



PULLING TOGETHER

2008 Annual Report

Reader Advisory

This report contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this report contains forward-looking statements including expectations of future cash flow and earnings, expectations regarding Essential Energy Services Trust's (the "Trust" or "Essential") ability to access credit from its lenders, expectations regarding the expected synergies and savings from the merger with Builders, expectations with respect to the demand for and price of oil and natural gas, expectations regarding the implementation of legislation, expectations regarding capital spending, the sources of capital and uses of such capital, expectations regarding the level of drilling and production activity in the Western Canadian Sedimentary Basin and expectations regarding the business, operations and revenues of the Trust in addition to general economic conditions. Although the Trust believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Trust can give no assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oilfield services sector (e.g. demand, pricing and terms for oilfield services; current and expected oil and gas prices; exploration and development costs and delays; reserves discovery rates; pipeline and transportation capacity; weather, health, safety and environmental risks), integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties and environmental regulations. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Trust's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). The forward-looking statements and information contained in this report are made as of the date hereof and the Trust undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

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PULLING TOGETHER FOR INVESTORS

A DEFINED STRATEGY

Essential provides core oilfield services that are vital to its Canadian oil and gas customers. The focus is directly on servicing the wellbore. Approximately 50 percent of Essential's services are focused on production-related activity, which is typically less affected by industry downturns.

LOW DEBT

Significant debt reduction in 2008 left Essential with only \$17.5 million of debt outstanding at December 31, 2008 and effectively debt free net of working capital. The debt-to-EBITDAS* ratio at December 31, 2008 was among the lowest in the sector at only 0.6 times – giving Essential an enviably strong balance sheet.

PRUDENT COST MANAGEMENT

Essential has taken proactive steps to reduce costs early in 2009 and preserve cash flow, positioning the Company to weather a severe industry downturn.

GROWTH ORIENTED

Essential's history is a growth story. The strong balance sheet will enable measured growth to occur when appropriate opportunities exist. Growth may be organic, through expansion of existing service lines, or through asset or corporate acquisitions.

* Earnings before interest, income taxes, depreciation, amortization, non-controlling interest earnings, gains or losses on disposal of equipment, results of discontinued operations, impairment of goodwill and unit-based compensation.

PULLING TOGETHER FOR CUSTOMERS

CUSTOMER RELATIONSHIPS

Essential's business units have been in service for 10 to 40 years, enabling solid customer relationships to develop. These customer relationships are very valuable during this industry downturn. Essential has a diverse customer base – from majors to juniors.



STRATEGIC SERVICES

Essential offers downhole services across the Western Canada Sedimentary Basin (WCSB). Years of experience result in high quality and efficient service delivery.



STRENGTH IN LOCAL BRANDS

Essential's field managers and brands have been in the oilfield services sector for many years. Their depth of experience and established relationships allow them to provide consistently reliable services plus innovative solutions to customer requests.



COMPETITIVENESS

Essential constantly strives to maintain competitive pricing for its services – during busy times as well as in the current downturn. During these challenging times Essential strikes a balance between the needs of its customers and ensuring it maintains activity and margins.

PULLING TOGETHER DIVERSE SERVICES

WELL SERVICING

Provides well completions and production/workover services. Services support crude oil and natural gas activity.



SERVICE RIGS

- 55 service rigs and 27 rod rigs.
- 6th largest service rig operation in Canada.
- Well completion services – used to complete a well for initial production after drilling. May involve cleaning out the wellbore and/or installing production tubing, downhole and wellhead equipment.
- Production/workover services – includes repairs or modifications to existing wells. May involve restoring or enhancing production to an existing producing zone, changing to a new producing zone, or plugging and abandoning a well.



COIL TUBING

- 32 units and 7 nitrogen units.
- Uses a continuous string of coil tubing ranging from 1,000 metres to 4,000 metres in length and three-quarters to one-and-three-quarter inches in diameter, which is very versatile for circulation in wellbores using liquids or gases.
- Can be used for drilling or milling and can run a variety of downhole tools for production, segregation or abandonment of oil and natural gas wells.

PULLING TOGETHER DIVERSE SERVICES

WIRELINE & RENTALS

Provides a variety of services to assist with the drilling, completion and production phases of oil and natural gas wells.



WIRELINE SERVICES

- 14 e-line and 7 slickline units.
- E-line – provides a wide variety of services for cased hole logging, perforating, abandonment and pipe recovery services using electrical line on sweet and sour service applications. Capable of working with high pressure, providing services with portable derrick units or from a service rig.
- Slickline – cable used to retrieve valves, plugs and gauges.

TOOLS & RENTALS

- Tools – sell, install and service a full range of downhole tools such as retrievable and permanent packers, flow control accessories, bridge plugs and stimulation tools.
- Rentals – supply niche equipment that customers typically do not own. Inventory includes drill pipe, heavy weight pipe, collars, degassers and blowout preventer rams.

HOW OUR SERVICES FIT THE LIFECYCLE OF A WELL



Essential provides services through many stages of an oil or natural gas well's lifecycle, from drilling through completion, production, ongoing maintenance/ servicing/recompletion and finally, abandonment. Approximately 50 percent of Essential's services are focused on production-related activity. This activity is typically less affected during industry downturns because producing companies want to maintain cash flows from existing wells. This focus provides somewhat of a buffer against the significant decrease in drilling activity that accompanies cyclical downturns.

WELL SERVICING

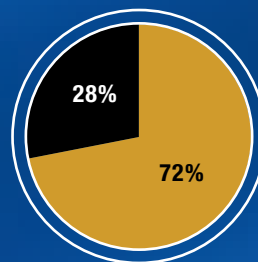
- SERVICE RIGS
- COIL TUBING

WIRELINE & RENTALS

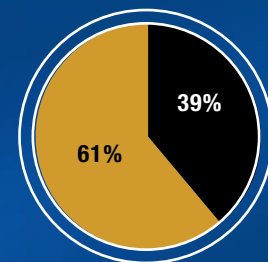
- ◆ WIRELINE
- ▲ TOOLS & RENTALS

2008 REVENUE ⁽¹⁾

■ WELL SERVICING
■ WIRELINE & RENTALS



2008 EARNINGS BEFORE INCOME TAXES ⁽¹⁾⁽²⁾



⁽¹⁾Includes first quarter 2008 revenue and earnings from Builders Energy Services Trust and excludes revenue and earnings from the disposed Transport division.

⁽²⁾Earnings from continuing operations before income taxes and goodwill impairment.

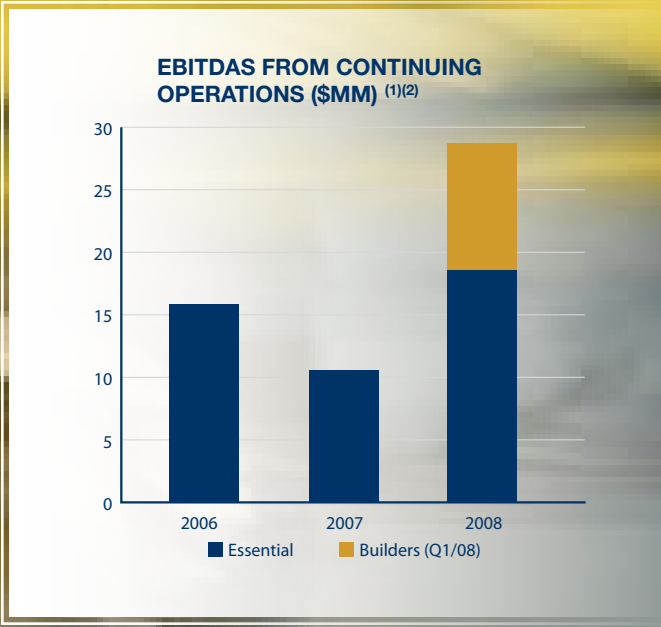
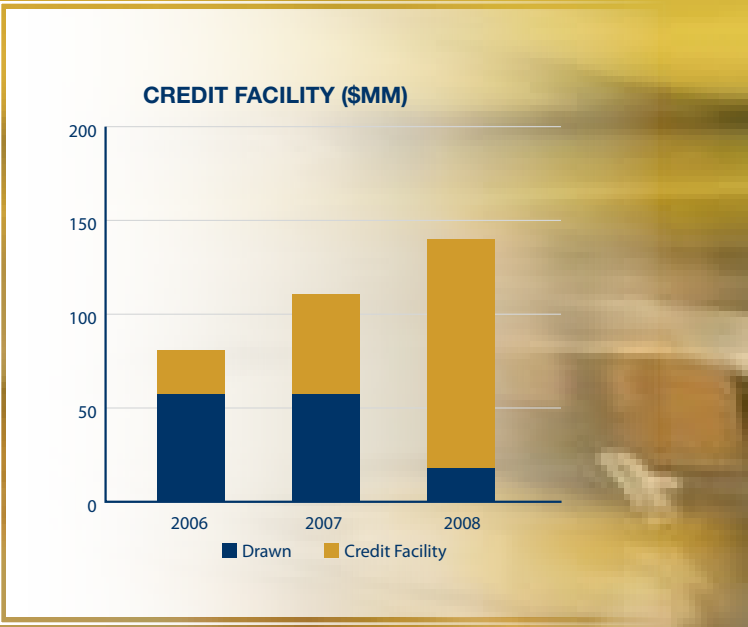
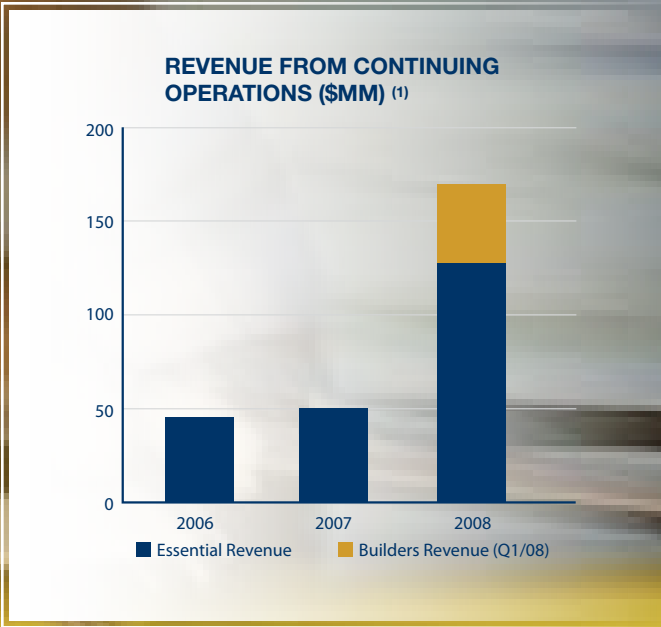
PULLING TOGETHER GEOGRAPHIC REACH



- WELL SERVICING
- WIRELINE & RENTALS

PULLING TOGETHER WITH FINANCIAL DISCIPLINE

DEBT/EBITDAS ⁽¹⁾⁽²⁾
0.6x
At December 31, 2008



(1) Excludes results from the Transport division for all years. Includes Builders first quarter 2008 results.

(2) Earnings before interest, income taxes, depreciation, amortization, non-controlling interest earnings, gains or losses on disposal of equipment, results of discontinued operations, impairment of goodwill and unit-based compensation.

PRESIDENT'S LETTER

As we look back on 2008, we see a year of unprecedented commodity price volatility and unparalleled changes in world credit markets.



Garnet Amundson
President and Chief
Executive Officer

DEAR FELLOW UNITHOLDERS:

As we look back on 2008, we see a year of unprecedented commodity price volatility and unparalleled changes in world credit markets. Essential was faced with a number of challenges and opportunities, and we have emerged a significantly stronger and different company than when we entered 2008.

2008 INDUSTRY OVERVIEW

Activity started off slowly for the western Canadian oilfield services sector. As the first quarter progressed, activity increased somewhat, but did not reach the levels seen in the first quarter of 2007. Drilling activity was held down by the high Canadian dollar relative to the U.S. dollar, bitterly cold weather in January that virtually halted oilfield activity in the Western Canada Sedimentary Basin (WCSB), high fuel prices that increased operating costs and concern about the recently announced Alberta royalty program increases. As the quarter progressed, so did optimism in the oilfield services sector as oil prices climbed to new highs and natural gas prices rebounded. In April, the Petroleum Services Association of Canada (PSAC) increased its well count forecast for 2008 and shortly thereafter a number of

exploration and production companies began increasing their capital spending budgets. Unfortunately, the height of optimism at the end of the second quarter did not have a direct impact on our operations as this is always a slow period for oilfield service activity due to spring break-up.

Oil and natural gas prices peaked in early July 2008 but then, due to the global credit crisis, commodity oversupply and the broadening economic slowdown, both commodities dropped swiftly and significantly. With decreasing commodity prices and the looming Alberta royalty increases, the outlook for oilfield services became increasingly negative as we progressed toward the winter drilling season. Exploration and production companies began announcing another slowdown in spending.

Overall, drilling rig utilization, a barometer for oilfield service activity, was slightly higher in 2008, at 40 percent, than in 2007, at 38 percent, and average service rig utilization, at 50 percent, was consistent in both years.

2008 ACCOMPLISHMENTS

As the industry went through significant changes, so did Essential. In response to changing industry conditions and unique opportunities, Essential took steps to create long-term value for unitholders.

1. MERGER WITH BUILDERS ENERGY SERVICES TRUST

The merger with Builders brought together two growth-oriented trusts with operations focused in the WCSB. There were significant similarities in the services provided and the companies had common operating philosophies. The merger provided \$5 million of operating and general and administrative synergies in 2008 and \$8 million on an annualized basis. While the merger was a positive move, it left the combined entity with significant debt and with changing economic conditions constrained capital availability was becoming a concern in the industry.

