

THIRD QUARTER REPORT 2007



ESSENTIAL ENERGY SERVICES TRUST is an independent oilfield services trust based in Calgary, Alberta. The Trust provides cash flows for unitholders by providing essential post drilling production maintenance and enhancement services to oil and gas producers in British Columbia, Alberta and Saskatchewan. Essential’s experienced management team is focused on accretive, profitable growth through both the aggregation of smaller oilfield services operations and organic growth.

Essential Energy Services Trust trades on the TSX under the symbol ESN.UN.

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ESSENTIAL ENERGY SERVICES TRUST MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2007

This Management's Discussion & Analysis ("MD&A") was prepared as of November 7, 2007 and is provided to assist readers in understanding Essential Energy Services Trust's ("Essential" or the "Trust") financial performance for the third quarter ended September 30, 2007 and significant trends that may affect future performance of the Trust. This MD&A should be read in conjunction with the accompanying interim consolidated financial statements for the three and nine months ended September 30, 2007 and the notes contained therein. The accompanying interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Essential is a reporting issuer in each of the provinces of Canada, except Quebec. The Trust's units trade on the Toronto Stock Exchange under the symbol "**ESN.UN**".

Certain statements contained in this MD&A constitute forward-looking statements. All statements, other than statements of historical fact, that address activities, events, or developments that the Trust or a third party expects or anticipates will or may occur in the future, including our future growth, results of operations, performance and business prospects and opportunities, and the assumptions underlying any of the foregoing, are forward-looking statements. These forward-looking statements reflect management's current beliefs and are based on information currently available to management and on assumptions we believe are reasonable. Actual results and developments may differ materially from the results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties as discussed throughout this MD&A. Certain of these risks and uncertainties are beyond our control. Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Trust. These forward-looking statements are made as of the date of this MD&A, and we assume no obligation to update or revise them to reflect subsequent information, events, or circumstances unless otherwise required by applicable securities legislation.

This MD&A also makes reference to certain non-GAAP financial measures to assist users in assessing the Trust's performance. Earnings before non-controlling interest, interest, taxes, depreciation, amortization and stock-based compensation ("EBITDAC"), funds from operations, funds from operations per unit, net debt and working capital (excluding debt) are not recognized measures under Canadian GAAP and do not have any standardized meanings prescribed by GAAP. See the Reconciliation of Non-GAAP Measures section for a description of how these non-GAAP measures are calculated. Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that these non-GAAP measures should not be construed as alternatives to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. It should also be noted that the Trust's operations traditionally follow a seasonal pattern and therefore the results of this quarter may not be indicative of the entire year.

For additional information on the Trust, please go to the Trust's profile on SEDAR at www.sedar.com or the Trust's website at www.essentialenergy.ca.

CORPORATE PROFILE

Essential is an open-end unincorporated, limited purpose investment trust. Essential provides rig and transport based, essential production services to oil and gas producers across western Canada including service rigs, coil tubing, rod rigs, swab rigs, vacuum trucks, pressure trucks, tank trucks, hydro-vacs, steaming and hot oiling along with other related services. The Trust operates through seven operating entities (the “Business Units”) which offer a diversified range of services focused on the maintenance and enhancement of production from oil and gas wells and other related services to ensure stable cash flows for Essential’s unitholders. Essential Energy Services Operating Corp. (the “Manager”) is the manager of the Trust, which provides management, administration and financial services to the Business Units. In addition, the Manager provides cross-selling opportunities, equipment and facility sharing, as well as bulk purchasing, shared insurance, benefit administration and other services to enhance revenue, reduce employee turnover and reduce costs.

METHOD OF ACCOUNTING

The Trust, as the successor to Avenir Diversified Income Trust’s (“Avenir”) Energy Services Division, has been accounted for using the continuity of interests method. The consolidated financial statements of the Trust for the three and nine months ended September 30, 2007 and comparables for the three and nine months ended September 30, 2006 will reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly carried on by Avenir’s Energy Services Division.

HIGHLIGHTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2007

- **Revenue**
Revenue increased 10% to \$27.7 million for Q3 2007 compared to Q3 2006.
- **EBITDAC¹**
EBITDAC decreased 4% to \$7.0 million for Q3 2007 compared to Q3 2006.
- **Funds From Operations²**
Funds from operations decreased 8% to \$5.8 million for Q3 2007 compared to Q3 2006.
- **Net Income**
Net income of \$1.8 million for Q3 2007 compared to net income of \$2.4 million for the third quarter 2006.
- **Distributions to Essential Unitholders³**
Distributions declared in Q3 2007 to unitholders was \$8.8 million.
- **Acquisition of Blue-Vac Vacuum Truck Service Assets and Business in July 2007**
On July 3, 2007, Essential acquired the assets and business of Blue-Vac Vacuum Truck Service. (“Blue-Vac”). Blue-Vac operates 13 vacuum trucks and 3 sour gas scrubber units from Taber in southern Alberta. Total consideration including transaction costs was approximately \$8.1 million cash.
- **Acquisition of Canadian Coil Tubing Inc.’s Assets and Business in July 2007**
On July 3, 2007, Essential acquired the assets and business of Canadian Coil Tubing Inc. (“CCT”). CCT operates a fleet of 4 coil tubing units across southern Alberta. Total consideration including transaction costs was approximately \$4.0 million cash

1,2,3 See corresponding footnote under Financial Highlights.

FINANCIAL HIGHLIGHTS

(Unaudited)	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
\$ thousands, except per unit amounts, margins and ratios						
Financial Results						
Revenue	27,675	25,267	10%	85,674	63,517	35%
EBITDAC ¹	6,984	7,266	(4)%	20,126	19,532	3%
EBITDAC margin (%) ¹	25%	29%	(14)%	23%	31%	(26)%
Funds from operations ²	5,760	6,293	(8)%	16,210	17,787	(9)%
Net income	1,767	2,421	(27)%	2,275	7,135	(68)%
Net income margin (%)	6%	10%	(40)%	3%	11%	(73)%
Distributions to Avenir Diversified Income Trust	-	-	-	-	7,190	n/a
Distribution to unitholders	8,782	6,806	29%	23,626	9,059	160%
Payout ratio ³	152%	108%	41%	146%	91%	60%
Unit Information (Diluted)						
Weighted average number of units outstanding – diluted	35,268	27,217	30%	32,182	27,198	18%
EBITDAC per unit - diluted	0.20	0.27	(26)%	0.63	0.72	(13)%
Funds from operations per unit - diluted	0.16	0.23	(30)%	0.50	0.65	(23)%
Net income per unit - diluted	0.05	0.09	(44)%	0.07	0.26	(73)%
	September 30, 2007	December 31, 2006				
Financial Position and Liquidity						
Working capital (excluding debt) ⁴	4,908	7,596				
Working capital ratio ⁴	1.3:1	1.4:1				
Net debt ⁵	51,503	49,068				
Unitholders' equity	159,506	147,007				

See Reconciliation of Non-GAAP Measures footnote for explanation of EBITDAC and funds from operations.

¹ EBITDAC is defined as earnings before non-controlling interests, interest, taxes, depreciation, amortization and stock-based compensation expense. We believe in addition to net income, EBITDAC is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and before non-cash amortization expenses and stock-based compensation expense. EBITDAC margin is calculated as EBITDAC divided by revenue.

² Funds from operations is calculated by taking net income and adding back non-cash balances such as depreciation and amortization, (loss) gain on sale of property and equipment, stock-based compensation expense and non-controlling interest.

³ Payout ratio is calculated by dividing distributions to unitholders plus distributions to Avenir Diversified Income Trust by funds from operations.

⁴ Working capital (excluding debt) is calculated by taking current assets less current liabilities excluding current portions of capital lease obligations, and long-term debt. Working capital ratio is calculated by taking current assets divided by current liabilities excluding current portions of capital lease obligations, and long-term debt.

⁵ Net debt is calculated by taking current assets less total liabilities.

