset expenditures	**$**	**810**	**$**	**578**	**$**	**30**	**$**	**1,418**

As at and for the six months ended June 30, 2019		ECWS		Tryton		Corporate		Consolidated
Revenue	$	42,075	$	32,457	$	-	$	74,532
Income (loss) before income taxes	$	3,819	$	2,681	$	(8,135)	$	(1,635)
Depreciation and amortization	$	4,992	$	2,543	$	657	$	8,192
Property, equipment and intangible asset expenditures	$	1,118	$	2,126	$	91	$	3,335

18. SUBSEQUENT EVENT

Effective July 9, 2020, Essential amended its 2018 Credit Facility. The amended facility provides Essential an extension of the maturity date to June 30, 2022, along with revisions to certain terms and conditions. Refer to the Long-Term Debt section (note 9) for further information.

CORPORATE INFORMATION

Directors

James A. Banister, Chairman[2]

Garnet K. Amundson[3]

Steven Sharpe[2]

Robert T. German[1, 3]

Nicholas G. Kirton[1,2]

Robert B. Michaleski[1, 2, 3]

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

Auditors

KPMG LLP

Bankers

National Bank of Canada

ATB Financial

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

Jeff B. Newman
Chief Financial Officer

Eldon Heck
Vice President, Downhole Tools & Rentals

Karen Perasalo
Vice President, Finance and Corporate Secretary

Stock Exchange Listing

TSX: ESN

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