2. SALE OF THE TRANSPORT DIVISION

Selling the Transport division in July 2008 was a good and timely decision, occurring before commodity prices started to decline. The sale disposed of approximately 40 percent of our business on a revenue-generating basis. The proceeds of \$135 million reduced our outstanding debt from \$150 million to \$20 million. Essential honed its business focus and became a pure-play downhole services entity, focusing on well servicing through service rigs, rod rigs and coil tubing units, wireline, rentals and downhole tools.

3. SUSTAINED DISTRIBUTION

Along with the sale of the Transport division

came a reduction in operating cash flow, providing fewer dollars to pay the distribution. While many of our oilfield services peers had eliminated their distribution, the Board retained the distribution, but reduced the amount. In March 2009, the distribution was further reduced and changed to a quarterly payment.

4. LOW DEBT AND CREDIT FACILITY AVAILABILITY

At the time Essential merged with Builders, we entered into an amending credit agreement with a syndicate of four banks for \$160 million. When the Transport division was sold, the credit facility was reduced to \$140 million. With less than \$20 million drawn, a significant portion remained unutilized.

As a result of these changes, Essential emerged from 2008 as a stronger oilfield services company, well-positioned to deal with challenges facing the sector in 2009. Essential is now a more focused company with an exceptionally strong balance sheet. We have kept a keen eye on operations, and have streamlined our service lines and reduced operating and G&A costs.

In 2008, capital spending was conservative with net equipment expenditures of \$12 million. A new service rig and a sour service electric wireline unit were put into service late in the year. The sour service electric wireline unit was an important step into a new market.

In 2009, we plan to spend \$8 million, with \$4 million of that planned to complete a few

of the projects started in 2008. These include a double free-standing service rig that will go into service in March 2009, equipment to accompany the sour service electric wireline unit and a deep coil tubing unit.

In terms of our key financial results, EBITDAS for 2008 was \$28.9 million on a continuing operations basis (which assumes that on January 1, 2008, Builders and Essential merged and the Transport division was sold). Debt outstanding at December 31, 2008 was \$17.5 million. This translates to a debt-to-EBITDAS ratio of 0.6 times. Net of working capital, we have no debt. This low level of debt provides a strong financial platform for Essential which will be key to weathering weaker industry conditions and maintaining a position of strength for future growth opportunities.

2009 OUTLOOK

By all indications, 2009 will be a very difficult year for the oil and natural gas industry. Compounded by the general economic slow down, commodity price and activity indicators in the first quarter are not encouraging. Oil and natural gas activity in western Canada is expected to be much lower in 2009 than in 2008. In our view, 2009 is shaping up to be the worst year for oil and gas services in decades. Given these circumstances, we are taking decisive steps to ensure the long-term success of the Trust.

In January 2009, PSAC forecast 13,500 wells will be drilled on a rig release basis in Canada in 2009. This represents a 21 percent decrease compared to their 2008 well count of 17,043. In February 2009, CAODC forecast 11,176 wells

will be drilled on a well completion basis which represents a decrease of 46 percent compared to their 2008 well count of 20,679. PSAC expects declines in all of the western Canadian provinces except British Columbia. Due to the new Alberta royalty program, which took effect on January 1, 2009, activity declines are expected to be particularly severe in Alberta, where Essential has most of its operations. Although Alberta has recently announced several short-term incentives related to the royalty program, a competitive, long-term royalty framework is still absent in Alberta.

Year-to-date, drilling rig utilization, which acts as a barometer for oilfield service activity, has averaged 42 percent, compared to 60 percent in the comparable period of 2008. Utilization seems to have peaked in early February and spring break-up has arrived. A relatively early slowdown in winter work is driven by economic factors rather than just weather and road conditions as the limited access to capital and low commodity prices have led our customers to decrease their spending budgets. This is particularly concerning as the winter season is typically the busiest quarter. The second quarter is always a seasonally slow quarter, and with low natural gas prices and reduced customer credit availability, 2009 is expected to be even slower than normal. Looking into the third quarter, we believe that depressed natural gas prices will also preclude any significant increase in activity.

2009 COST REDUCTION INITIATIVES

We have responded to the negative industry conditions and outlook by taking definitive steps to reduce costs and preserve cash flow.

I believe Essential's business units will continue to perform relatively well in the contracting market.

The initiatives include:

1. Suspending company matching on the employee savings plan;
2. Suspending the 2009 annual incentive plan;
3. A hiring freeze for salaried employees;
4. A wage freeze for salaried employees;
5. A 10 percent salary rollback for the senior management team with a plan to assess salary reductions deeper in the organization;
6. A conservative 2009 capital budget of \$8 million, comprised of \$5 million for growth capital and \$3 million of net maintenance capital; and
7. Personnel cost reductions through unpaid leaves of absence, work sharing arrangements and layoffs.

Further cost reductions are underway and will be implemented over the next few months. Our objective is to continue to operate profitably during this challenging period while retaining our workforce to the extent possible so we are prepared for a sector turnaround, the timing of which is impossible to predict.

I believe Essential's business units will continue to perform relatively well in the contracting market as a result of our experienced field managers, local customer relationships and the strength in our local brands. In addition, Essential will benefit from its strong balance sheet and timely cost cutting measures. Approximately 50 percent of Essential's services are focused on production-related services,

which are typically less affected during industry downturns because producers wish to maintain cash flows from their existing productive capacity. This should provide Essential with somewhat of a buffer against the significant decrease in drilling activity. However, low commodity prices and continued uncertainty may significantly impact these services as well.

In light of current conditions and the uncertain outlook for the year, Essential announced a reduction in the distribution to \$0.0033 per unit for the March 2009 distribution paid in April. Starting in April 2009, Essential will begin paying a quarterly distribution of \$0.01 commencing with the period April 1, 2009 to June 30, 2009. Thereafter the board will continue to monitor the distribution on a quarter-by-quarter basis as commodity prices and industry conditions evolve. Investors and employees are both feeling the impact of the current slowdown and preservation of cash is critical to our success through this difficult period.

As the outlook clarifies and credit pressures begin to impact the sector, we anticipate future opportunities may begin to unfold. In the face of this negative industry outlook, Essential remains well-positioned financially with low debt and minimal debt servicing costs. The steps being taken by management today may translate into opportunities for future growth.

At Essential, we continue to believe in the long-term fundamentals for natural gas and oil drilling and the demand for oilfield services in the WCSB. Over the longer term, the fundamentals still point to an increasing demand for both commodities. The high production decline rates in the WCSB will, over time, require more drilling to maintain current production levels. In the meantime, Essential's management will continue to manage spending and debt prudently.

Sincerely,

Signed "Garnet K. Amundson"

Garnet K. Amundson
President and Chief Executive Officer
March 11, 2009

FINANCIAL REPORT

For the year ended December 31, 2008

SELECTED UNAUDITED COMBINED FINANCIAL INFORMATION

Essential and Builders Continuing Operations Combined As Of January 1, 2008

(see explanatory note below)

(\$ Thousands)	Three months ended				Year ended
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2008
Revenue	56,190	25,145	43,891	43,842	169,068
Gross margin ⁽¹⁾	18,694	1,513	11,236	12,086	43,529
Gross margin as a percentage of revenue ⁽¹⁾	33%	6%	26%	28%	26%
General and administrative expense	4,957	3,170	2,612	3,867	14,606
General and administrative expense as a percentage of revenue	9%	13%	6%	9%	9%
EBITDAS ⁽¹⁾	13,737	(1,657)	8,624	8,219	28,923
EBITDAS as a percentage of revenue ⁽¹⁾	24%	(7%)	20%	19%	17%
Working capital	3,703	32,768	35,848	28,298	28,298
Long term debt	74,167	150,706	22,063	17,525	17,525
	(70,464)	(117,938)	13,785	10,773	10,773

Note: In accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), the reporting in the Management's Discussion and Analysis ("MD&A") and the Consolidated Financial Statements represents Essential's stand-alone activities (not including Builders' operating or financial results) for January 1, 2008 to April 3, 2008 and the combined operations of Essential and Builders from April 4, 2008 to December 31, 2008. In addition, GAAP requires the results from the Transport division for the current and comparative periods to be segregated on the Statement of Operations as discontinued operations.

The financial results for Essential have been audited by the Trust's auditors. The financial results for Builders for January 1, 2008 to April 3, 2008 are unaudited and have not been reviewed by the Trust's auditors.

The table above is provided to assist the reader in understanding the current operations of Essential by providing the combined results for Essential's continuing operations assuming the combination of Builders and Essential had occurred on January 1, 2008. Results from the disposed Transport division are not included in these numbers.

The following table reconciles revenue and EBITDAS⁽¹⁾ from the table above to the financial results for Essential, on a GAAP basis, for the year ended December 31, 2008.

(\$ Thousands)	Revenue	EBITDAS
Combined results per table above	\$ 169,068	\$ 28,923
Less: Results from Builders for the period January 1 to April 3, 2008	(41,144)	(10,122)
Results per Essential Consolidated Financial Statements	\$ 127,924	\$ 18,801

⁽¹⁾Non-GAAP Measures

Gross margin

This measure is considered a primary indicator of operating performance as calculated by revenue less operating expenses.

Gross margin as a percentage of revenue

This measure is considered a primary indicator of operating performance as calculated by gross margin divided by revenue.

EBITDAS

(Earnings before interest, income taxes, depreciation, amortization, non-controlling interest earnings, losses or gains on disposal of equipment, results of discontinued operations, impairment of goodwill and unit based compensation). This measure is considered an indicator of the Trust's ability to generate funds flow in order to meet distributions, fund required working capital, service debt, pay current income taxes and fund capital programs.

EBITDAS as a percentage of revenue

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

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Trust ("Essential" or the "Trust") for the year ended December 31, 2008, should be read in conjunction with the Trust's audited consolidated financial statements as at and for the years ended December 31, 2008 and 2007 and the notes contained therein. This MD&A was prepared effective March 11, 2009.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including expectations of future cash flow and earnings, expectations regarding the Trust's ability to access credit from its lenders, expectations regarding the expected synergies and savings from the merger with Builders, expectations with respect to the demand for and price of oil and natural gas, expectations regarding the implementation of legislation, expectations regarding capital spending, the sources of capital and uses of such capital, expectations regarding the level of drilling and production activity in the Western Canadian Sedimentary Basin and expectations regarding the business, operations and revenues of the Trust in addition to general economic conditions. Although the Trust believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Trust can give no assurance that they will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oilfield services sector (e.g. demand, pricing and terms for oilfield services; current and expected oil and gas prices; exploration and development costs and delays; reserves discovery rates; pipeline and transportation capacity; weather, health, safety and environmental risks), integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties and environmental regulations. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Trust's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). The forward-looking statements and information contained in this MD&A are made as of the date hereof and the Trust undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

OVERVIEW OF ESSENTIAL

Based in Calgary, Essential is an open-end unincorporated, limited purpose investment trust. Essential provides oilfield services to oil and gas producers in western Canada related to the ongoing servicing of producing wells and new drilling activity.

After giving effect to the two transactions discussed below, the Trust's services are offered through two operating segments: Well Servicing and Wireline & Rentals. The Well Servicing segment provides production and completion services through its fleet of service rigs, coil tubing and nitrogen units, rod/flush-by rigs and swabbing units. The Wireline & Rentals segment provides wireline, downhole tools sales and services and equipment rentals.

A third non-operating segment, Corporate, includes general and administrative costs and interest.

MERGER WITH BUILDERS ENERGY SERVICES TRUST

On April 4, 2008 Essential completed a strategic combination with Builders Energy Services Trust ("Builders") pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Transaction"). Pursuant to the Transaction, the previous unitholders of Builders received, for each outstanding trust unit of Builders held by them, 1.25 trust units of Essential resulting in the issuance of 24,639,825 Essential Units and certain Builders options were exchanged for replacement options providing the holder with the right to acquire 1.25 Essential Units for each Builders option exercised ("Essential Replacement Options") resulting in the issuance of 1,214,208 Essential Replacement Options. Estimated total consideration for Builders was \$80.2 million, including acquisition costs.

DISPOSITION OF TRANSPORT DIVISION

On July 2, 2008, the Trust completed the sale of substantially all of the assets of its Transport division for total proceeds of \$135 million and applied the proceeds from this transaction against its long-term debt. The Trust realized an \$8.6 million gain, net of tax on the sale.

BASIS OF PRESENTATION

The following Management's Discussion and Analysis, and the consolidated financial statements as at and for the year ended December 31, 2008 have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The completion of the two transactions noted above has resulted in various changes to the presentation of financial information for the current year and comparative periods:

- The financial results of the merger with Builders have been included in the consolidated financial statements and MD&A of the Trust since April 4, 2008. Segmented financial information has been provided for the two ongoing reporting segments of the Trust (Well Servicing and Wireline & Rentals).
- The financial results of the Transport division (which include the historical transport activities of the Trust plus the transport activities acquired as part of the Builders acquisition) have been segregated on the Balance Sheets, Statements of Operations and the Statements of Cash Flow. The assets and liabilities associated with the Transport division have been reclassified on the Balance Sheets under the captions of Assets Held for Sale and Liabilities Held for Sale, respectively. Operating results and cash flows for the Transport division have been reclassified on the Statements of Operations and Statements of Cash Flows under the captions of Earnings (loss) from discontinued operations and Cash flows from (used in) discontinued operations, respectively.