DISCUSSION OF FINANCIAL RESULTS

Overview

The third quarter of 2007 started off with a return to normal seasonal utilization in July following an unusually long spring break-up in the second quarter of 2007. However beginning in August and continuing through September, utilization rates fell and have remained unusually low due to a combination of wet weather, low natural gas prices due to high natural gas storage levels in North America and a rising Canadian dollar to U.S. dollar exchange rate, as well as uncertainty introduced by the Alberta government's proposed new royalty framework for the oil and gas industry. Despite the challenging environment, Essential managed to increase revenue in the third quarter by 10% compared to the third quarter of 2006 as a result of growth through acquisitions. In its Rig division, Essential continues to see a significant slow down in demand for its coil tubing and swabbing services in southern Alberta due to depressed natural gas prices as revenue fell 31% and 51%, respectively. However, activity levels remained robust for Essential's rod rig (flush-by) services as these rigs focus entirely on conventional oil producing wells where high oil prices support the increase in demand for these services. Essential saw a 66% increase in revenue for rod rigs (flush-by's) even though the fleet has only increased 50% compared to the third quarter of 2006. The Transport division also increased revenue in the third quarter by 35% as a result of the significant increase in fleet size due to acquisitions compared to the third quarter of 2006.

During this period, Essential moved aggressively to contain costs as evidenced by our ability to maintain EBITDAC margins of 25% in this significantly slower environment. On June 1, 2007, the Trust combined its Jacar operations in Alberta with its Richmond operations in Saskatchewan as well as combining the swab rig operations of HK Well Service into the Cardinal Well Services rod rig operations. Further consolidation of the coil tubing division will also provide savings and greater efficiency in the fourth quarter and beyond.

Throughout the third quarter, the Trust maintained its monthly distribution to unitholders at \$0.083 per unit or \$8.8 million for the quarter.

Revenue

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
Revenue by segment:						
Rigs	12,994	14,431	(10)%	38,268	29,143	31%
Transport	14,681	10,836	35%	47,406	34,374	38%
Total revenue	27,675	25,267	10%	85,674	63,517	35%

Revenue for the third quarter was \$27.7 million (Q3 2006 - \$25.3 million), up \$2.4 million or 10% from the prior period with the Rig division generating 47% (Q3 2006 - 57%) and the Transport division generating 53% (Q3 2006 - 43%) of the Q3 2007 revenue.

The decrease in the Rigs division of \$1.4 million or 10% was primarily due to the lower revenue and demand for coil tubing services by \$1.8 million or 31% and swabbing services by \$0.4 million or 51% compared to their respective prior periods as a result of depressed natural gas prices. In addition, service rig revenue was lower by \$0.7 million or 12% as one unit in the 15 unit fleet was being refurbished and recertified during the entire quarter. This overall decrease in revenue for the Rigs division was offset somewhat by an increase in revenue and demand of \$1.5 million or 66% for rod rig (flush-by) services as oil producers continue to maintain and enhance conventional oil production due to high oil prices. Essential increased its rod rig (flush-by) fleet by 50% to 21 rod rigs compared to 14 rod rigs for the prior period to accommodate the higher demand.

The Transport division increased its revenues by \$3.8 million or 35% from the prior period primarily reflecting the 78% increase in the fleet size from 127 units to 226 units as a result of the acquisition of the 72 unit fleet from Jacar Energy Services Partnership ("Jacar") in mid September 2006, the addition of 8 hot oilers from the

asset acquisition of Anderson Well Servicing (1986) Ltd. ("Anderson") in June 2007, the addition of 13 vacuum trucks and 3 scrubber units from the asset acquisition of Blue-Vac in July 2007 and the purchase of 3 combo vac/steamers in early 2007.

Operating Expenses

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
Operating expense by segment:						
Rigs	7,130	8,247	(14)%	22,021	15,966	38%
Transport	9,062	6,791	33%	28,898	19,668	47%
Total operating expense	16,192	15,038	8%	50,919	35,634	43%

Operating expenses for the quarter was \$16.2 million (Q3 2006 - \$15.0 million), up \$1.2 million or 8% from the prior period.

The decrease in operating expenses for the Rigs division of \$1.1 million or 14% is consistent with the decrease in Rigs division revenue of 10% and reflects the lower demand for Rig-based services.

The increase in operating expenses for the Transport division of \$2.3 million or 33% is consistent with the increase in Transport division revenue of 35% due primarily to additional equipment as a result of the Jacar, Anderson and Blue-Vac acquisitions.

General and Administrative Expenses

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
General and administrative	4,499	2,963	52%	14,629	8,351	75%

General and administrative ("G&A") expenses for the quarter was \$4.5 million (Q3 2006 - \$3.0 million), up \$1.5 million or 52% from the prior period

The increase in G&A expenses is due to a full 92 days of G&A expenses for Jacar in Q3 2007 as compared to 12 days in Q3 2006. In addition, the asset acquisitions of the four private companies in June and July 2007 resulted in incremental G&A expenses in Q3 2007 with no corresponding expense in Q3 2006.

Depreciation and Amortization

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
Depreciation and amortization	4,208	3,611	17%	12,679	9,876	28%

Depreciation and amortization for the quarter was \$4.2 million (Q3 2006 - \$3.6 million), up \$0.6 million or 17% from the prior period.

The increase in depreciation and amortization was due to the significant increase in the amount of new equipment due to a full 3 months of depreciation and amortization for Jacar in Q3 2007 as compared to 0.5 months in Q3 2006. In addition, the asset acquisitions of the four private companies in June and July 2007 resulted in additional depreciation and amortization in Q3 2007 with no corresponding expense in Q3 2006.

Interest and Bank Charges

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
Interest and bank charges	1,187	940	26%	3,921	1,718	128%

Interest and bank charges for the quarter was \$1.2 million (Q3 2006 - \$0.9 million), up \$0.3 million or 26% from the prior period.

This increase in interest and bank charges is due to an increase of \$3.5 million drawn on the Trust's revolving loan and revolving term loan facilities, from \$63.9 million on September 30, 2006 to \$67.4 million on September 30, 2007. The \$3.5 million increase in the loan facilities was due to various growth capital expenditures which expanded the Rig and Transport division fleets.

Stock-based Compensation Expense

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
Stock-based compensation expense	436	294	48%	1,232	392	214%

Stock-based compensation expense for the quarter was \$0.4 million (Q3 2006 - \$0.3), up \$0.1 million or 48% from the prior period.

The increase is due to 2.5 million options outstanding on September 30, 2007 compared to 1.6 million options outstanding on September 30, 2006, an increase of 59%.

Net Income

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
Net income	1,767	2,421	(27)%	2,275	7,135	(68)%

Net income for the quarter was \$1.8 million (Q3 2007 - \$2.4 million), down \$0.6 million or 27% from the prior period.

The decrease in net income of \$0.6 million in Q3 2007 compared to the prior period is a direct result of a slow down in demand by our customers for services related to natural gas production as a result of the depressed natural gas price during Q3 2007 compared to Q3 2006. In addition, Essential noticed a significant drop in utilization levels immediately after the September 18, 2007 announcement by the Alberta Royalty Review Panel which recommended significant increases to the royalty rate regime being paid by our customers. Additionally, in Q3 2007 the Trust recorded a future income tax recovery of \$0.6 million as a result of its favourable tax status as an income trust which will not be incur taxation on its distributions until 2011.

EBITDAC

\$ thousands	For the three months ended September 30			For the nine months ended September 30		
	2007	2006	% Change	2007	2006	% Change
EBITDAC ¹	6,984	7,266	(4)%	20,126	19,532	3%

¹ EBITDAC is defined as earnings before non-controlling interests, interest, taxes, depreciation, amortization and stock-based compensation expense. We believe in addition to net (loss) income, EBITDAC is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and before non-cash amortization expenses and stock-based compensation expense.

EBITDAC for the quarter was \$7.0 million (Q3 2007 - \$7.3 million), down \$0.3 million or 4% from the prior period.