SELECTED FINANCIAL INFORMATION

(Thousands, except per unit amounts)	Three months ended December 31,		For the year ended December 31,	
	2008	2007 (restated)	2008	2007 (restated)
Revenue	43,842	11,930	127,924	50,197
Gross margin ⁽¹⁾	12,086	3,457	29,792	15,858
Gross margin as a percentage of revenue ⁽¹⁾	28%	29%	23%	32%
EBITDAS ⁽¹⁾ from continuing operations	8,219	2,324	18,801	10,791
EBITDAS as a percentage of revenue ⁽¹⁾	19%	19%	15%	21%
Earnings (loss) from continuing operations before impairment of goodwill and income taxes	2,315	(2,212)	(3,685)	(3,672)
Loss from continuing operations	(14,685)	(38,287)	(23,443)	(39,747)
Per unit – basic and diluted	\$ (0.25)	\$ (1.07)	\$ (0.44)	\$ (1.23)
Earnings (loss) from discontinued operations	(1,265)	(192)	4,182	3,543
Per unit – basic and diluted	\$ (0.02)	\$ (0.02)	\$ 0.08	\$ 0.11
Net loss	(15,950)	(38,479)	(19,261)	(36,204)
Per unit – basic and diluted	\$ (0.27)	\$ (1.09)	\$ (0.36)	\$ (1.12)
Funds flow from operations ⁽¹⁾	6,113	3,799	15,987	20,008
Per unit – basic and diluted	\$ 0.09	\$ 0.10	\$ 0.30	\$ 0.61
Distributions to Unitholders	2,703	6,453	17,655	30,079
Per unit – diluted	\$ 0.04	\$ 0.18	\$ 0.33	\$ 0.93
Total assets	192,035	197,163	192,035	197,163
Total long term debt	17,525	57,001	17,525	57,001
Unitholders' equity	154,824	115,180	154,824	115,180

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

Additional information

Additional information regarding Essential, including the March 31, 2008, June 30, 2008 and September 30, 2008 interim reports, the 2007 Annual Report and the Annual Information Form for the year ended December 31, 2008, can be found on SEDAR at www.sedar.com.

2008 OVERVIEW OF SECTOR ACTIVITY

The western Canadian oilfield services sector is cyclical and is significantly affected by the activity levels of exploration and production companies. Activity in the Western Canadian Sedimentary Basin ("WCSB") in 2008 continued to be impacted by the revised royalty program introduced by the Alberta government in the latter part of 2007 to be implemented in January 2009. Drilling rig utilization rates in the WCSB remained weak in comparison to prior years despite a slight increase from an average utilization of 38% in 2007 to 40% in 2008. Drilling rig utilization rates act as a barometer for oilfield service activity. Industry wide service rig utilization per Canadian Association of Oilfield Drilling Contractors ("CAODC") averaged 50% in 2008 and 2007. According to the CAODC, there was an increase in 2008 drilling activity over 2007 activity by 8%. A total of 20,679 wells were drilled on a completion basis in the WCSB during 2008 in comparison to 19,144 wells in 2007. Competition for oilfield services remained tight due to a surplus of equipment in the oilfield service sector, resulting in ongoing pricing pressure across the entire oilfield services sector.

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

The price of crude oil continued to reach record highs during the first half of the year and peaked at the beginning of July at US\$145 per barrel. Additionally the first half of the year also saw significant improvement in the price of natural gas to reach US\$13.58 per mcf in July. As a result of the global credit crisis and recessionary concerns, the price of both commodities dropped swiftly and significantly during the second half of the year. In the fourth quarter, the price of oil dropped to a four year low of US\$34 per barrel, a 77% reduction from its high during the year. The price of natural gas dropped in the fourth quarter to a fifteen month low of US\$5.27 per mcf, a 61% reduction from its high during the year. The sharp decline in commodity prices during the second half of 2008 has led exploration and production companies to decrease their spending, which had a direct impact on activity levels of oilfield service companies.

OVERVIEW OF 2008 RESULTS

The results from the year ended December 31, 2008 are generally not comparable to the results for 2007 due to the increased size, scope and geographical reach of the operations acquired in the Builders merger and the completion of the divestiture of the Transport division. After giving consideration to these two transactions, only four of the twelve business units that make up continuing operations as at December 31, 2008 are included in the December 31, 2007 comparable information. Additionally, all variances are further impacted by the exclusion of Builders results for the period from January 1, 2008 to April 3, 2008.

In summary:

- Revenue from continuing operations for the year ended December 31, 2008 was \$127.9 million, compared to \$50.2 million for the year ended December 31, 2007.
- Gross margin⁽¹⁾ and gross margin as a percentage of revenue⁽¹⁾ from continuing operations for the year ended December 31, 2008 were \$29.8 million and 23% respectively, compared to \$15.9 million and 32% for the year ended December 31, 2007.
- Loss from continuing operations for the year ended December 31, 2008 was \$23.4 million, compared to \$39.7 million for the year ended December 31, 2007. Included in the loss in the current year are non-cash charges for depreciation of \$17.4 million, a writedown of goodwill of \$17.9 million and interest on long-term debt of \$2.9 million. Included in the loss for 2007 are non-cash charges for depreciation of \$9.5 million, a writedown of goodwill of \$35.1 million and interest on long-term debt of \$3.0 million.
- Funds flow from operations⁽¹⁾ for the year ended December 31, 2008 was \$16.0 million, compared to \$20.0 million for the year ended December 31, 2007.
- As at December 31, 2008, the Trust had total assets of \$192.0 million compared to total assets (excluding assets held for sale) of \$104.4 million as at December 31, 2007.
- As at December 31, 2008, the Trust had total long-term debt of \$17.5 million compared to total long-term debt of \$57.0 million as at December 31, 2007.
- The Trust's working capital in excess of long-term debt⁽¹⁾, as at December 31, 2008 was \$10.8 million compared to (\$55.9) million as at December 31, 2007.

RESULTS OF OPERATIONS

(Thousands, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2008	2007 (restated)	2008	2007 (restated)
Revenue	\$ 43,842	\$ 11,930	\$ 127,924	\$ 50,197
Operating expenses	31,756	8,473	98,132	34,339
Gross margin ⁽¹⁾	12,086	3,457	29,792	15,858
Gross margin as a percentage of revenue ⁽¹⁾	28%	29%	23%	32%
General and administrative expenses	3,867	1,133	10,991	5,067
EBITDAS ⁽¹⁾	8,219	2,324	18,801	10,791
EBITDAS as a percentage of revenue ⁽¹⁾	19%	19%	15%	21%
Unit-based compensation	361	606	1,588	1,838
Depreciation and amortization	4,842	3,103	17,427	9,520
Interest on long-term debt	289	704	2,861	2,977
Other	412	123	610	128
Earnings (loss) from continuing operations before impairment of goodwill and income taxes	2,315	(2,212)	(3,685)	(3,672)
Impairment of goodwill	17,902	35,085	17,902	35,085
Loss from continuing operations before income taxes	(15,587)	(37,297)	(21,587)	(38,757)
Future income tax expense (recovery)	(902)	990	1,856	990
Loss from continuing operations	(14,685)	(38,287)	(23,443)	(39,747)
Earnings (loss) from discontinued operations	(1,265)	(192)	4,182	3,543
Net loss	\$ (15,950)	\$ (38,479)	\$ (19,261)	\$ (36,204)
Loss per unit – basic and diluted	\$ (0.27)	\$ (1.09)	\$ (0.36)	\$ (1.12)

Revenue

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Revenue				
Well Servicing	\$ 31,135	\$ 11,930	\$ 95,970	\$ 50,197
Wireline & Rentals	12,707	-	31,954	-
	\$ 43,842	\$ 11,930	\$ 127,924	\$ 50,197

Revenue from continuing operations for the year ended December 31, 2008 was \$127.9 million, compared to \$50.2 million for the same period ended December 31, 2007. Revenue from continuing operations for the three months ended December 31, 2008 was \$43.8 million, compared to \$11.9 million for the same period ended December 31, 2007.

Management's Discussion and Analysis

The period over period increase from 2007 to 2008 is due to the completion of the Builders transaction and the resultant increased size, nature and geographic reach of the Trust's equipment fleet and the addition of the downhole tool and rental operations. Comparative fleet information as at December 31, 2008 and 2007 is as follows:

	As at December 31,	
	2008	2007
Well Servicing Equipment:		
Service Rigs	53	15
Rod Rigs/Swabbing Units	27	26
Coil Tubing/Nitrogen Units	39	25
Wireline Equipment		
E-line Units	13	-
Slickline Units	7	-

Well Servicing

Essential provides well completion and production/workover services across western Canada through its fleet of service rigs, coil tubing units, nitrogen units, rod rigs and swabbing units.

Well Servicing generated revenue of \$96.0 million for the year ended December 31, 2008, compared to \$50.2 million for the same period ended December 31, 2007. Well Servicing generated revenue of \$31.1 million for the three months ended December 31, 2008, compared to \$11.9 million for the same period ended December 31, 2007. This increase in revenue was due to the change in composition and size of the well servicing fleet as a result of the Builders transaction.

Industry wide service rig utilization averaged 50% for 2008 and 2007⁽²⁾. Essential's average service rig utilization for 2008 was 49%.

For the three months ended December 31, 2008, activity levels were impacted by the instability of commodity prices and the limited credit available for the Trust's customers. In addition, service rig activity was limited as winter access only work sites did not freeze up until the middle of November and then the extremely cold weather restricted job site activity. Essential achieved 48% service rig utilization in the fourth quarter which was slightly better than the CAODC average service rig utilization of 47%⁽²⁾.

Wireline & Rentals

Essential offers both e-line and slickline wireline services in addition to its downhole tool and equipment rental operations, through the Wireline & Rentals business segment.

Wireline & Rentals generated revenue of \$12.7 million and \$32.0 million for the three months and year ended December 31, 2008, respectively. Prior to the completion of the Builders transaction, the Trust did not operate a Wireline & Rentals segment.

Despite lower than forecasted drilling rig utilization rates, customer demand within the Wireline & Rentals segment remained strong throughout most of the year. This is particularly true within the Trust's downhole tool, and rental businesses where the type and nature of the drilling programs undertaken by the Trust's customers resulted in increased demand for these service offerings.

² Per Canadian Association of Oilfield Drilling Contractors ("CAODC") *Service Rig Activity Summary Report*.

Operating Expenses

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Operating expenses	\$ 31,756	\$ 8,473	\$ 98,132	\$ 34,339
As a % of revenue	72%	71%	77%	68%

Operating expenses from continuing operations for the year ended December 31, 2008 were \$98.1 million, compared to \$34.3 million for the same period ended December 31, 2007. Operating expenses were \$31.8 million for the three months ended December 31, 2008, compared to \$8.5 million for the same period in 2007. Due to the completion of the Builders transaction and the resultant increased size and nature of the Trust's operations, the results from 2008 and 2007 are not comparable.

The Trust maintains a scalable cost infrastructure wherever possible which naturally adjusts to changing economic conditions. Operations during 2008 were impacted by escalating costs, particularly in the area of rising labour and fuel costs during the first three quarters of the year. The Trust managed its cost profile during the year, including introducing modest rate increases to offset declining operating margins.

Since closing the Builders transaction, management has focused on integrating the business operations of the two entities. Through this process, the Trust's operations have been reviewed and evaluated in an effort to optimize business performance and realize operational synergies. Cost saving measures were implemented including the combination of certain field locations, the redeployment of equipment between various field locations and the elimination of field positions. As a result of steps taken in 2008, the Trust realized operating expense savings of approximately \$0.8 million during the year (\$2.0 on an annualized basis).

General and Administrative Expenses

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
General and administrative expenses	\$ 3,867	\$ 1,133	\$ 10,991	\$ 5,067
As a % of revenue ⁽¹⁾	9%	9%	9%	10%

General and administrative expenses from continuing operations for the year ended December 31, 2008 were \$11.0 million, compared to \$5.1 million for the same period ended December 31, 2007. General and administrative expenses were \$3.9 million for the three months ended December 31, 2008, compared to \$1.1 million for the same period in 2007. Due to the completion of the Builders transaction and the resultant increased size and nature of the Trust's operations, the results from 2008 and 2007 are not comparable.

General and administrative expenses as a percentage of revenue⁽¹⁾ were 9% for the three months and year ended December 31, 2008 compared to 9% and 10%, respectively, for the same periods ended December 31, 2007.

Management completed several integration initiatives to realize synergies resulting from the Builders transaction and subsequent divestment of its Transport operations. The streamlined cost structure and operational efficiencies were realized through the elimination of seven executive positions from the combined operations of Essential and Builders, reduced public company and insurance costs and other benefits of integrating the two publicly traded Trusts. The Trust realized approximately \$4 million (\$6 million on an annualized basis) of cost savings as a result of the Builders transaction.

Management's Discussion and Analysis

The general and administrative expense for the three months ended December 31, 2008 were higher than the prior quarter due to additional consulting fees related to the Trust's ongoing preparation and compliance associated with International Financial Reporting Standards and Internal Controls over Financial Reporting and one time charges related to the Builders acquisition recorded in the current quarter, while the expense for the third quarter of 2008 was offset by the reimbursement of costs in relation to a successful litigation against a former general manager of the Trust.

Unit-based Compensation Expense

The Trust recorded a non-cash expense related to unit-based compensation for the year ended December 31, 2008 of \$1.6 million, compared to \$1.8 million for the same period in 2007. The Trust recorded a non-cash expense related to unit-based compensation for the three months ended December 31, 2008 of \$0.4 million, compared to \$0.6 million for the same period in 2007. The net reduction in the expense is primarily due to forfeitures of options prior to vesting by departing employees which was offset by the additional unit based compensation related to unit option grants made during the year.

On March 11, 2009 there were 4,749,415 options outstanding (including 828,499 Essential Replacement Options issued in conjunction with the acquisition of Builders).

Depreciation and Amortization

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Depreciation and amortization	\$ 4,842	\$ 3,103	\$ 17,427	\$ 9,520

Depreciation and amortization expense from continuing operations for the year ended December 31, 2008 was \$17.4 million, compared to \$9.5 million for the same period ended December 31, 2007. Depreciation and amortization expense was \$4.8 million for the three months ended December 31, 2008, compared to \$3.1 million for the same period in 2007. The period over period increase from 2007 to 2008 is a result of the completion of the Builders transaction and the resultant increase in the size and nature of the equipment fleet.

During the year, management reviewed the depreciation policy to ensure that the policy, and its underlying assumptions and estimates, were suitable given the impact that the completion of the Builders transaction and disposition of the Transport division had on the nature of the capital assets of the continuing operations. There was no change to the existing depreciation policy but the estimated salvage values and depreciation rates of the policy were revised. As a result of these changes in accounting estimates, the depreciation expense for the year ending December 31, 2008 was \$2.2 million lower than it would have been under the previous depreciation policy of the Trust.

The change in accounting estimates has been adopted on a prospective basis commencing with the third quarter of 2008.

Interest on Long-term Debt

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Interest on long-term debt	\$ 289	\$ 704	\$ 2,861	\$ 2,977

Interest expense from continuing operations for the year ended December 31, 2008 was \$2.9 million, compared to \$3.0 million for the same period ended December 31, 2007. Interest expense was \$0.3 million for the three months ended December 31, 2008, compared to \$0.7 million for the same period in 2007.

The Trust's credit agreement with its banking syndicate bears interest that fluctuates with the bank's prime rate which has resulted in a decline in the average interest rate for the year. Interest rates on the Trust's long-term debt facility averaged 5.7% for the year ended December 31, 2008 compared with 6.9% for 2007.

Interest on long-term debt has declined in the three month period ending December 31, 2008 in comparison to the same period in 2007, due to the significantly lower average long-term debt outstanding during the period combined with lower interest rates. The average long-term debt outstanding for the three months ended December 31, 2008 was \$20.7 million in comparison to an average of \$56.8 million for the same period ended December 31, 2007. The average interest rate for the three months ended December 31, 2008 was 4.1% in comparison to 7.4% for the three months ended December 31, 2007.

Interest on long-term debt has fluctuated on a quarterly basis throughout 2008 in proportion to the long-term debt position of the Trust. Upon completion of the Builders transaction, the long-term debt of the Trust increased to \$153.8 million during the second quarter before being reduced in the third quarter when the Trust repaid the majority of its long-term debt from proceeds received from the sale of its Transport division. The Trust's long-term debt position remained relatively unchanged for the balance of the year.

Income Taxes

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Future income tax expense (recovery)	\$ (902)	\$ 990	\$ 1,856	\$ 990

Future income tax expense from continuing operations for the year ended December 31, 2008 was \$1.9 million, compared to \$1.0 million for the same period ended December 31, 2007. Future income tax expense (recovery) was \$(0.9) million for the three months ended December 31, 2008, compared to \$1.0 million for the same period in 2007.

In June 2007, the Government of Canada enacted legislation imposing additional income taxes on trusts for taxation years commencing January 1, 2011. The future tax expense resulted from reduced deductions arising from lower distributions announced in the second quarter and reduced values in the Trust's tax pools associated with the disposition of the Transport division.

The Trust does not anticipate current taxes prior to 2011 as its tax pools should be sufficient to shelter any taxable income during those periods.

In July 2008, the Government of Canada released draft legislation to permit a trust to convert to a corporation. The legislation proposes to reduce the administration and compliance associated with a conversion and to allow for the tax deferred conversion of a trust to a corporation. The legislation was finalized and enacted November 28, 2008.

Impairment of Goodwill

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Impairment of goodwill	\$ 17,902	\$ 35,085	\$ 17,902	\$ 35,085

Impairment of goodwill for the three months and year ended December 31, 2008 was \$17.9 million, compared to \$35.1 million for the same periods ended December 31, 2007.

Goodwill is tested for impairment annually to determine if events or circumstances indicate that the asset might be impaired. As a result of the initial indication of impairment in the Well Servicing reporting unit, the estimated fair value of the reporting unit's goodwill was compared to its carrying value. The result of this comparison indicated the carrying value of goodwill in the Well Servicing reporting unit exceeded its fair value, and accordingly a goodwill impairment in the Well Servicing reporting unit of \$17.9 million was

Management's Discussion and Analysis

recognized as at December 31, 2008. The Trust's Wireline & Rentals reporting unit was not considered as it did not have value assigned to goodwill. Subsequent to the recognition of this impairment on goodwill, the Trust no longer has any goodwill recorded on its Balance Sheet.

The conditions that gave rise to the goodwill impairment in 2007 and 2008 are similar in nature. In 2007 and 2008, the lack of stability in commodity prices combined with the revised royalty program implemented by the Alberta government resulted in an unstable operating environment in Alberta, where the Trust has its primary business activities. In addition to the continuance of this market uncertainty, the recent economic downturn, which has impacted the ability for the Trust's customers to access credit to continue exploration and production projects, further impaired the value of goodwill in 2008.

SUMMARY OF QUARTERLY DATA

<i>(\$Thousands, except per unit amounts)</i>	Dec 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
Revenue from continuing operations	43,842	43,891	25,145	15,046	11,930	12,992	9,339	15,936
Net earnings (loss)	(15,950)	8,400	(14,424)	2,713	(38,479)	1,767	(4,440)	4,948
Per-unit – basic	(0.27)	0.14	(0.24)	0.08	(1.09)	0.05	(0.15)	0.18
Per-unit – diluted	(0.27)	0.14	(0.24)	0.08	(1.09)	0.05	(0.15)	0.16
Funds flow from (used) in								
Operations ⁽¹⁾	6,113	8,125	(5,734)	7,482	3,608	5,759	996	9,455
Per-unit – basic	0.09	0.13	(0.10)	0.21	0.10	0.16	0.03	0.34
Per-unit – diluted	0.09	0.13	(0.10)	0.21	0.10	0.16	0.03	0.31
Distributions per unit	0.04	0.05	0.12	0.15	0.18	0.25	0.25	0.25

Quarterly data only incorporates the impact of the Builders acquisition for the quarters ended June 30, September 30 and December 31, 2008.

FINANCIAL RESOURCES AND LIQUIDITY

On an annualized basis, the Trust finances its distributions through funds flow from operations⁽¹⁾. The Trust reviews and establishes its distribution based on actual results to date, future expected funds flow from operations⁽¹⁾ and the Trust's ability to otherwise fund its capital requirements. Throughout 2008 and the first quarter of 2009, the board of directors of the Trust reviewed and approved the distribution level and payment on a monthly basis as consistent with past practices. In light of the current conditions and the uncertain outlook for 2009, Essential will begin paying a quarterly distribution commencing with the period from April 1, 2009 to June 30, 2009. Thereafter, the board will review and approve the distribution level and payment on a quarter-by-quarter basis.

Funds Flow from Operations⁽¹⁾

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Cash flow from operations	\$ 11,568	\$ 5,240	\$ 37,183	\$ 22,467
Less:				
Changes in non-cash operating working capital	(5,455)	(1,441)	(21,196)	(2,459)
Funds flow from operations	\$ 6,113	\$ 3,799	\$ 15,987	\$ 20,008
Per unit – basic and diluted	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.61

During the year ended December 31, 2008, funds flow from operations⁽¹⁾ was \$16.0 million compared to \$20.0 million in 2007. Funds flow from operations⁽¹⁾ was \$6.1 million for the three months ended December 31, 2008, compared to \$3.8 million for the same period in 2007. Due to the completion of the Builders transaction and the resultant increased size and nature of the Trust's operations, the results from 2008 and 2007 are not comparable.

Distributable Cash

Distributable cash from operations⁽¹⁾ is a cash flow measure intended to indicate the ability of an organization to generate cash that can then be used to fund distributions to unitholders or for other purposes such as the funding of capital expenditure programs or the repayment of credit facilities. Distributable cash from operations does not have any meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers.

A summary of the elements applicable to the Trust's distributable cash is as follows:

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Cash flow from operations	\$ 11,568	\$ 5,240	\$ 37,183	\$ 22,467
Cash distributions for the period	2,710	7,612	18,521	30,617
Excess (shortfall) of cash flows from operating activities over cash distributions	\$ 8,858	\$ (2,372)	\$ 18,662	\$ (8,150)

During the year ended December 31, 2008, cash flow from operations was in excess of cash distributions by \$18.7 million compared to a shortfall of \$8.2 million in 2007. Cash flow from operations was in excess of cash distributions by \$8.9 million for the three months ended December 31, 2008, compared to a shortfall of \$2.4 million for the same period in 2007. In 2007, the Trust used excess funds financed through the equity financing completed in June to cover the shortfall of cash flow to pay distributions.

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Loss from continuing operations before income taxes	\$ (15,587)	\$ (37,297)	\$ (21,587)	\$ (38,757)
Cash distributions for the period	2,710	7,612	18,521	30,617
Excess (shortfall) of net income from continuing operations over cash distributions	\$ (18,297)	\$ (44,909)	\$ (40,108)	\$ (69,374)

During the year ended December 31, 2008, there was a shortfall of net income in comparison to cash distributions by \$40.1 million compared to a shortfall of \$69.4 million in 2007. There was a shortfall of net income in comparison to cash distributions by \$18.3 million for the three months ended December 31, 2008, compared to a shortfall of \$44.9 million for the same period in 2007. Distributions typically exceed net income as a result of non-cash expenses such as depreciation and amortization, future income tax expense, goodwill impairment and unit based compensation expense. These non-cash expenses result in a reduction of net income, with no impact to cash flow from operating activities.

Working Capital

(Thousands)	December 31, 2008	December 31, 2007
Current assets, excluding assets held for sale	\$ 44,360	\$ 24,447
Current liabilities, excluding current portion of long-term debt and liabilities held for sale	16,062	23,346
Working capital	\$ 28,298	\$ 1,101
Working capital ratio	2.8:1	1:1

Working capital at December 31, 2008 was \$28.3 million compared to \$1.1 million at December 31, 2007. The increase in working capital was due to the Builders acquisition in April which offset by the reduction in working capital resulting from the disposition of the Transport segment.

Working Capital Net of Long-term Debt

(Thousands)	December 31, 2008	December 31, 2007
Working capital	\$ 28,298	\$ 1,101
Long-term debt, including the current portion of long-term debt	(17,525)	(57,001)
Working capital surplus (deficit) net of long-term debt	\$ 10,773	\$ (55,900)

Working capital net of long-term debt at December 31, 2008 was a surplus of \$10.8 million compared to a deficit of \$55.9 million at December 31, 2007. During 2008, the Trust significantly improved its net cash position as a result of the disposition of its Transport division and applying the proceeds to reduce its long-term debt.

Credit Facility

The Trust's credit agreement with its banking syndicate is comprised of an extendible revolving loan facility (the "Facility"). Under this agreement, the Facility is limited to the lesser of \$140.0 million or the sum of 75% of the Trust's accounts receivables less specific items (the "Borrowing Base") and 60% of the Trust's carrying value of property and equipment less term debt. The Borrowing Base must be at least 20% of the Facility otherwise the Facility is reduced by the amount of any shortfall. The Facility has no required principal repayments until expiry and bears interest that fluctuates with the bank's prime rate. A maximum of \$104 million was available to the Trust as at December 31, 2008, of which \$17.5 million was outstanding. On March 11, 2009, \$20.4 million of long-term debt was outstanding.

The Facility expires on May 31, 2009 and can be renewed, at the lenders' option, for an additional 364-day period. If not renewed, the loan is repayable in equal monthly installments over a three-year period. The Trust anticipates that the Facility will be renewed by its expiry date.

As at December 31, 2008, all financial debt covenants were satisfied and all banking requirements were up to date. The Trust does not anticipate any financial resources or liquidity issues to restrict its future operating, investing or financing activities.

Equipment Expenditures

(Thousands)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Equipment expenditures				
Well Servicing	\$ 3,726	\$ 1,763	\$ 7,816	\$ 4,896
Wireline & Rentals	3,220	-	5,289	-
Corporate	392	282	864	518
	7,338	2,045	13,969	5,414
Less proceeds on disposal of property and equipment	(719)	(273)	(1,619)	(719)
Net equipment expenditures ⁽¹⁾	\$ 6,619	\$ 1,772	\$ 12,350	\$ 4,695

Net equipment expenditures⁽¹⁾ for the year ended December 31, 2008 were \$12.3 million compared to \$4.7 million for the year ended December 31, 2007. Net equipment expenditures⁽¹⁾ for the three months ended December 31, 2008 were \$6.6 million compared to \$1.8 million for the three months ended December 31, 2007.

Net equipment expenditures⁽¹⁾ during 2008 were comprised of \$7.3 million in growth capital⁽¹⁾, \$4.3 million in net maintenance capital⁽¹⁾ and \$0.7 million for information systems, operational facilities and leasehold improvements.

In light of current industry conditions and the outlook for 2009, the Trust has established a conservative 2009 capital spending budget of \$8 million comprised of \$5 million of growth capital and \$3 million of net maintenance capital. Of the \$5 million planned for growth capital, \$4 million is to complete the capital programs announced in 2008.

Essential will continue to assess the appropriate level of capital spending relative to industry activity throughout 2009.