The decrease in EBITDAC is a direct result of lower utilization of our equipment and correspondingly lower revenue than expected due to a slow down in demand for services related to natural gas production as a result of the depressed natural gas price during Q3 2007 compared to Q3 2006. The decrease in EBITDAC margin is primarily due to the increase in G&A expenses which was due to a full 92 days of G&A expenses for Jacar in Q3 2007 as compared to 12 days in Q3 2006. In addition, the asset acquisitions of the four private companies in June and July 2007 resulted in incremental G&A expenses in Q3 2007 with no corresponding expense in Q3 2006.

SUMMARY OF QUARTERLY DATA

\$ thousands, except per unit amounts	September 2007	June 2007	March 2007	December 2006	September 2006	June 2006	March 2006	December 2005
Revenue	27,675	22,098	35,901	32,791	25,267	18,729	19,521	13,252
EBITDAC ¹	6,984	2,392	10,750	10,642	7,266	4,898	7,368	3,604
Net income (loss)	1,767	(4,440)	4,948	5,650	2,421	1,651	3,063	996
Net income (loss) per unit - diluted ²	0.05	(0.14)	0.16	0.19	0.09	0.06	n/a	n/a

¹ EBITDAC is defined as earnings before non-controlling interests, interest, taxes, depreciation, amortization and stock-based compensation expense. We believe in addition to net (loss) income, EBITDAC is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and before non-cash amortization expenses and stock-based compensation expense.

² n/a means not applicable as the per unit amounts for the comparative quarters were those of Avenir Diversified Income Trust and would not be meaningful on a per unit basis to Essential unitholders.

FINANCIAL RESOURCES AND LIQUIDITY

Working Capital

\$ thousands, except ratios	September 30, 2007	December 31, 2006
Current assets	23,864	27,106
Current liabilities (excluding debt) ¹	18,956	19,510
Working capital (excluding debt) ²	4,908	7,596
Working capital (excluding debt) ratio ²	1.3:1	1.4:1

¹ Non-GAAP measure - Current liabilities (excluding debt) is calculated by taking current liabilities less current portions of capital lease obligations and long-term debt.

² Non-GAAP measure - Working capital (excluding debt) is calculated by taking current assets less current liabilities excluding current portions of capital lease obligations and long-term debt. Working capital ratio is calculated by taking current assets divided by current liabilities excluding current portions of capital lease obligations and long-term debt.

Working capital (excluding debt) on September 30, 2007 was \$4.9 million (December 31, 2006 - \$7.6 million). The working capital (excluding debt) ratio of 1.3:1 (December 31, 2006 - 1.4:1) indicates that Essential remains in a strong liquidity position to pay its debts as they become due.

Funded Debt

\$ thousands	September 30, 2007	December 31, 2006
Total liabilities	75,367	76,174
Current liabilities (excluding debt and bank indebtedness) ¹	7,856	8,570
Funded debt (including current portion) ²	67,511	67,604

¹ Non-GAAP measure - Current liabilities (excluding debt and bank indebtedness) is calculated by taking current liabilities less bank indebtedness, and current portions of capital lease obligations and long-term debt.

² Non-GAAP measure - Funded debt (including current portion) is calculated by taking bank indebtedness plus current and long-term portions of capital lease obligations and long-term debt.

Funded debt on September 30, 2007 was \$67.5 million compared to \$67.6 million on December 31, 2006. After deducting cash on September 30, 2007 of \$0.9 million (December 31, 2006 - \$1.1 million) from funded debt, net funded debt decreases to \$66.6 million (December 31, 2006 - \$66.5 million).

As at September 30, 2007, \$11.1 million was drawn on the revolving loan facility resulting in an additional availability of \$13.9 million to be drawn on the facility. As at September 30, 2007, \$55.5 million was drawn on the revolving term loan facility resulting in excess availability on the facility of \$29.5 million.

In addition to the above facilities, the Trust also has approximately \$0.8 million of long-term debt, comprised of various loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95%, and \$0.1 million of capital lease obligations.

The average effective interest rate on borrowings under all of the above loan facilities for the quarter was 7.2%.

Deficiencies, if any, in the working capital, ongoing operations and capital expenditures, will be managed by existing funds from operations and the availability of the current revolving loan facilities and proposed future financings.

Unitholders' Equity

\$ thousands	September 30, 2007	December 31, 2006
Unitholders' equity	159,506	147,007

On December 31, 2006, the Trust had 27,713,077 units outstanding. During the nine months ended September 30, 2007, the Trust issued the following units:

- On February 28, 2007, 101,351 trust units for total consideration of \$0.6 million were issued to the non-controlling interest holder of Cascade Services Partnership as final consideration for the purchase of the 10% non-controlling interest Essential purchased on May 31, 2006. This amount was accrued to unitholders' equity in December 2006.
- On April 25, 2007, 2,304,294 trust units for total consideration of \$12.0 million were issued to the vendors of Kodiak Coil Tubing Limited Partnership ("Kodiak") as additional consideration with respect to the acquisition of Kodiak which Essential acquired on March 31, 2006. This amount was accrued to unitholders' equity in December 2006.
- On June 13, 2007, the Trust completed an equity offering by way of a short-form prospectus and issued 5,149,254 trust units for net proceeds of \$32.6 million. Costs associated with this transaction amounted to \$1.9 million.

The Trust had 2,491,633 unit options outstanding at September 30, 2007 and November 7, 2007.

FUNDS FROM OPERATIONS AND DISTRIBUTIONS TO UNITHOLDERS

\$ thousands	For the three months ended September 30		For the nine months ended September 30	
	2007	2006	2007	2006
Cash provided by operating activities	1,296	2,815	17,256	14,421
Change in non-cash working capital	4,464	3,478	(1,046)	3,366
Funds from operations	5,760	6,293	16,210	17,787
Required principal repayments	(293)	(281)	(716)	(776)
Distributions paid to Avenir	-	-	-	(7,890)
Maintenance capital expenditures	(676)	(875)	(2,261)	(2,625)
Funds shortfall	3,991	1,669	10,393	2,563
Distributions declared to Essential unitholders	8,782	6,806	23,626	9,059

Funds From Operations

Funds from operations for the quarter was \$5.8 million (Q3 2006 - \$6.3 million), down \$0.5 million or 8% from the prior period.

Required principal repayments on debt of \$0.3 million (Q3 2006 - \$0.3 million) are expected to remain relatively constant throughout the next 12 months.

Annual maintenance capital expenditures are approximately \$3.5 million and will vary from quarter to quarter.

Funds retained for growth are not committed and will vary over time as funds are available.

Funds shortfall for the quarter was \$4.0 million (Q3 2006 - \$1.7 million), up \$2.3 million or 139% from the prior period. Due to the seasonality of the energy service sector, funds shortfalls can often occur in the second and third quarters as these are generally the slowest months operationally. Such funds shortfall is expected and taken into consideration when determining distributions to Essential unitholders on a monthly and annualized basis. Funds shortfall in the second and third quarters, have historically been covered by funds from operations in the first and fourth quarters of the year and from available credit facilities and equity financings.

Distributions typically exceed net income as a result of non-cash expenses such as depreciation and amortization, future income tax expense and stock-based compensation expense. These non-cash expenses result in a reduction of net income, with no impact to cash flow from operating activities. The Trust's goal is to maximize cash distributions on a per trust unit basis to our unitholders over time while enhancing the value of our trust units. Accordingly, we expect that distributions will exceed net income in most periods.

Distributions To Unitholders

The Trust declared distributions to unitholders of \$8.8 million in the quarter (Q3 2006 - \$6.8 million), up \$2.0 million or 29% from the prior period. The increase is due to 7.6 million more Trust units outstanding in Q3 2007 compared to Q3 2006 while the distribution to unitholders remained constant at \$0.083/unit. The Manager of the Trust anticipates declaring a monthly cash distribution subject to the ability of the Trust to continue to generate sufficient cash flows from operations to pay such distributions.

COMMITMENTS AND CONTINGENCIES

There have been no material changes in the Trust's commitments since December 31, 2006.

The Trust has no contingent liabilities at September 30, 2007.

FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

The Trust's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, capital lease obligations and long-term debt. Unless otherwise noted, as at September 30, 2007, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values.