Trust Units

During the year ended December 31, 2008 the following transactions occurred:

- 365,064 Trust units were issued as consideration for the acquisition of the assets and business of A&B Hot Oil Services (1993) Ltd.
- 24,639,825 Trust units were issued to acquire Builders Energy Services Trust.
- 419,900 units were acquired and cancelled under the Normal Course Issuer Bid ("NCIB").

As at March 11, 2009, there were 59,862,965 Trust units and 4,749,415 Trust unit options outstanding (including 828,499 Essential Replacement Options issued in conjunction with the acquisition of Builders). Of the 4,749,415 Trust unit options, 1,142,623 were exercisable of which nil were "in-the-money".

NORMAL COURSE ISSUER BID ("NCIB")

On October 29, 2008 the Trust received approval from the Toronto Stock Exchange ("TSX") to implement an NCIB commencing on October 31, 2008 and terminating on October 30, 2009. Purchases were made at the discretion of management at prevailing market prices, through the facilities of the TSX. As at December 31, 2008, a total of 419,900 units were acquired and cancelled under the NCIB at a cost of \$0.4 million and a total of \$1.4 million was transferred to contributed surplus upon the share cancellations. The NCIB continues until October 30, 2009 and the Trust intends to cancel any additional units acquired under the issuer bid.

Unitholders may obtain a copy, without charge, of Form 12 – Notice of Intention to Make a Normal Course Issuer Bid, by contacting service@essentialenergy.ca.

DISCLOSURE CONTROLS AND PROCEDURES

The Trust's 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 a reasonable assurance that: (i) material information relating to the Trust is made known to the Trust's CEO and CFO by others, particularly during the period in which annual filings are being prepared; and (ii) information required to be disclosed by the Trust 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. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Trust's disclosure controls and procedures at the financial year end of the Trust and have concluded that the Trust's disclosure controls and procedures are effective at the financial year end of the Trust for the foregoing purposes.

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 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.

During the year, the Trust's management under the supervision of and with the participation of its CEO and CFO completed an assessment on the design and effectiveness of internal control over financial reporting. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. The assessment includes a risk-based evaluation and documentation and testing of key processes. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that disclosures and financial information is accurate and complete.

Through management's assessment of the design and effectiveness of internal controls over financial reporting, no material weaknesses were found. The broad scope of senior management's oversight and strong entity level controls are expected to compensate for any non-material control weaknesses. In addition, non material control weaknesses identified are mitigated by the active involvement of senior management in all the affairs of the Trust; open lines of communication within the Trust and its divisions; the present levels of activities and transactions within the Trust being readily transparent; the thorough review of the Trust's financial statements by management; and the establishment of a whistle-blower policy.

The Trust's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the Trust's annual filings for the year ended December 31, 2008, that the Trust's internal control over financial reporting, as defined in National Instrument 52-109, are operating effectively and suitably 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.

CRITICAL ACCOUNTING ESTIMATES

Preparation of consolidated financial statements requires that the Trust make assumptions regarding accounting estimates for certain amounts contained within the consolidated financial statements. The Trust's significant accounting estimates include depreciation of property and equipment; the fair value of assets and liabilities acquired in business combinations; estimated impairment of long-lived assets; estimated intangible assets; goodwill impairment; and estimating bad debts on accounts receivable. In light of the current economic conditions, the Trust has been conservative in its assumptions regarding accounting estimates. The Trust believes that each of the assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome. However, because of the uncertainties

inherent in making assumptions and estimates regarding unknown future outcomes, future events may result in significant differences between estimates and actual results.

Provision for Doubtful Accounts Receivable

The Trust performs periodic credit evaluations of its customers and grants credit based upon past payment history, financial condition, and anticipated industry conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations and overall industry conditions. The history of bad debt losses of the trust has been within expectations and is generally limited to specific customer circumstances. However, given the cyclical nature of the energy industry, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

Depreciation and Amortization

The equipment of the Trust is depreciated based upon its estimated useful lives and salvage values. For intangible assets, the amortization policies selected are intended to amortize the assets over their expected lives or contracted terms. The Trust reviews its historical experience with similar assets to help ensure that these depreciation and amortization rates are appropriate. However, the actual useful life of the assets may differ from the original estimate due to factors such as technological obsolescence and maintenance activity.

Impairment of Long-lived Assets

The Trust assesses the carrying value of long-lived assets, which include property and equipment, intangible assets and goodwill, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. The Trust determines the estimated fair value of a reporting unit using a discounted cash flow analysis. This valuation method employs a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. After recording the impairment loss in the current year, the carrying value of goodwill on Trust's balance sheet is \$nil.

Unit-based Compensation

Unit-based compensation is provided in respect of the unit option plan. The expense is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value the Trust uses estimates and assumptions to determine risk-free interest rate, expected term, anticipated volatility and distribution yield.

Fair Value of Assets and Liabilities Acquired in Business Combinations

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuations of property and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property and equipment acquired, the Trust may rely on independent third party valuations.

ACCOUNTING POLICIES

Initial Adoption

On January 1, 2008, Essential adopted several new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook section 1400 "General Standards of Financial Statement Presentation", section 1535 "Capital Disclosures", section 3031 "Inventories", section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation". The Trust adopted these standards retroactively without restatement.

Recent Accounting Pronouncements

The following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") are not yet effective but are applicable to the Trust's future reporting periods.

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

The two key elements of the project plan are: financial statement compliance with IFRS and the business impact resulting from the conversion to IFRS. Financial statement compliance with IFRS consists of four phases as discussed in the following table. The business impact element of the project will ensure that teams consider, on a timely basis, the implication of any prospective change in accounting standards on other areas of the business. This includes, but is not limited to, information system infrastructure and processes, business agreements and financing arrangements, key metrics and the control environment.

Financial Statement Compliance with IFRS	Milestones/Deadlines
<ul style="list-style-type: none">• Impact assessment phase - Initial identification of the major differences between current Canadian GAAP and IFRS standards and assessment of the impact of these differences in terms of the complexity of implementation and prospective timelines	Completed
<ul style="list-style-type: none">• Design and planning phase - Research specific differences between the standards, long-term and transitional options available and prospective changes to the IFRS standards prior to 2011. Identify potential implications on accounting policies and processes, business management, information systems, control environment and educational requirements. Develop a formal plan to meet project objectives.	Quantification of changes to financial statements including all relevant disclosures and 2010 comparatives are to be compliant for the start of the 2011 reporting period. Work to commence in Q2 2009.
<ul style="list-style-type: none">• Solution development phase - Quantify and evaluate transitional and long-term options available and select the most appropriate policies.	
<ul style="list-style-type: none">• Implementation phase - Integrate solutions into the underlying financial processes and systems.	

Essential commenced its IFRS conversion project in 2008 and plans to finalize the project team in early 2009 to successfully manage the transition to IFRS within the required timeframe. The conversion project will be driven by the finance group with input from all other functional areas, including but not limited to, operations, investor relations, tax and compliance and information technology. The use of staff from all functional area to assess IFRS accounting policy options will assist in generating appropriate recommendations and identifying the business implications throughout the project. The project plan has been designed with some flexibility to be able to adapt to unexpected developments as new accounting developments are made by the AcSB and the International Accounting Standards Board ("IASB") to ensure that Essential is fully compliant on adoption of IFRS. Updates will be provided to the audit committee on a quarterly basis.

The project is currently progressing according to plan. The assessments of high and medium impact accounting areas are scheduled to commence in the second quarter of 2009. Project status and details of additional projects identified during implementation phases will be provided as the information becomes available during the transition period.

Goodwill and Intangible Assets

In February 2008, the AcSB issued Section 3064 – Goodwill and Intangible Assets and amended Section 1000 – Financial Statement Concepts to clarify the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized as assets. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

The standards will be applicable on a retrospective basis with restatement to financial statements relating to fiscal years beginning on or after October 1, 2008. Early adoption is permitted. Essential plans to adopt this standard in 2009 and is currently evaluating the impact of the adoption of this new section.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, as part of the convergence of Canadian GAAP with IFRS, the AcSB issued Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling interests. These standards are to be adopted prospectively for fiscal years beginning on or after January 1, 2011 and early adoption is permitted. These standards provide the Canadian equivalent to IFRS standards.

RISKS AND UNCERTAINTIES

General

Certain activities of Essential are affected by factors that are beyond its control or influence. The oilfield services business is directly affected by fluctuations in the levels of exploration, oil and natural gas development and production activity carried on by its customers, which in turn is dictated by numerous factors, including world energy prices and government policies. Additionally, the business risks also include: seasonality, with typically lower second and third quarter and higher fourth and first quarter activity; availability of skilled workers; ability to retain key customers; and the environmental and safety risks inherent in the business.

Distributions

The distributions to be paid to the Unitholders by the Trust are determined by the board of directors on a month to month basis after considering the financial and strategic situation of Essential, including cash flow, capital requirements, revenue levels and debt levels. Historical distribution payments of the Trust may not be reflective of future distribution payments. Distributions are not guaranteed and may be reduced or suspended entirely at the discretion of the board of directors.

If the board of directors decides to reduce or suspend the payment of distributions, this could lead to a material decline in the market value of the Trust Units.

Service Industry Conditions

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. Exploration and production companies base their capital expenditures on several factors, including but not limited to hydrocarbon prices, production levels and access to capital. In recent years, commodity prices, and therefore, the level of drilling, production and exploration activity have been volatile. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the exploration and production companies and the demand for Essential's services. A significant, prolonged decline in commodity prices could have a material adverse effect on the oilfield services segment, results of operations and financial condition. The price of fuel, equipment and other input costs, insurance costs, interest rates, fluctuations in customers' business cycles and national and regional economic conditions are factors over which Essential has little or no control. A prolonged decline in commodity prices and field activity or significant increases in fuel prices, equipment prices, other input prices, interest rates or

insurance costs, could reduce profitability and could adversely affect the Trust's cash flow available to be distributed to Unitholders. Essential cannot predict the impact of future economic conditions and there is no assurance that the operations of Essential will continue to be profitable.

Seasonality of Operations

In the WCSB, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in restrictions in the level of oilfield services. The duration of this period has a direct impact on the level of the Trust's activities. Spring breakup typically occurs earlier in the year in southern regions than it does in the northern regions. The timing and duration of spring breakup are dependent on weather patterns but generally begins in March and continues into April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, Essential may not be able to access certain well sites and its operating results and financial condition may therefore be adversely affected.

The demand for oilfield services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on Essential's business, financial condition, results of operations and cash flows, and therefore on the cash flow available to be distributed to Unitholders.

Agreements and Contracts

The business operations of the Trust depend on performance based agreements with its customer base that are cancellable at any time by either the Trust or its customers. Key factors that determine whether a client continues to use the Trust are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, reputation for safety and competitive price. There can be no assurance that the Trust's relationship with its customers will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on the Trust's business, financial condition, results of operations and cash flows and therefore on the cash flow available to be distributed to Unitholders.

Government Regulation

The operations and, accordingly, the financial results of the Trust will be subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to royalty rates charged to the Trust's customers, health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its customers. The Trust believes that each of its operating entities is currently in compliance with the laws and regulations. The Trust intends to invest financial and managerial resources to ensure such compliance and will continue to do so in the future. Changes to such laws or regulations may have a material financial impact to the Trust. Accordingly, it is impossible for the Trust to predict the cost or impact of such laws and regulations on the Trust's future operations.

Alberta Royalty Framework

In Alberta, the Crown royalty rates on conventional oil and natural gas fluctuate, depending on when a well was drilled, well depth, well production volume and the price of oil and natural gas. On October 25, 2007 the Alberta Government introduced a new royalty regime which became effective on January 1, 2009 and is applicable to all existing conventional oil and natural gas wells in Alberta. The new royalty regime assess the applicable royalty rate on a well by well basis using a sliding scale which takes into account the price of oil and/or natural gas and the well's production volumes.

These changes to the Alberta royalty regime, as well as the potential for future corresponding changes in the royalty regimes applicable in other provinces, have created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and gas market. It is widely believed the new royalty program in Alberta is partially responsible for reduced land sales and customer activity in that province.

As the Trust provides services to oil and gas producers who explore for and produce conventional oil and natural gas, the new and transitional royalty regimes in Alberta are expected to have a negative impact on the profitability of producing oil and gas in Alberta and therefore it is likely to reduce exploration and production activity among oil and gas companies operating in Alberta. As the business of the Trust is to provide services and equipment to such companies, it is expected that the new royalty regime will reduce the demand for the services and equipment provided by the Trust and its competitors and may negatively affect the financial condition, results of operations and cash flows of the Trust and therefore the cash flow available to be distributed to Unitholders.

Environmental Risk

All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined, could have a material impact on the nature of oil and gas operations, including those of the Trust. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Trust and its operations and financial condition.

Credit and Interest Rate Risk

The majority of Essential's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Collection of these receivables could be influenced by economic factors affecting the oil and gas industry. The recent economic downturn has increased credit risk in the industry as customers have less cash flow and reduced access to credit.

The Trust is exposed to interest rate fluctuations on its bank indebtedness and long-term debt, which is tied to Canadian bank prime rate. An increase in the prime rate could increase the cost of financing. The Trust is required to pay financing fees for borrowings on its credit facility as well as refinancing fees, fees on the undrawn portion of its credit facility and amendment fees. These fees will be based on the credit status of the Trust and the general credit environment. Recently, there has been tremendous upheaval in the global credit markets and access to credit has become increasingly tight and expensive. As a result, the Trust could have difficulty getting access to the credit it requires to maintain and grow its business or such credit could come at a higher cost to the Trust which may decrease the amount of cash flow available to be distributed to Unitholders.

Competition

The Trust provides oilfield services primarily to the field operation locations of oil and gas exploration and production companies located in the WCSB. The oilfield services business in which the Trust operates is highly competitive. To be successful, the Trust must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which the Trust operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and reputation for safety and price. The Trust competes with several regional competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic regions in which the Trust operates. As a result of competition, the Trust may be unable to continue to provide its present services or to acquire additional business opportunities, which may affect the Trust's business, financial condition, results of operations and cash flows and therefore its cash flow available to be distributed to Unitholders.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to the Trust. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an affect upon the Trust's ability to generate revenue and earnings.

Income Tax Matters

Generally, income trusts, including Essential, involve significant amounts of inter-company debt, royalties or similar instruments, generating substantial interest expense or other deductions which serve to reduce taxable income and income tax payable. Although Essential is of the view that all expenses to be claimed by Essential will be reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties will have been correctly determined, there can be no assurance that the taxation authorities will not seek to challenge the amount of interest expense and other deductions. If such a challenge were to succeed it could materially adversely affect the amount of distributions available to the unitholders of Essential. Essential believes that the interest expense inherent in the structure of the unitholders of Essential is supportable and reasonable. In addition the Trust does not provide for current income taxes, as its tax pools should be sufficient to shelter taxable income.

On October 31, 2006 the Federal Minister of Finance proposed to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders (the "October 31 Proposals"). On December 21, 2006 the Federal Minister of Finance released draft legislation to implement the October 31, 2006 Proposals pursuant to which, commencing January 1, 2011 (provided the Trust only experiences "normal growth" and no "undue expansion" before then) 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. On March 19, 2007, Bill C-52 Amendments, was enacted as legislation in Canada. The implementation of this legislation will result in adverse tax consequences to the Trust and certain unitholders (including most particularly unitholders that are tax deferred or non-residents of Canada) and may impact cash distributions from the Trust.

In July 2008, the Government of Canada released draft legislation to permit a trust to convert to a corporation. The legislation proposes to reduce the administration and compliance associated with a conversion and to allow for the tax deferred conversion of a trust to a corporation. The legislation was finalized and enacted November 28, 2008.

Employees and Labour Relations

The successful operation of the Trust's business will depend upon the abilities, expertise, judgment, discretion, integrity and good faith of the Trust's executive officers, general managers, employees and consultants. In addition, the ability of the Trust to expand the Trust's services will depend upon the ability to attract qualified personnel as needed. The demand for skilled oilfield employees has until recently been high, and the supply was limited. The unexpected loss of the Trust's key personnel, or the inability to retain or recruit skilled personnel could have a material adverse effect on the Trust's business, financial condition, results of operations and cash flows and therefore on the cash flow available to be distributed to Unitholders.

Access to Additional Financing

The Trust may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Trust when needed or on terms acceptable to the Trust. The Trust's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Trust's growth and may have a material adverse effect upon the Trust. Where additional financing is raised by the issuance of Trust Units or securities convertible into Trust Units, control of the Trust may change and Unitholders may suffer dilution to their investment. The Trust's activities may also be financed partially or wholly with debt, which may increase the Trust's debt levels above industry standards.

Non-resident Ownership of Units

In order for the Trust to maintain its status as a mutual fund trust under the Income Tax Act (Canada), the Trust must not be established or maintained primarily for the benefit of non-residents of Canada. The Trust must continuously ensure that not more than 50 percent of its issued units are held by non-residents of Canada. If at any time the Managers of the Trust becomes aware that activities of the Trust and/or ownership of units by non-residents may threaten the status of the Trust under the Income Tax Act (Canada) as a "unit trust" or a "mutual fund trust", management of the trust is authorized to take such action as may be necessary to maintain the status of the Trust as a "unit trust" or a "mutual fund trust".

OUTLOOK

By all indications, 2009 will be a very difficult year for the oil and natural gas industry. Compounded by the general economic slow down, commodity price and activity indicators in the first quarter are not encouraging. Oil and natural gas activity in western Canada is expected to be drastically lower in 2009 than in 2008. In Essential's view, 2009 is shaping up to be the worst year for oil and gas services in decades. Given these circumstances, Essential is taking decisive steps to ensure the long-term success of the Trust.

In January 2009, the Petroleum Services Association of Canada ("PSAC") forecast 13,500 wells will be drilled on a rig release basis in Canada in 2009. This represents a 21% decrease compared to their 2008 well count of 17,043. In February 2009, CAODC forecast 11,176 wells will be drilled on a well completion basis which represents a decrease of 46% compared to their 2008 well count of 20,679. PSAC expects declines in all of the western Canadian provinces except British Columbia. Due to the new Alberta royalty program, which took effect on January 1, 2009, the activity declines are expected to be particularly severe in Alberta where Essential has most of its operations. Although Alberta has recently announced several short term incentives related to the royalty program, a competitive, long-term royalty framework is still absent in Alberta.

Year-to-date drilling rig utilization, which acts as a barometer for oilfield service activity, has averaged 42%, compared to 60% in the comparable period of 2008. Utilization seems to have peaked in early February and spring break-up has arrived. The low utilization is driven by economic factors rather than just weather and road conditions as the limited access to capital and low commodity prices have led the Trust's customers to decrease their spending budgets. This is particularly concerning as the winter season is typically the busiest quarter. The second quarter is always a seasonally slow quarter, and with low natural gas prices and reduced customer credit availability, 2009 is expected to be even slower than normal. Looking to the third quarter, Essential believes that depressed natural gas prices will also preclude any significant increase in activity.

Given the extremely negative industry conditions, Essential has taken definitive steps to reduce costs and preserve cash flow. The Trust recently announced it is suspending company matching on its employee savings plan and suspending the 2009 annual incentive plan. The Trust has also implemented a hiring freeze and wage freeze for salaried employees. The senior management team has voluntarily accepted a 10% salary rollback. Further cost reductions are underway and will be implemented over the next few months. Essential's objective is to continue to operate profitably during this challenging period while retaining its workforce to the extent possible so the Trust is prepared for a sector turnaround, the timing of which is impossible to predict.

In light of the current conditions and the uncertain outlook for the year, Essential has announced a reduction in the distribution. The cash distribution for the period March 1, 2009 to March 31, 2009 has been set at \$0.0033 per unit. Starting in April 2009, Essential will begin paying a quarterly distribution of \$0.01 commencing with the period April 1, 2009 to June 30, 2009, payable in July 2009. Thereafter, the board will continue to monitor the distribution on a quarter-by-quarter basis as commodity prices and industry conditions evolve. Investors and employees are both feeling the impact of the current slowdown. Preservation of cash is critical to the Trust's future success through this difficult period. The significant and difficult cost reduction initiatives, reduced capital spending plans and reduced distribution payment all combine to provide financial flexibility as we enter a very difficult and uncertain period that may be a prolonged downturn.

Despite these challenging industry conditions, management believes Essential's business units will continue to perform relatively well in the contracting market as a result of its experienced field managers, local customer relationships and the strength of its local brands. In addition, the Trust will benefit from its strong balance sheet and timely cost cutting measures. Approximately 50% of Essential's services are focused on production-related services, which are typically less affected during industry downturns, however, low commodity prices and continued uncertainty may significantly impact these services as well.

As the outlook clarifies and credit pressures begin to impact the sector, the Trust anticipates future opportunities may begin to unfold. In the face of this negative industry outlook, Essential remains well-positioned financially with low debt and minimal debt servicing costs. The steps being taken by Essential management today may translate into opportunities for future growth.

While the short-term outlook is bleak, management continues to believe in the long-term fundamentals for natural gas and oil drilling and the demand for oilfield services in the WCSB. Over the longer term, the fundamentals still point to an increasing demand for natural gas and oil. The high production decline rates in the WCSB will, over time, require more drilling to maintain current production levels. In the meantime, Essential's management will continue to manage spending and debt effectively.

⁽¹⁾Non-GAAP Measures

Throughout this MD&A, certain terms that are not specifically defined in Canadian Generally Accepted Accounting Principles ("GAAP") are used to analyze the operations. In addition to the primary measures of net earnings and net earnings per unit in accordance with GAAP, the Trust believes that certain measures not recognized under GAAP assist both the Trust and the reader in assessing performance and understanding the Trust's results. Each of these measures provides the reader with additional insight into the Trust's ability to fund future distributions, principal debt repayments and capital programs. These non-GAAP measures are not recognized measures under GAAP. As a result, the method of calculation may not be comparable with other companies or Trusts. These measures should not be considered alternatives to net earnings and net earnings per unit as calculated in accordance with GAAP.

Gross margin⁽³⁾ – This measure is considered a primary indicator of operating performance as calculated by revenue less operating expenses.

Gross margin as a percentage of revenue⁽³⁾ – This measure is considered a primary indicator of operating performance as calculated by gross margin divided by revenue.

EBITDAS⁽⁴⁾ (Earnings before interest, income taxes, depreciation, amortization, non-controlling interest earnings, losses or gains on disposal of equipment, results of discontinued operations, impairment of goodwill and unit based compensation) – This measure is considered an indicator of the Trust's ability to generate funds flow in order to meet distributions, fund required working capital, service debt, pay current income taxes and fund capital programs.

EBITDAS as a percentage of revenue⁽⁴⁾ – This measure is considered an indicator of the Trust's ability to generate funds flow as calculated by EBITDAS⁽⁴⁾ divided by revenue.

Funds flow or funds flow from (used in) operations⁽⁵⁾ – This measure is an indicator of the Trust's ability to generate funds flow⁽⁵⁾ in order to fund distributions, working capital, principal debt repayments and capital programs. Funds flow or funds flow from operations is defined as cash flow from operations before changes in non-cash operating working capital. This measure is useful in assessing the Trust's operational cash flow as it provides cash generated in the period excluding the timing of non-cash operating working capital. This reflects the ability of the operations of the Trust to meet the above noted funding requirements.

³ Gross margin and gross margin as a percentage of revenue are reconciled to the GAAP measures, revenue and operating costs, in the table "Results of Operations".

⁴ EBITDAS and EBITDAS as a percentage of revenue are reconciled to the GAAP measure, loss from continuing operations before income taxes, in the table "Results of Operations".

⁵ Funds flow is reconciled to the GAAP measure, cash flow from operations, in the table "Funds Flow from Operations".

Working capital in excess of long-term debt – This measure is considered an indicator of the financial strength of the Trust.

Growth capital – Growth capital is capital spending which is intended to result in incremental increases in revenue. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to the Trust.

Net maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired equipment less proceeds on the disposal of retired equipment. Such additions do not provide incremental increases in revenue. Net maintenance capital is a key component in understanding the sustainability of the Trust's business as cash resources retained within the Trust must be sufficient to meet net maintenance capital needs to replenish the assets for future cash generation.

Net equipment expenditures⁽⁶⁾ – This measure is equipment expenditures less proceeds on the disposal of equipment. The Trust uses net equipment expenditures to assess net cash flows related to the financing of the Trust's oilfield services equipment.

⁶ Net equipment expenditures is calculated from the GAAP measures, equipment expenditures and proceeds on disposal of equipment, in the table "Equipment Expenditures"

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles (GAAP) appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Essential Energy Services Trust's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2008 to December 31, 2007.

Management has established and maintains an accounting and reporting system supported by internal controls designed to safeguard assets from loss or unauthorized use and ensure the accuracy of the financial records. The financial information presented throughout the Annual Report is consistent with the consolidated financial statements.

Ernst & Young LLP, an independent firm of chartered accountants, has been engaged, as approved by a vote of unitholders at Essential Energy Services Trust's most recent annual general meeting, as external auditors of the Trust. The Auditors' Report to the Unitholders, which describes the scope of their examination and expresses their opinion, is presented on the corresponding page.

The Audit Committee of the Board of Directors, whose members are independent of management, meets to review the consolidated financial statements with management and the auditors, and has reported to the Board of Directors thereon. On the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements.