Credit risk

The Trust's accounts receivable are exposed to credit risk. Although a substantial portion of trade receivables is dependant upon the strength of the Canadian oil and gas industry, management considers credit risk to be minimal. Management routinely assesses the financial strength of customers, and monitors the exposure for credit losses.

Of the Trust's significant accounts receivable as at September 30, 2007, approximately 28% was due from two companies (15% and 13% respectively) (December 31, 2006 – 24% was due from two companies; 11% and 13% respectively).

Interest rate risk

Drawings under the Trust's bank credit facilities and long-term debt are at floating interest rates and expose the Trust to cash flow risk.

RELATED PARTY TRANSACTIONS

The Trust rents land and buildings from officers of the Trust which are included in operating expenses. The expense totaled \$0.1 million for the quarter ended September 30, 2007 (Q3 2006 - \$0.1 million). These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the respective parties, and were recorded at the exchange amount.

OFF-BALANCE SHEET ITEMS

The Trust has no off-balance sheet items as at September 30, 2007.

RECONCILIATION OF NON-GAAP MEASURES

This Management Discussion and Analysis contains reference to certain financial measures that do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies or trusts. These measures are provided to assist investors in determining the Trust's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. These financial measures are identified and defined below:

\$ thousands, except ratios	For the three months ended September 30		For the nine months ended September 30	
	2007	2006	2007	2006
EBITDAC¹				
Net income	1,767	2,421	2,275	7,135
Stock-based compensation	436	294	1,232	392
Depreciation and amortization	4,208	3,611	12,679	9,876
Interest and bank charges	1,187	940	3,921	1,718
Future income taxes (recovery)	(614)	-	19	-
Non-controlling interest	-	-	-	411
EBITDAC¹	6,984	7,266	20,126	19,532
Funds From Operations				
Cash provided by operating activities	1,296	2,815	17,256	14,421
Change in non-cash working capital	4,464	3,478	(1,046)	3,366
Funds from operations	5,760	6,293	16,210	17,787

EBITDAC and funds from operations are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that EBITDAC and funds from operations should not be construed as alternatives to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.

¹ EBITDAC is defined as earnings before non-controlling interests, interest, taxes, depreciation, amortization and stock-based compensation expense. We believe in addition to net income, EBITDAC is a useful supplemental earnings measure as it provides an indication of the financial results generated by our principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and before non-cash amortization expenses and stock-based compensation expense. EBITDAC margin is calculated as EBITDA divided by revenue.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Trust reported on these as part of the 2006 audit (please refer to the audited consolidated financial statements for the year ended December 31, 2006 available on SEDAR at www.sedar.com and on our website at www.essentialenergy.ca) and there have been no changes to disclosure controls in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of financial statements together with the other financial information for external purposes in accordance with Canadian GAAP. The Trust's CEO and CFO are responsible for designing, or causing to be designed under their supervision, internal controls over financial reporting related to the Trust, including its consolidated subsidiaries.

The Trust reported on these as part of the 2006 audit (please refer to the audited consolidated financial statements for the year ended December 31, 2006 available on SEDAR at www.sedar.com and on our website

at www.essentialenergy.ca) and there have been no changes to internal controls over financial reporting in the current period.

TAXATION OF INCOME TRUSTS

On March 19, 2007, Bill C-52 Amendments, was enacted as legislation in Canada. Bill C-52 Amendments implement proposals originally announced on October 31, 2006 (as subsequently modified to take into account certain comments received in consultations and deliberations) relating to the taxation of certain distributions from certain trusts and partnerships. Bill C-52 Amendments apply commencing January 1, 2007 to all "specified investment flow-through" ("SIFT") trusts that begin to be publicly traded after October 2006 and January 1, 2011 for all SIFT trusts that were previously publicly traded, subject to the possibility that a SIFT that was already publicly traded before November 2006 may become subject to the new rules before January 1, 2011 if the trust experiences growth, other than "normal growth", before then. Bill C-52 Amendments incorporate guidelines with respect to what is meant by "normal growth".

The Trust will likely be characterized as a SIFT trust under Bill C-52 Amendments. As a result, commencing in January 2011 (provided that the Trust experiences only "normal growth" and no "undue expansion" before then) the Trust will be liable for tax at the "net corporate income tax rate" combined with the "provincial SIFT tax factor" (effectively, the federal general corporate tax rate plus 13% on account of provincial corporate tax) on all income payable to unitholders, which the Trust will not be able to deduct as a result of being characterized as a SIFT trust. Taking into consideration the October 30, 2007 federal government's economic statement which provided for a reduction in general federal corporate income tax rates, the Trust believes the combined general federal corporate and provincial income tax rate will be approximately 29.5% in January 2011.

Pursuant to the October 31, 2006 Proposals, a SIFT trust will be prevented from deducting any part of the amounts payable to unitholders in respect of: (i) income (other than dividends that the Trust could, if it were a corporation, deduct under the Tax Act) from its non-portfolio properties; and (ii) taxable capital gains from its dispositions of non-portfolio properties. "Non-portfolio properties" include Canadian resource properties (if the total fair market value of the SIFT trust's Canadian resource properties and certain other types of property is greater than 50% of the total enterprise value of the SIFT trust itself) and investments in a "subject entity" (if the SIFT trust holds securities of the subject entity that have a fair market value greater than 10 percent of the subject entity's total enterprise value, or if the SIFT trust holds securities of the subject entity or its affiliates that have a total fair market value greater than 50% of the enterprise value of the SIFT trust). A subject entity will include corporations resident in Canada, trusts resident in Canada, and partnerships that are Canadian partnerships for purposes of the Tax Act. It is expected that the investment by the Trust in its material subsidiaries will be investments in a subject entity for these purposes.

As such, certain distributions from the Trust which would have otherwise been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at the Trust level. Returns of capital generally are (and will continue to be) tax-deferred for unitholders who are resident in Canada for purposes of the Tax Act (and reduce such unitholder's adjusted cost base in the units for purposes of the Tax Act).

In June 2007 the Government of Canada enacted the above legislation imposing additional income taxes on the Trust for taxation years commencing January 1, 2011. The Trust continues to evaluate the new legislation and the Trust's organizational alternatives in order to maximize shareholder value.

Future income tax liabilities for Q3 2007 are \$19 after considering the June 2007 enactment of new tax legislation. Until June 2007 the Trust had been tax effecting the reversal of taxable temporary differences at a nil tax rate on the assumption that the Trust would make sufficient tax deductible cash distributions to unitholders such that the Trust's taxable income would be \$nil for the foreseeable future. The new legislation limits the tax deductibility of cash distributions such that income taxes may become payable in the future.

The Trust has estimated its future income taxes based on its best estimates of results of operations and tax pool claims and cash distributions in the future assuming no material change to the Trust's current organizational structure. As currently interpreted, Canadian GAAP does not permit the Trust's estimate of

future income taxes to incorporate any assumptions related to a change in organizational structure until such structures are given legal effect.

The Trust's estimate of its future income taxes will vary as do the Trust's assumptions pertaining to the factors described above and such variations may be material.

Until 2011, the new legislation does not directly affect the Trust's funds from operations, and accordingly, the Trust's financial condition.

RISKS AND UNCERTAINTIES, CRITICAL ACCOUNTING ESTIMATES, AND RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of Risks and Uncertainties, Critical Accounting Estimates and Recent Accounting Pronouncements please refer to the audited consolidated financial statements for the year ended December 31, 2006 available on SEDAR at www.sedar.com and on our website at www.essentialenergy.ca.

On January 1, 2007 the Trust adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1506, Accounting Changes; Handbook Section 1530, Comprehensive Income; Handbook Section 3855, Financial Instruments – Recognition and Measurement; Handbook Section 3861, Financial Instruments – Disclosure and Presentation; and Handbook Section 3865, Hedges. Essential adopted these standards retroactively. These standards had no impact on the presentation of the financial statements.