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Jeff B. Newman"

JEFF B. NEWMAN
Vice President, Finance and
Chief Financial Officer

MARCH 11, 2009

AUDITORS' REPORT

To the Unitholders of Essential Energy Services Trust

We have audited the consolidated balance sheets of **Essential Energy Services Trust** as at December 31, 2008 and 2007, and the consolidated statements of operations, comprehensive loss and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Essential Energy Services Trust** as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 11, 2009

Ernst + Young LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

<i>(Thousands)</i>	As at December 31, 2008	As at December 31, 2007 <i>(restated note 7)</i>
Assets (note 11)		
Current assets		
Accounts receivable	\$ 33,140	\$ 22,206
Inventory (note 6)	8,570	1,558
Prepaid expenses and deposits	2,650	683
Assets held for sale (note 7)	-	92,720
	44,360	117,167
Property and equipment (note 8)	142,464	57,861
Intangible assets (note 9)	5,211	4,233
Goodwill (note 10)	-	17,902
	\$ 192,035	\$ 197,163
Liabilities		
Current liabilities		
Bank indebtedness	\$ 1,192	\$ 1,092
Operating line of credit	-	13,316
Accounts payable and accrued liabilities	13,972	7,175
Distributions payable (note 15)	898	1,763
Current portion of long-term debt (note 11)	3,468	11,084
Liabilities held for sale (note 7)	-	646
	19,530	35,076
Long-term debt (note 11)	14,057	45,917
Future income tax liability (note 17)	3,624	990
	37,211	81,983
Commitments (note 18)		
Unitholders' Equity		
Unitholders' capital (note 12)	265,573	192,041
Contributed surplus (note 13)	5,508	2,480
Accumulated deficit	(116,257)	(79,341)
	154,824	115,180
	\$ 192,035	\$ 197,163

See accompanying notes to consolidated financial statements

On behalf of the Board:

Signed "Garnet K. Amundson"

Garnet K. Amundson
Director

Signed "James A. Banister"

James A. Banister
Director

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND ACCUMULATED DEFICIT

<i>(Thousands, except per unit amounts)</i>	For the years ended December 31,	
	2008	2007
		<i>(restated note 7)</i>
Revenue	\$ 127,924	\$ 50,197
Operating expenses	98,132	34,339
	29,792	15,858
Expenses		
General and administrative	10,991	5,067
Unit-based compensation <i>(note 14)</i>	1,588	1,838
Depreciation and amortization <i>(notes 8 & 9)</i>	17,427	9,520
Interest on long-term debt	2,861	2,977
Loss on disposal of assets	610	128
Loss from continuing operations before impairment of goodwill and income taxes	(3,685)	(3,672)
Impairment of goodwill <i>(note 10)</i>	17,902	35,085
Loss from continuing operations before income taxes	(21,587)	(38,757)
Income tax expense		
Future <i>(note 17)</i>	1,856	990
Loss from continuing operations	(23,443)	(39,747)
Earnings (loss) from discontinued operations, net of tax <i>(note 7)</i>	(4,373)	3,543
Gain on sale of discontinued operations, net of tax <i>(note 7)</i>	8,555	-
Earnings from discontinued operations	4,182	3,543
Net loss and comprehensive loss	(19,261)	(36,204)
Accumulated deficit, beginning of year	(79,341)	(13,058)
Distributions to unitholders <i>(note 15)</i>	(17,655)	(30,079)
Accumulated deficit, end of year	\$ (116,257)	\$ (79,341)
Loss per unit from continuing operations <i>(note 16)</i>		
Basic and diluted	\$ (0.44)	\$ (1.23)
Earnings per unit from discontinued operations <i>(note 16)</i>		
Basic and diluted	\$ 0.08	\$ 0.11
Net loss per unit <i>(note 16)</i>		
Basic and diluted	\$ (0.36)	\$ (1.12)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Thousands)</i>	For the years ended December 31,	
	2008	2007
		<i>(restated note 7)</i>
Operating activities:		
Loss from continuing operations	\$ (23,443)	\$ (39,747)
Items not affecting cash:		
Depreciation and amortization <i>(notes 8 & 9)</i>	17,427	9,520
Future income tax expense <i>(note 17)</i>	1,856	990
Unit-based compensation <i>(note 14)</i>	1,588	1,838
Impairment of goodwill <i>(note 10)</i>	17,902	35,085
Loss on disposal of assets	610	128
Funds flow from continuing operations	15,940	7,814
Funds flow from discontinued operations	47	12,194
	15,987	20,008
Changes in non-cash working capital	21,196	2,459
	37,183	22,467
Financing activities:		
Issue of Trust units, net of issue costs	-	32,618
Units repurchased for cancellation <i>(note 12)</i>	(423)	-
Distributions paid	(18,521)	(30,617)
Increase (repayment) of operating line of credit	(13,216)	3,468
Increase in long-term debt	14,442	2,141
Repayment of long-term debt	(133,585)	(906)
Repayments of capital lease obligations	-	(102)
Changes in non-cash working capital	-	(538)
	(151,303)	6,064
Investing activities:		
Property and equipment	(13,969)	(5,378)
Business acquisitions <i>(note 5)</i>	(8,004)	(8,772)
Proceeds on disposal of equipment	1,619	706
Proceeds on disposal of discontinued operations <i>(note 7)</i>	133,029	-
(Increase) decrease in assets held for sale	1,983	(16,424)
Changes in non-cash working capital	(538)	227
	114,120	(29,641)
Decrease in cash	-	(1,110)
Cash, beginning of year	-	1,110
Cash, end of year	\$ -	\$ -
Supplementary cash flow information:		
Interest paid	\$ 4,293	\$ 4,643

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the periods ended December 31, 2008 and 2007

(All tabular amounts in thousands unless otherwise stated, except for per unit amounts)

1. NATURE OF THE ORGANIZATION

Essential Energy Services Trust ("Essential" or the "Trust") is a publicly traded open-ended unincorporated investment trust governed by the laws of the Province of Alberta. Essential is listed on the Toronto Stock Exchange and trades under the symbol ESN.UN.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies summarized below.

b) Principles of Consolidation

The consolidated financial statements include the accounts of the Trust and its subsidiaries. All subsidiaries are directly or indirectly wholly-owned and their operations are fully reflected in the consolidated financial statements. All intercompany transactions have been eliminated.

c) Financial Instruments

Financial instruments are reviewed to determine whether they should be categorized as held for trading, available for sale, held to maturity, loans and receivables or other. Those financial instruments categorized as held for trading or available for sale would be subsequently measured at their fair value at each reporting period. Subsequent measurement of gains or losses for held for trading financial instruments would be recognized in net earnings (loss) while those categorized as available for sale would be recognized in comprehensive income (loss). Those financial instruments categorized as held to maturity, loans and receivables or other would be initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method. As new financial instruments are acquired an evaluation of management's intent and the nature of the item is performed to determine the correct financial instrument categorization and subsequent measurement of any gains or losses.

d) Property and Equipment

Property and equipment assets are recorded at cost. Depreciation is recorded using the declining balance method, net of salvage value, over the estimated useful lives of the assets. Depreciation rates are as follows:

Service rigs and equipment	10%
Oilfield equipment	15%
Vehicles	30%
Other	Ranging from 10% - 33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Property and equipment are subject to impairment tests in accordance with the accounting policy on impairment of long-lived assets (note 2(h)).

e) Inventory

Inventory consists of downhole service tools, coil tubing and wireline products held for sale that are stated at the lower of cost and estimated net realizable value, determined on a specific or average cost basis.

f) Capital Lease Obligations

Leases are classified as either capital or operating. Leases that effectively transfer substantially all of the risks and rewards of ownership to the Trust are capital leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. The asset is amortized on a straight-line basis over the term of the lease but not in excess of its useful life. Obligations recorded under capital leases are reduced by the lease payments, net of imputed interest. All other leases are accounted for as operating leases, and the associated payments are recorded as an expense when they are paid or become payable.

g) Intangible Assets

Intangible assets are comprised of the values attributable to customer relationships, trade names, favourable leases and management service contracts from acquired businesses and are amortized on a straight-line basis. Amortization of intangible assets is included in amortization expense. Intangible assets are being amortized over their expected lives as follows:

Customer relationships	5 -10 years
Management service contracts	5 years
Trade names	3 years
Favourable leases	5 years

Intangible assets are subject to impairment tests in accordance with the accounting policy on impairment of long-lived assets (note 2(h)).

h) Impairment of Long-lived Assets

Essential's long-lived assets include property and equipment and intangible assets with finite useful lives. Management assesses the carrying value of long-lived assets whenever events or changes in circumstances indicate impairment. When an indication of impairment is present, a test for recoverability is carried out by comparing the carrying value of the asset to the sum of the undiscounted cash flows expected to result from its use and eventual disposal. If the carrying amount is greater than the undiscounted cash flows, the carrying value is compared to the estimated fair value. If the carrying value exceeds its fair value, the asset would be considered impaired and an impairment loss would be recorded as the excess of the carrying value of the assets over their fair value, measured by either market value, if applicable, or estimated by calculating the present value of expected cash flows from the assets.

i) Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired and liabilities assumed in business acquisitions. Goodwill is allocated at the date of acquisition to the reporting units of the Trust's operations that are expected to benefit from the business combination.

Goodwill is not subject to amortization, but is tested for impairment on an annual basis, or more frequently if events occur that could result in impairment, by applying a fair value based test. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. In the second step, the fair value of goodwill is compared to its carrying amount, with an impairment loss recognized when the carrying value of goodwill exceeds its estimated fair value. Any goodwill impairment will be recognized

as an expense in the period the impairment is determined. Impairment provisions are not reversed if there is subsequent increase in the fair value of goodwill.

j) Income Taxes

The Trust follows the liability method to account for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of the assets and the tax rates expected to be in effect when the differences are expected to reverse. Changes to these balances are recognized in net earnings in the period in which they occur. The amount of any future income tax assets recognized is limited to the amount that is more likely than not to be realized.

The Trust is a taxable entity under the Canadian Income Tax Act and is taxable only on income that is not distributed or distributable to the Unitholders. Income tax obligations relating to distributions from the Trust are the obligations of the Unitholders.

k) Revenue Recognition

Revenue for oilfield services and rentals is recognized in the period rendered. Revenue for downhole tools is recognized when title passes to the customer and the customer assumes risks and rewards of ownership. Revenue is only recognized when collectability is reasonably assured.

l) Unit-based Compensation

Options to purchase Trust units granted under the Unit Option Plan are described further in Note 14 of these consolidated financial statements. At the time of issuance, the Trust uses the Black-Scholes options pricing model to determine the fair value of the options grant. The fair value is recorded as unit-based compensation in the consolidated statement of operations over the vesting period of the options, with a corresponding increase in contributed surplus. Forfeitures of unvested options are recorded as a reduction of unit-based compensation in the period of forfeiture.

m) Per Unit Amounts

Per unit amounts are calculated using the weighted average number of Trust units outstanding during the year. Diluted per unit amounts reflect the dilutive effect of unit options outstanding. Diluted earnings per unit is calculated using the treasury stock method whereby outstanding unit options are only dilutive if, and to the extent that, the exercise price of the unit options is less than the market price of the Trust's units. The treasury stock method assumes that any proceeds obtained on exercise of unit options would be used to purchase Trust units at the average market price during the year. The weighted average number of Trust units outstanding is then adjusted by this change.

n) Measurement Uncertainty

The determination of many assets and liabilities is dependent upon future events and the preparation of financial statements necessarily involves the use of estimates and approximations based on information available as of the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the period reported. The most significant of these are the estimates used for depreciation and amortization, intangible assets, impairment of goodwill, unit-based compensation and purchase price allocations related to acquisitions. The effect on the consolidated financial statements of changes in such estimates in future years could be material.

3. ADOPTION OF NEW ACCOUNTING POLICIES

On January 1, 2008, Essential adopted several new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1400 "General Standards of Financial Statement Presentation", Section 1535 "Capital Disclosures", Section 3031 "Inventories", Section 3862 "Financial Instruments – Disclosures", and Section 3863 "Financial Instruments – Presentation". Where applicable, the Trust adopted these standards retroactively without restatement.

General Standards of Financial Statement Presentation

Section 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have an impact on the Trust's financial statements.

Capital Disclosures

Section 1535 establishes standards for disclosing information regarding an entity's capital and how it is managed. The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Disclosures required as a result of adopting this new section can be found in Note 19.

Financial Instruments – Disclosures and Presentation

Sections 3862 and 3863 replace Section 3861 "Financial Instruments – Disclosure and Presentation" which revises and enhances financial instruments disclosure requirements and leaves unchanged its presentation requirements. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Trust's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Trust is exposed to during the reporting period and the balance sheet date and how the Trust is managing those risks. Section 3863 maintains the existing presentation requirements previously required under Section 3861 and therefore has no impact on the financial statements.

Inventories

Section 3031 requires inventories to be measured at the lower of cost or net realizable value and the reversal of previously recorded writedowns to realizable value when the circumstances that caused the writedown no longer exist. This new standard did not have a material impact on the Trust's financial statements for the year ended December 31, 2008.

4. FUTURE ACCOUNTING POLICIES

The following new accounting standards issued by the CICA are not yet effective but are applicable to the Trust's future reporting periods.

CICA Handbook Section 3064 – Goodwill

The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises.

CICA Handbook Sections 1582 – Business Combinations; 1601 – Consolidated Financial Statements; and 1602 – Non-controlling Interest

These standards are to be adopted prospectively for fiscal years beginning on or after January 1, 2011 and early adoption is permitted. These standards provide the Canadian equivalent to IFRS standards.

International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

5. ACQUISITIONS

2008

a) Builders Energy Services Trust

On January 31, 2008, Essential entered into an agreement (the “Agreement”) with Builders Energy Services Trust (“Builders”) to merge the two trusts. The closing date of the transaction was on April 4, 2008 (the “Closing Date”). Each Builders unit was exchanged for 1.25 trust units of Essential (“Essential Units”) resulting in the issuance of 24,639,825 Essential Units. The market value of the Essential Units issued was determined based on the weighted average trading value of the Essential Units for the three day trading periods immediately prior to and immediately after the date of the Agreement. In addition to the Essential Units issued, certain Builders options were exchanged for replacement options providing the holder with the right to acquire 1.25 Essential Units for each Builders option exercised (“Essential Replacement Options”) resulting in the issuance of 1,214,208 Essential Replacement Options. The fair value of the Essential Replacement Options issued was determined based on the market values and historical volatility of Essential Units, the remaining contractual life of the Essential Replacement Options and the market risk-free interest rates as of the date of the Agreement (see note 14).

The Agreement has been accounted for by the purchase method with the results of Builders being included in the Trust’s consolidated financial statements from the Closing Date. The purchase price has been allocated to Builders’ net assets acquired and liabilities as shown in the table below.