OUTLOOK

Increasing natural gas production in the lower 48 states of the U.S. and high levels of liquefied natural gas (“LNG”) imports this summer has resulted in record natural gas storage levels in North America, which has put downward pressure on natural gas prices. Meanwhile, as crude oil prices set new records, it is important to remember that western Canada is a natural gas and oilsands dominated basin with a relatively smaller proportion of conventional oil production. As an indication of activity levels for 2008, Canadian conventional oil and natural gas drilling is forecasted by the Canadian Association of Oilwell Drilling Contractors (“CAODC”) and the Petroleum Services Association of Canada (“PSAC”) to decrease by 17% compared to 2007 and 38% when compared to 2006. While similar statistics and forecasts for production service activity levels are not readily available, Essential believes that such activity will also slow down as our customers focus on only those activities providing the greatest economic return. In the midst of this already challenging business environment, the Alberta government has proposed significant increases to the royalties paid by certain of our customers, the oil and gas producers in Alberta. Some of Essential's customers have already announced dramatic cuts to their 2008 budgets; in some cases by 30% to 50% for natural gas drilling. Essential saw its utilization levels drop immediately after the September 18, 2007 release of the so called “Our Fair Share” report by the Alberta Royalty Review Panel and recovery since the October 25, 2007 announcement by the Alberta government has been negligible. The new royalty framework proposal is still a recent development and the potential impact has yet to be fully determined on Essential's operations.

Given this difficult operating environment, Essential will continue to focus on costs while pursuing every opportunity to improve revenue. In October, Essential expanded its field operations in Slave Lake, Alberta to focus more of its rod rigs in the conventional oil fields surrounding this area. On November 1, 2007, Essential combined its two coil tubing business units of Endless Tubing Services and Kodiak Coil Tubing into one business unit called Essential Coil Tubing Services. In the last 4 months, Essential has consolidated the number of business units it operates from 10 to 7 business units. As well, Essential has been assessing opportunities to move equipment and personnel to British Columbia and Saskatchewan in 2008 where activity levels, according to PSAC, are expected to increase 10% and 3% respectively as Essential's customers redeploy capital and operating expenditures out of Alberta. In November 2007, Essential relocated certain coil tubing equipment to Estevan, Saskatchewan to capitalize on the conventional light oil projects in this area.

CORPORATE INFORMATION

Directors

William M. Gallacher^{2,3}
Chairman

Gary H. Dundas^{1,2}

Dennis Balderston^{1,3}

Jeffrey J. Scott^{1,4}

Neil Mackenzie^{3,4}

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

Corporate Secretary

Michael D. Sandrelli
Burnet, Duckworth & Palmer LLP

Auditors

Ernst & Young LLP

Bankers

National Bank of Canada
Toronto Dominion Bank
BMO Bank of Montreal
Canadian Western Bank

Legal Counsel

Burnet, Duckworth & Palmer, LLP

Transfer Agent

Olympia Trust Company

Officers

James Burns, P. Geol., MBA^{2,4}
President & Chief Executive Officer

Duncan Au, CA, CFA
VP Business Development & Chief Financial Officer

Ken Wagner
Chief Operating Officer

Don Webster
VP Rig Operations

Stuart King, CA
Controller

For further information:

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Unaudited Interim Consolidated Financial Statements

Essential Energy Services Trust

September 30, 2007

Essential Energy Services Trust

CONSOLIDATED BALANCE SHEETS
(Unaudited)

As at,
(\$ in thousands)

	September 30, 2007	December 31, 2006
	\$	\$
ASSETS [notes 4 and 5]		
Current		
Cash	920	1,110
Accounts receivable and prepaid expenses [note 8]	21,020	24,214
Materials and supplies	1,924	1,782
	<u>23,864</u>	<u>27,106</u>
Property and equipment	100,809	96,741
Goodwill and intangibles	110,200	99,334
	<u>234,873</u>	<u>223,181</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness [note 4]	11,100	10,940
Accounts payable and accrued liabilities	4,928	6,269
Distributions payable [note 11]	2,928	2,301
Current portion of capital lease obligations	55	235
Current portion of long-term debt [note 5]	6,661	11,347
	<u>25,672</u>	<u>31,092</u>
Capital lease obligations	-	17
Long-term debt [note 5]	49,676	45,065
Future income tax liability [note 12]	19	-
	<u>75,367</u>	<u>76,174</u>
Unitholders' equity		
Unitholders' capital [note 6]	192,041	159,423
Contributed surplus [note 6]	1,874	642
Accumulated deficit	(34,409)	(13,058)
	<u>159,506</u>	<u>147,007</u>
	<u>234,873</u>	<u>223,181</u>

See accompanying notes to the consolidated financial statements

Essential Energy Services Trust

**CONSOLIDATED STATEMENTS OF
OPERATIONS, COMPREHENSIVE INCOME AND
ACCUMULATED DEFICIT
(Unaudited)**

(\$ in thousands)

	For the			
	Three months ended		Nine months ended	
	September 30, 2007 \$	September 30, 2006 \$	September 30, 2007 \$	September 30, 2006 \$
REVENUE				
Energy services revenue	27,638	25,234	85,679	63,490
Gain (loss) on sale of property and equipment	37	33	(5)	27
	27,675	25,267	85,674	63,517
EXPENSES				
Operating expenses <i>[note 9]</i>	16,192	15,038	50,919	35,634
General and administrative	4,499	2,963	14,629	8,351
Stock-based compensation <i>[note 7]</i>	436	294	1,232	392
Interest on short-term debt and bank fees	203	303	1,021	1,012
Interest on long-term debt	984	637	2,900	706
Depreciation and amortization	4,208	3,611	12,679	9,876
	26,522	22,846	83,380	55,971
Income before income taxes and non-controlling interest	1,153	2,421	2,294	7,546
Income taxes <i>[note 12]</i>				
Future income taxes (recovery)	(614)	-	19	-
Income before non-controlling interest	1,767	2,421	2,275	7,546
Non-controlling interest	-	-	-	(411)
Net income and comprehensive income for the period	1,767	2,421	2,275	7,135
Accumulated deficit, beginning of period	(27,394)	(7,422)	(13,058)	(2,693)
Distributions to Avenir Diversified Income Trust	-	-	-	(7,190)
Distributions to unitholders <i>[note 11]</i>	(8,782)	(6,806)	(23,626)	(9,059)
Accumulated deficit, end of period	(34,409)	(11,807)	(34,409)	(11,807)
Net income per unit <i>[note 6]</i>				
Basic	0.05	0.09	0.07	0.26
Diluted	0.05	0.09	0.07	0.26

See accompanying notes to the consolidated financial statements

Essential Energy Services Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(\$ in thousands)

	For the			
	Three months ended		Nine months ended	
	September 30, 2007 \$	September 30, 2006 \$	September 30, 2007 \$	September 30, 2006 \$
OPERATING ACTIVITIES				
Net income for the period	1,767	2,421	2,275	7,135
Add non-cash items:				
Depreciation and amortization	4,208	3,611	12,679	9,876
Non-controlling interest	-	-	-	411
Future income taxes (recovery)	(614)	-	19	-
Stock-based compensation	436	294	1,232	392
Loss (gain) on sale of property and equipment	(37)	(33)	5	(27)
	5,760	6,293	16,210	17,787
Change in non-cash working capital	(4,464)	(3,478)	1,046	(3,366)
Cash provided by operating activities	1,296	2,815	17,256	14,421
FINANCING ACTIVITIES				
Issuance of trust units, net of costs	-	-	32,618	-
Investment by Avenir Diversified Income Trust	-	-	-	14,279
Distributions to Avenir Diversified Income Trust	-	-	-	(7,890)
Distributions to unitholders	(8,781)	(6,758)	(22,999)	(6,758)
Cost of formation of Essential Energy Services Trust	-	(606)	-	(4,834)
Increase (decrease) in bank indebtedness	10,600	(28,300)	160	(491)
Repayments of capital lease obligations	(28)	(37)	(94)	(100)
Increase in long-term debt	141	52,065	641	52,130
Repayments of long-term debt	(293)	(281)	(716)	(4,303)
Cash provided by financing activities	1,639	16,083	9,610	42,033
INVESTING ACTIVITIES				
Purchase of energy service businesses <i>[note 3]</i>	(11,932)	(15,638)	(22,222)	(29,273)
Purchase of property and equipment	(1,076)	(5,121)	(5,918)	(27,228)
Sale of property and equipment	413	359	684	908
Change in non-controlling interest	-	-	-	(524)
Change in non-cash working capital	250	(686)	400	(2,000)
Cash used in investing activities	(12,345)	(21,086)	(27,056)	(58,117)
Decrease in cash during the period	(9,410)	(2,188)	(190)	(1,663)
Cash, beginning of period	10,330	3,295	1,110	2,770
Cash, end of period	920	1,107	920	1,107
Cash interest paid	1,142	817	3,454	1,304

See accompanying notes to the consolidated financial statements

Essential Energy Services Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006
(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

1. NATURE OF THE ORGANIZATION

Essential Energy Services Trust (“Essential” or the “Trust”) is an open-ended unincorporated investment trust governed by the laws of the province of Alberta and created pursuant to a deed of trust dated April 4, 2006 between Olympia Trust Company and Avenir Diversified Income Trust (“Avenir”).

Pursuant to Section 193 of the Business Corporations Act (Alberta), under a Plan of Arrangement entered into by the Trust, Avenir Diversified Income Trust, Avenir Operating Trust, Avenir Operating Corp., Essential Production Services Exchange Corp., and Essential Energy Services Corp., effective May 31, 2006 the Energy Services Division of Avenir (“the Energy Services Division”) was transferred to the Trust. Essential began publicly trading on the Toronto Stock Exchange on May 31, 2006.

Avenir through a series of steps transferred their Energy Services Division to Essential in exchange for Essential units. These units were subsequently distributed to Avenir’s unitholders on May 31, 2006 (20,820,036 units were distributed on a pro rata basis, with an additional 6,322,214 units issued for new acquisitions and the purchase of the non-controlling interests). Due to the transactions being structured in this manner, there was no change of control of the ownership of Avenir’s Energy Services Division. Consequently, there was no upward adjustment to the carrying value of the assets (to record them at fair market value) and no corresponding upward adjustment to the partnership equity of the Trust. This accounting is referred to as continuity of interests accounting and as a result, the due to and investment from Avenir Diversified Income Trust balances were rolled into partnership equity.

Prior to Essential being formed the Energy Services Division was making distributions each month to it’s parent, Avenir Diversified Income Trust.

All operations are located in Western Canada and provide oilfield services to crude oil and natural gas exploration and production customers. The ability to operate the equipment in oil and gas fields in Canada is dependent on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, activity in more northern regions of Canada is accessible only in winter months where the ground is frozen enough to support the equipment. As a result of this seasonality, the Trust’s activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies summarized in the audited consolidated financial statements of the Trust for the year ended December 31, 2006. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate to make the information presented not misleading. The following notes are incremental to and should be read in conjunction with the December 31, 2006 audited consolidated financial statements.

Essential Energy Services Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006
(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

Accounting changes, other comprehensive income, financial instruments and hedging

On January 1, 2007, Essential adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): Handbook Section 1506, Accounting Changes, Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and Handbook Section 3865, Hedges. The Trust adopted these standards retroactively without restatement.

Accounting Changes

The CICA released revisions to Handbook Section 1506 – Accounting Changes, applicable to interim and annual financial statements issued after January 1, 2007. The revisions in this section address changes in accounting policies, accounting estimates and the correction of errors. A change in accounting policy is recommended only if the change is required by a primary source of GAAP, or results in the financial statements providing reliable and more relevant information. The Trust has adopted the requirements of this section and will apply these standards to any future changes in accounting policies and/or estimates.

Comprehensive Income

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. Upon adoption of Section 1530, the Trust incorporated the new required Statement of Comprehensive Income by creating a “Consolidated Statement of Operations, Comprehensive Income, and Accumulated Deficit”. The application of this revised standard did not result in comprehensive income being different from net income for the period presented. Should the Trust recognize any other comprehensive income in the future, the cumulative changes in other comprehensive income would be recognized in Accumulated Other Comprehensive Income which would be presented as a new category within unitholders’ equity on the balance sheet.

Financial Instruments

The Trust has classified all financial instruments into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) held-for-trading. Financial instruments classified as held-for-trading or available-for-sale items as a result of initially adopting this section are measured at fair value. Gains or losses on re-measurement of held-for-trading items are recognized as an adjustment to opening retained earnings, while gains and losses on re-measurement of available-for-sale items are recognized as an adjustment to opening accumulated other comprehensive income.

Financial instruments that are classified as held-for-trading or available-for-sale are re-measured each reporting period at fair value with the resulting gain or loss recognized immediately in net income and other comprehensive income, respectively. All other financial instruments are accounted for at amortized cost with foreign exchange gains and losses recognized immediately in net income. The recognition, de-recognition and measurement policies followed in consolidated financial statements for periods prior to the adoption of this standard are not reversed and, therefore, those consolidated financial statements are not restated. The application of this standard did not have a material impact on the consolidated financial statements.

Essential Energy Services Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006
(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

Hedging

Section 3865 provides guidance on the accounting for derivative instruments meeting the criteria for hedge recognition. The Trust currently does not utilize hedges or other derivative financial instruments in its operation, and as a result the adoption of Section 3865 currently has no material impact on the financial statements of the Trust.

3. ACQUISITIONS

2007

The Trust has completed four asset acquisitions during the first nine months of 2007. These acquisitions have been accounted for from the date of closing using the purchase method of accounting. The following purchase price allocations for Anderson, Redneck, Blue-Vac and CCT have not been finalized and are subject to change.

Calculation of purchase price	Blue-Vac (a) \$	CCT (b) \$	Redneck (c) \$	Anderson (d) \$	Other (e) \$	Total \$
Cash consideration	8,000	3,932	4,450	5,650	190	22,222
Estimated transaction costs	100	100	100	100	-	400
Total purchase price	8,100	4,032	4,550	5,750	190	22,622

Allocation of purchase price	Blue-Vac (a) \$	CCT (b) \$	Redneck (c) \$	Anderson (d) \$	Other (e) \$	Total \$
Non-cash working capital	-	132	-	-	-	132
Property and equipment	2,080	3,640	2,180	2,800	-	10,700
Goodwill/Intangible assets	6,020	260	2,370	2,950	190	11,790
Total purchase price	8,100	4,032	4,550	5,750	190	22,622

a) Blue-Vac

On July 3, 2007 the Trust acquired all of the assets and business of Blue-Vac Vacuum Truck Service ("Blue-Vac") for total consideration of \$8,100 consisting of cash of \$8,000 and transaction costs of approximately \$100. Blue-Vac operates 13 vacuum trucks and three sour gas scrubber units from Taber in southern Alberta. The assets will form part of Essential's Transport business segment.

Essential Energy Services Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006
(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

b) CCT

On July 3, 2007 the Trust acquired all of the assets and business of Canadian Coil Tubing Inc. ("CCT") for total consideration of \$4,032 consisting of cash of \$3,932 and transaction costs of approximately \$100. CCT is based in Strathmore, Alberta and operates four coil tubing units across southern Alberta. The assets will form part of Essential's Rigs business segment.

c) Redneck

On June 29, 2007 the Trust acquired all of the assets and business of Redneck Flushbys Ltd. ("Redneck") for total consideration of \$4,550 consisting of cash of \$4,450 and transaction costs of approximately \$100. Redneck operates four rod rigs and one swab rig from Forestburg, Alberta. The assets will form part of Essential's Rigs business segment.

d) Anderson

On June 29, 2007 the Trust acquired all of the assets and business of Anderson Well Servicing (1986) Ltd. ("Anderson") for total consideration of \$5,750 consisting of cash of \$5,650 and transaction costs of approximately \$100. Anderson operates a fleet of eight hot oilers from Grande Prairie, Alberta. The assets will form part of Essential's Transport business segment.

e) Other

Amount relates to the finalization of a prior year acquisition.

2006

The Trust completed a number of acquisitions during the first nine months of 2006. These acquisitions have been accounted for using the purchase method of accounting. Results from the operations of Classic Well Servicing Partnership ("Classic"), DRB-AV Partnership ("DRB-AV") and Kodiak Coil Tubing Limited Partnership ("Kodiak") are included in the Trust's consolidated financial statements from the closing date of acquisition.

The following indicates how the purchase price has been allocated.

Calculation of purchase price	Jacar (a) \$	Classic (b) \$	DRB-AV (c) \$	Kodiak (d) \$	Non-Controlling Interest (e) \$	Total \$
Cash consideration	15,638	-	-	13,017	618	29,273
Bank overdraft	386	39	-	-	-	425
Essential Trust units issued	4,369	31,917	19,860	8,833	11,445	76,424
Transaction costs	300	300	-	400	-	1,000
Total purchase price	20,693	32,256	19,860	22,250	12,063	107,122

Essential Energy Services Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006
(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

	Jacar (a) \$	Classic (b) \$	DRB-AV (c) \$	Kodiak (d) \$	Non- controlling Interest (e) \$	Total \$
Allocation of purchase price						
Non-cash working capital	2,735	1,065	-	3,191	353	7,344
Property and equipment	9,028	16,192	7,966	9,226	-	42,412
Goodwill/Intangible assets	8,930	15,937	11,894	12,933	10,240	59,934
Long-term debt	-	(938)	-	(2,522)	-	(3,460)
Non-controlling interest	-	-	-	(578)	1,470	892
Total purchase price	20,693	32,256	19,860	22,250	12,063	107,122

a) Jacar Energy Services Partnership

On September 18, 2006 the Trust acquired all of the assets and business of Jacar Energy Services Partnership ("Jacar") from Jacar Hot Oil Service Ltd. and related parties, which provides a range of production services to oil and gas operators across southern Alberta and into southern Saskatchewan, for total consideration of \$20,693 consisting of net cash of \$15,638, estimated transaction costs of \$300, and the issuance of 544,053 Essential Trust Units at \$8.03 per unit.

b) Classic Well Servicing Partnership

On May 31, 2006 as part of the Plan of Arrangement, the Trust acquired 100% of the partnership units of Classic Well Servicing Partnership, which provides well servicing through nine mobile service rigs to the oil and gas industry, for the issuance of 3,191,721 Trust Units at \$10.00 per unit and the assumption of \$39 in bank overdraft. Transaction costs of the acquisition were approximately \$300.

c) DRB-AV Partnership

On May 31, 2006 as part of the Plan of Arrangement the Trust acquired 100% of the partnership units of DRB-AV Partnership. The assets acquired include four swab rigs, two hot oilers, two vacuum trucks, a hydro-vac, a tank truck and a combination steamer-vac. The acquisition was completed through the issuance of 1,985,960 Trust Units at \$10.00 per unit.

d) Kodiak Coil Tubing Limited Partnership

On March 31, 2006 the Energy Services Division of Avenir acquired a 90% partnership interest in Kodiak Coil Tubing Limited Partnership, for total consideration of \$22,250 consisting of net cash of \$13,017, transaction costs of approximately \$400 and the issuance of 729,438 Avenir Trust Units at \$12.11 per unit. The Avenir Trust Units were valued based on a 5% discount to the average fair market value of the units immediately prior to the date the letter of intent was signed. The Trust further agreed to pay an additional contingent amount based on a predetermined multiple of Kodiak's 2006 earnings before interest, depreciation and taxes in excess of \$5,200 up to a maximum

Essential Energy Services Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006
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payment of \$18,000. As at December 31, 2006 the trust accrued a contingent cost of \$12,027, which was settled in April 2007 with the issuance of 2,304,294 Essential trust units.

e) Non-Controlling Interest

On May 31, 2006 as part of the Plan of Arrangement, the Trust acquired the remaining 10% of the partnership units of Cascade Services Partnership ("Cascade"), Westvac Energy Services Partnership ("Westvac") and Kodiak Coil Tubing Limited Partnership ("Kodiak"), for net cash consideration of \$618 and the issuance of 1,144,533 Trust Units at \$10.00 per unit

4. BANK INDEBTEDNESS

At September 30, 2007, the Trust has an extendible revolving loan facility with a syndicate of four Canadian chartered banks in the amount of \$25,000 bearing interest at prime plus one-half of one percent per annum payable monthly. As at September 30, 2007, \$11,100 (December 31, 2006 – \$10,940) was drawn on the revolving loan facility.

This facility is collateralized by a floating charge debenture over all of the Trust's assets.

There are several positive and negative covenants included in the bank agreement. Breach of any covenant will result in an event of default in which case the Trust has 15 days to remedy such default. If the default is not remedied or waived, and if required by the majority of lenders, the administrative agent of the lenders has the option to cancel all credit availability and demand repayment of the credit facility in full, together with outstanding accrued interest and, without prejudice to the administrative agents or lender's other rights and remedies.

The average effective interest rate on borrowings under the line for the three and nine months ended September 30, 2007 was 7.3% and 6.9%, respectively (September 30, 2006 - 5.7% and 5.8%).

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5. LONG-TERM DEBT

	September 30, 2007	December 31, 2006
	\$	\$
Term acquisition loan facility	55,500	55,000
Various loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95% , and maturities from October 2007 to November 2009	837	1,412
Less:		
Current portion	(6,661)	(11,347)
	49,676	45,065

On June 27, 2007 (effective May 31, 2007) the Trust entered into an agreement with a syndicate of four Canadian chartered banks comprised of an operating line of credit (note 4) and a term acquisition loan facility. Under this agreement, the term acquisition loan facility is limited to the lesser of \$85,000 or 60 percent of the net tangible assets (as defined in the bank agreement). The facility has no required principal repayments during the term and bears interest at the bank's prime rate plus 0.75 percent. The average effective interest rate on borrowings under the line for the three and nine months ended September 30, 2007 was 7.2% and 6.9%, respectively (September 30, 2006 - 5.7% and 5.8%). The facility expires on May 30, 2008 and can be renewed, at the lender's option, for an additional 364-day period. If not renewed, the loan is repayable in equal monthly instalments over a three-year period. As a result, the portion of the term acquisition loan included in the current portion of long-term debt at September 30, 2007 is \$6,167 (December 31, 2006 – \$10,694).

The term acquisition loan facility is collateralized by a general security agreement and a general assignment of book debts. The various loans payable are collateralized by automotive and heavy automotive equipment.

There are several positive and negative covenants related to the term facility included in the bank agreement. Breach of any covenant will result in an event of default in which case the Trust has 15 days to remedy such default. If the default is not remedied or waived, and if required by the majority of lenders, the administrative agent of the lenders has the option to cancel all credit availability and demand repayment of the credit facility in full, together with outstanding accrued interest and, without prejudice to the administrative agents or lender's other rights and remedies.

In management's opinion the carrying value of these loans do not differ significantly from their fair values, as the terms and conditions of loans entered into today would not differ significantly from existing loans.

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6. UNITHOLDERS' CAPITAL

a) Unitholders' capital

Issued

Trust Units	Number of Units	Amount \$
Balance December 31, 2006	27,713,077	159,423
Units issued as additional consideration relating to the acquisition of the 10% interest in Cascade (i)	101,351	-
Units issued to the vendors of Kodiak (ii)	2,304,294	-
Units issued on financing June 13, 2006 (iii)	5,149,254	32,618
Balance September 30, 2007	35,267,976	192,041

- (i) The Trust issued 101,351 units on February 28, 2007 at \$5.92 per unit to settle the additional consideration to the non-controlling interest partner of Cascade Services Partnership ("Cascade"). The dollar value of the units had previously been accrued to unitholders' capital in December, 2006.
- (ii) On April 25, 2007, 2,304,294 trust units were issued to the vendors of Kodiak Coil Tubing Limited Partnership ("Kodiak") at a price per unit based on the average closing price of the last 10 trading days of 2006, and a pre-determined multiple of Kodiak's 2006 EBITDA in excess of \$5,200, up to a maximum payment of \$18,000. At December 31, 2006, Essential accrued \$12,027, relating to the Kodiak additional consideration, to unitholders' capital.
- (iii) On June 13, 2007, the Trust completed an equity offering by way of a short-form prospectus for total proceeds of \$34,500 (net proceeds of \$32,618 after deducting associated costs of \$1,882).

b) Contributed surplus

	September 30, 2007	December 31, 2006
Contributed surplus, beginning of period	642	-
Stock-based compensation	1,232	642
Contributed surplus, end of period	1,874	642

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c) Net income per unit

The Trust had basic weighted average number of trust units outstanding of 35,267,976 and 31,194,828 for the three and nine months ended September 30, 2007, respectively (three and nine months ended September 30, 2006 – 27,216,706 and 27,198,397). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options and contingently issuable shares resulting in a diluted weighted average number of trust units outstanding for the three and nine months ended September 30, 2007, of 35,267,976 and 32,182,210, respectively (three and nine months ended September 30, 2006 – 27,216,706 and 27,198,397 respectively).

The Trust had no outstanding in-the-money options at September 30, 2007.

7. STOCK-BASED COMPENSATION

	Number of options outstanding	Weighted average grant date exercise price (\$)
Outstanding, December 31, 2006	1,450,600	9.92
Granted	1,192,200	5.87
Expired	151,167	8.15
Outstanding, September 30, 2007	2,491,633	8.09
Exercisable, September 30, 2007	466,790	9.91

The following table summarizes information about the unit options outstanding at September 30, 2007:

Grant date exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
10.00	1,276,933	3.67	436,790
8.64	90,000	3.92	30,000
5.87	1,124,700	4.50	-
	2,491,633	4.05	466,790

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The total fair value of stock-based compensation of \$2.05 per unit, for those options issued to employees, directors, and consultants during the period, was calculated using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The fair value of the options is amortized equally over the vesting period to income and equity as stock-based compensation expense and contributed surplus, respectively. The assumptions made for the options granted in 2007 are as follows:

Grant date exercise price	
Expected volatility	49.1%
Risk-free interest rate	3.97%
Expected life of options	5 years
Dividend yield	nil

The Trust recorded compensation expense and contributed surplus of \$436 and \$1,232 for the three and nine months ended September 30, 2007, respectively (three and nine months ended September 30, 2006 - \$294 and \$392, respectively).

8. FINANCIAL INSTRUMENTS

a) Designation and valuation of financial instruments

As a result of the adoption of Section 3855 (note 2), Essential has classified its cash as held for trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, distributions payable, capital lease obligations, and long-term debt are classified as other financial liabilities. The Trust did not designate any of its financial assets as either held-to-maturity or available-for-sale at January 1, 2007. The carrying values of all financial instruments approximate their estimated fair values.

The fair-value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates.

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b) Risks

Exposure to credit risk and interest rate risk arises in the normal course of the Trust's business. The Trust currently does not enter into derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Trust's operations. The Trust enters into financial instruments to finance the Trust's operations in the normal course of business.

(i) Credit risk

The Trust's accounts receivable are exposed to credit risk. Although a substantial portion of trade receivables is dependant upon the strength of the Canadian oil and gas industry, management considers credit risk to be minimal. Management routinely assesses the financial strength of customers, and monitors the exposure for credit losses.

Of the Trust's trade accounts receivable as at September 30, 2007, approximately 28% was due from two companies 15% and 13%, respectively) (December 31, 2006 - 11% and 13%, respectively).

(ii) Interest rate risk

Drawing under the Trust's bank credit facilities and long-term debt are at floating interest rates and expose the Trust to cash flow risk. Management currently deems this risk to be minimal and has not attempted to mitigate this risk.

9. RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2007, the Trust leased land and buildings from officers of the Trust which are included in operating expenses. The expense totaled \$117 and \$351, respectively (September 30, 2006 - \$54 and \$162, respectively). These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the respective parties, and were recorded at the exchange amount.

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10. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on two principal business segments – Rigs and Transport. The accounting policies followed by these business segments are the same as those described in the summary of significant accounting policies. During the three and nine months ended September 30, 2007 and 2006 there were no inter-segment transactions.

The following is selected financial information for each business segment:

	For the three months ended		For the nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
Revenue				
Rigs	12,994	14,431	38,268	29,143
Transport	14,681	10,836	47,406	34,374
	27,675	25,267	85,674	63,517

	For the three months ended		For the nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
Operating Expenses				
Rigs	7,130	8,247	22,021	15,966
Transport	9,062	6,791	28,898	19,668
	16,192	15,038	50,919	35,634

	For the three months ended		For the nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	\$	\$	\$	\$
Net Income (Loss)				
Rigs	2,380	3,331	5,530	5,252
Transport	1,156	1,535	5,671	5,797
Corporate	(1,769)	(2,445)	(8,926)	(3,914)
	1,767	2,421	2,275	7,135

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As at September 30, 2007				
	Rigs	Transport	Corporate	Total
	\$	\$	\$	\$
Selected balance sheet items				
Property and equipment	57,957	42,547	305	100,809
Goodwill/Intangibles	57,912	52,288	-	110,200
Total assets	127,340	106,670	863	234,873
Bank indebtedness	-	-	11,100	11,100
Long-term debt	-	837	55,500	56,337

As at December 31, 2006				
	Rigs	Transport	Corporate	Total
	\$	\$	\$	\$
Selected balance sheet items				
Property and equipment	55,400	41,087	254	96,741
Goodwill/Intangibles	55,485	43,849	-	99,334
Total assets	124,227	98,099	855	223,181
Bank indebtedness	-	-	10,940	10,940
Long-term debt	-	1,412	55,000	56,412

11. CASH DISTRIBUTIONS TO UNITHOLDERS

During the nine months ended September 30, 2007, the Trust declared monthly distributions to unitholders of record as at the close of business on each distribution record date. Such distributions are recorded as reductions of unitholders' equity upon declaration of the distribution.

Record Date	Payment Date	Cash Distributions per Unit (\$)	Total Distributions
January 31, 2007	February 15, 2007	0.083	2,300
February 28, 2007	March 15, 2007	0.083	2,308
March 30, 2007	April 16, 2007	0.083	2,309
April 30, 2007	May 15, 2007	0.083	2,500
May 31, 2007	June 15, 2007	0.083	2,500
June 30, 2007	July 16, 2007	0.083	2,927
July 31, 2007	August 15, 2007	0.083	2,927
August 31, 2007	September 17, 2007	0.083	2,927
September 30, 2007	October 15, 2007	0.083	2,928
Total		0.747	23,626

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12. INCOME TAX

In June 2007 the Government of Canada enacted new legislation imposing additional income taxes upon publicly traded income trusts, including Essential, effective January 1, 2011. Prior to September 2007, Trust estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Under the legislation, the Trust now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. Temporary differences reversing before 2011 will still give rise to nil future income taxes. Based on its assets and liabilities as at September 30, 2007, the Trust has estimated the amount of its temporary differences which were previously not subject to tax and has estimated the periods in which these differences will reverse. The Trust estimates that \$59 net taxable temporary differences will reverse after January 1, 2011.

While the Trust believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on the Trust's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect the Trust's estimate of the future tax liability.

The difference between the accounting value and the income tax value of assets and liabilities, which compromise the future tax liability, are as follows:

	September 30, 2007 \$
Share issuance costs	253
Goodwill/Intangible assets	(272)
Future tax liability	(19)

CORPORATE INFORMATION

DIRECTORS

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Chairman

Gary H. Dundas^{1,2}

Dennis Balderston^{1,3}

Jeffrey J. Scott^{1,4}

Neil Mackenzie^{3,4}

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

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Toronto Dominion Bank
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Canadian Western Bank

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

TRANSFER AGENT

Olympia Trust Company

OFFICERS

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Duncan Au, CA, CFA
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Ken Wagner
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Stuart King, CA
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