	Amount
Calculation of purchase price:	
Essential trust units issued	\$ 73,673
Fair value of Essential replacement options	397
Transaction costs	6,136
	\$ 80,206

	Amount
Allocation of purchase price:	
Bank indebtedness	\$ (1,868)
Net working capital	34,792
Property and equipment	124,188
Intangible assets	2,761
Long-term debt including current portion	(79,667)
	\$ 80,206

b) A&B

On March 1, 2008 the Trust acquired all of the assets and business of A & B Hot Oil Services (1993) Ltd. (“A&B”) for total consideration of \$1,375,000 consisting of transaction costs of \$50,000 and the issuance of 365,064 Essential Units at \$3.63 per unit. A&B operates 3 hot oilers, 3 pressure trucks and a heating unit. These assets were sold with Essential’s Transport business segment on July 2, 2008 (note 7). The acquisition has been accounted for from the date of closing using the purchase method of accounting. The following indicates how the purchase price for A&B has been allocated:

Notes to Consolidated Financial Statements

	Amount
Calculation of purchase price:	
Essential trust units issued	\$ 1,325
Transaction costs	50
	<u>\$ 1,375</u>

	Amount
Allocation of purchase price:	
Property and equipment	\$ 1,375
	<u>\$ 1,375</u>

2007

The Trust completed four business acquisitions during 2007. These acquisitions have been accounted for from the date of closing using the purchase method of accounting. The following indicates how the purchase prices for Anderson, Redneck, Blue-Vac and CCT have been allocated.

Calculation of purchase price	Blue-Vac	CCT	Redneck	Anderson	Other	Total
Cash consideration	\$ 8,000	\$ 3,932	\$ 4,450	\$ 5,650	\$ 190	\$ 22,222
Transaction costs	100	100	100	100	-	400
Total purchase price	<u>\$ 8,100</u>	<u>\$ 4,032</u>	<u>\$ 4,550</u>	<u>\$ 5,750</u>	<u>\$ 190</u>	<u>\$ 22,622</u>

Allocation of purchase price	Blue-Vac	CCT	Redneck	Anderson	Other	Total
Non-cash working capital	\$ -	\$ 132	\$ -	\$ -	\$ -	\$ 132
Property and equipment	2,080	3,640	2,180	2,800	-	10,700
Intangible assets	2,600	-	1,160	1,440	-	5,200
Goodwill	3,420	260	1,210	1,510	190	6,590
Total purchase price	<u>\$ 8,100</u>	<u>\$ 4,032</u>	<u>\$ 4,550</u>	<u>\$ 5,750</u>	<u>\$ 190</u>	<u>\$ 22,622</u>

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 \$100. The assets were sold with Essential's Transport business segment on July 2, 2008.

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 \$100. The assets form part of Essential's Well Servicing 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 \$100. The assets form part of Essential's Well Servicing 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 \$100. The assets were sold with Essential's Transport business segment on July 2, 2008.

e) Other

Amount relates to the finalization of a prior year acquisition.

6. INVENTORY

	As at December 31, 2008	As at December 31, 2007
Downhole service tools	\$ 6,644	\$ -
Coil tubing and wireline products	1,926	1,558
	\$ 8,570	\$ 1,558

Inventory is valued at the lower of cost and estimated net realizable value. For the year ended December 31, 2008, \$3.9 million of inventory was included in operating expenses. During the year, \$0.4 million was recorded in operating expenses for the write down of inventory to estimated net realizable value.

7. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

On July 2, 2008, the Trust completed the sale of the assets of its Transport segment for proceeds of \$135 million (less assumed debt and transaction costs) and applied the proceeds received from this transaction against its long-term debt.

The following table represents the balances that have been reclassified on the consolidated balance sheet as assets and liabilities held for sale:

	As at December 31, 2007
Current assets held for sale:	
Inventory	\$ 412
Property and equipment	39,945
Intangible assets	9,726
Goodwill	42,178
Future income tax asset	459
	\$ 92,720
Current liabilities held for sale:	
Long-term debt	\$ 646
	\$ 646

Notes to Consolidated Financial Statements

Earnings (loss) from discontinued operations related to the Transport segment are as follows:

	For the years ended December 31,	
	2008	2007
Revenue	\$ 38,472	\$ 62,218
Expenses		
Operating (note 21)	30,590	38,807
General and administrative	6,396	9,123
Interest and bank charges	1,496	2,284
Depreciation and amortization	4,377	8,920
Earnings (loss) before income taxes	(4,387)	3,084
Future income tax recovery	(14)	(459)
Earnings (loss) from discontinued operations (net of income taxes)	\$ (4,373)	\$ 3,543

Interest and bank charges have been allocated to discontinued operations based on the net asset value of the discontinued operations relative to the total net asset value of the Trust for the years ended December 31, 2008 and 2007.

The gain on sale of discontinued operations was based on proceeds of \$135 million (comprised of \$133.9 million in cash and assumed debt of \$1.1 million) less \$0.9 million transaction costs. The net book value of assets that were sold was \$124.8 million, resulting in a gain of \$9.3 million (\$8.6 million net of tax).

8. PROPERTY AND EQUIPMENT

As at December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	\$ 142,560	\$ 29,495	\$ 113,065
Oilfield equipment	24,469	3,491	20,978
Vehicles	5,488	1,409	4,079
Other	5,235	893	4,342
	\$ 177,752	\$ 35,288	\$ 142,464
As at December 31, 2007 (restated – note 7)	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	\$ 72,376	\$ 17,584	\$ 54,792
Oilfield equipment	1,315	297	1,018
Vehicles	1,883	715	1,168
Other	1,053	170	883
	\$ 76,627	\$ 18,766	\$ 57,861

Depreciation expense for the year ended December 31, 2008 was \$15.9 million (2007 - \$8.2 million).

Included in service rigs and equipment and oilfield equipment is \$7.1 million (2007 - \$nil) of assets under construction which are not depreciated until put into use.

At December 31, 2008 \$106 (2007 - \$56) of equipment is under capital leases for which \$51 (2007 - \$35) of accumulated depreciation was recognized.

During the year, management reviewed the depreciation policy to ensure that the policy, and its underlying assumptions and estimates, were suitable given the impact that the completion of the Builders transaction and disposition of the Transport division had on the nature of the capital assets of the continuing operations. There was no change to the existing depreciation policy but the estimated salvage values and depreciation rates of the policy were revised. As a result of these changes in accounting estimates, the depreciation expense for the year ending December 31, 2008 was \$2.2 million lower than it would have been under the previous depreciation policy of the Trust.

9. INTANGIBLE ASSETS

As at December 31, 2008	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 5,464	\$ 1,661	\$ 3,803
Management service contracts	1,847	1,238	609
Favorable leases	576	98	478
Trade names	428	107	321
	\$ 8,315	\$ 3,104	\$ 5,211

As at December 31, 2007 (restated – note 7)	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 4,013	\$ 891	\$ 3,122
Management service contracts	1,847	736	1,111
	\$ 5,860	\$ 1,627	\$ 4,233

Amortization expense for the year ended December 31, 2008 was \$1.5 million (2007 - \$1.3 million).

10. GOODWILL

	For the years ended December 31,	
	2008	2007
Balance, beginning of the year	\$ 17,902	(restated - note 7) \$ 51,327
Acquisitions	-	1,660
Goodwill impairment	(17,902)	(35,085)
Balance, end of the year	\$ -	\$ 17,902

The Trust completed its annual goodwill impairment test as of December 31, 2008 by comparing the carrying amount of the Well Servicing reporting unit to its estimated fair value. Management's estimates of fair value are subject to measurement uncertainty as they are based on forecasted results using information currently available. Based on these estimates, the Trust determined that there were indications of impairment in the Well Servicing reporting unit as the carrying value exceeded its estimated fair value. The Trust's Wireline & Rental reporting unit was not considered as no value was assigned to goodwill relating to this reporting unit.

As a result of the indications of impairment in the Well Servicing reporting unit, estimated fair value of goodwill was compared to its carrying value. The result of this comparison indicated the Well Servicing reporting unit's fair value of goodwill was \$nil, and accordingly management has recorded goodwill impairment in the Well Servicing reporting unit of \$17.9 million as at December 31, 2008.

The conditions that gave rise to the goodwill impairment in 2007 and 2008 are similar in nature. In 2007 and 2008, the lack of stability in commodity prices combined with the uncertainty associated with the revised royalty program to be implemented by the Alberta government in 2009 resulted in an unstable operating environment in Alberta, where the Trust has its primary business activities. In addition to the

Notes to Consolidated Financial Statements

continuance of this market uncertainty, the recent economic downturn, which has impacted the ability for the Trust's customers to access credit to continue exploration and production projects, further impaired the value of goodwill in 2008.

11. LONG-TERM DEBT

	As at December 31, 2008	As at December 31, 2007 <i>(restated - note 7)</i>
Term loan	\$ 17,450	\$ 57,000
Capital leases	75	1
	17,525	57,001
Less: current portion of long-term debt	(3,468)	(11,084)
	\$ 14,057	\$ 45,917

The Trust's credit agreement with its banking syndicate is comprised of an extendible revolving loan facility (the "Facility") limited to the lesser of \$140.0 million or the sum of 75% of the Trust's accounts receivables less specific items (the "Borrowing Base") and 60% of the Trust's carrying value of property and equipment less Term Debt as defined in the Facility agreement. The Borrowing Base must be at least 20% of the Facility, otherwise the Facility is reduced by the amount of any shortfall. The Facility has no required principal repayments until expiry and bears interest that fluctuates with the bank's prime rate plus a margin based on financial covenants.

The Facility expires on May 31, 2009 and can be renewed, at the lenders' option, for an additional 364-day period and is collateralized by a general security agreement over all assets. If not renewed, the loan is repayable in equal monthly installments over a three-year period.

As at December 31, 2008, all financial debt covenants were satisfied and all banking requirements were up to date. A maximum of \$104 million was available to the Trust as at December 31, 2008.

The average effective interest rate on borrowings under the Facility for the year ended December 31, 2008 was 5.7% (2007 – 6.9%).

12. UNITHOLDERS' CAPITAL

Authorized

Authorized capital consists of an unlimited number of Trust units, without par value, and an unlimited number of Special Voting Units, without par value. No Special Voting Units have been issued to date. Each unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Trust whether of earnings, net capital gains or other amounts, and in the net assets of the Trust in the event of termination or wind-up. All units are redeemable at the demand of the unitholder.

Issued

	Number of Units	Amount
Balance, December 31, 2006	27,713	\$ 159,423
Units issued on Cascade acquisition	101	-
Units issued on Kodiak acquisition	2,305	-
Units issued on financing	5,149	32,618
Balance, December 31, 2007	35,268	\$ 192,041
Units issued on A&B acquisition (i)	365	1,325
Units issued on Builders acquisition (ii)	24,640	74,070
Unit buybacks (iii)	(420)	(1,863)
Balance, December 31, 2008	59,853	\$ 265,573

- i. On March 1, 2008, the Trust issued 365,064 units at \$3.63 per unit to the vendors of A&B (note 5).
- ii. On April 4, 2008, the Trust issued 24,639,825 units at \$2.99 per unit to the unitholders of Builders (note 5).
- iii. On October 29, 2008 the Trust received approval from the Toronto Stock Exchange ("TSX") to implement a Normal Course Issuer Bid ("NCIB") commencing on October 31, 2008 and terminating on October 30, 2009. Purchases were made at the discretion of management at prevailing market prices, through the facilities of the TSX. As at December 31, 2008, a total of 419,900 units were acquired and cancelled under the NCIB at a cost of \$422,833 and a total of \$1,440,301 was transferred to contributed surplus upon the share cancellations. The NCIB continues until October 30, 2009 and the Trust intends to cancel all additional units acquired under the NCIB.

13. CONTRIBUTED SURPLUS

	For the years ended December 31,	
	2008	2007
Balance, beginning of the year	\$ 2,480	\$ 642
Unit-based compensation (note 14)	1,588	1,838
Normal Course Issuer Bid (note 12)	1,440	-
Balance, end of the year	\$ 5,508	\$ 2,480

14. UNIT-BASED COMPENSATION

The Trust has an Option Plan under which certain key personnel of the Trust are eligible to receive Trust unit options to acquire Trust units, with terms not to exceed five years from the date of the grant. The exercise price is not less than the weighted-average price of the units for the five trading days immediately prior to the grant date. Under the Option Plan, vesting periods are determined by the Board of Directors of the Trust at the time of the grant. For options granted, one-third of the options are exercisable on each anniversary date from the date of the original grant.

Notes to Consolidated Financial Statements

The maximum number of Trust unit options issuable under the Option Plan may not exceed 10% of the sum of the Trust's outstanding Trust units, which at December 31, 2008 totaled 5,985,297 (2007 – 3,526,780) Trust unit options.

	For the years ended December 31,			
	2008		2007	
	Trust Unit Options	Weighted Average Exercise Price	Trust Unit Options	Weighted Average Exercise Price
Outstanding, beginning of year	2,494	\$ 7.82	1,451	\$ 9.92
Issued	4,707	3.81	1,292	5.65
Forfeitures	(2,443)	7.77	(249)	8.34
Outstanding, end of year	4,758	\$ 4.01	2,494	\$ 7.82
Exercisable, end of year	1,147	\$ 7.75	467	\$ 9.91

The Trust recorded unit-based compensation expense in respect of the Option Plan of \$1.6 million for the year ended December 31, 2008 (2007 - \$1.8 million) with a corresponding increase to contributed surplus.

The following tables summarize information about the Trust unit options outstanding as at December 31, 2008 and 2007:

As at December 31, 2008

Exercise Prices	Trust Unit Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Fair Value of Trust Unit Options (per unit)	Number of Options Exercisable
\$1.06 – \$2.00	1,310	4.94	\$0.74	-
\$2.01 – \$4.00	1,881	4.49	\$1.25	34
\$4.01 – \$6.00	783	1.89	\$1.34	583
\$6.01 – \$8.00	-	-	-	-
\$8.01 – \$10.00	456	2.38	\$3.34	311
\$10.01 – \$12.00	265	2.53	\$0.26	177
\$12.01 – \$14.00	52	2.43	\$0.15	35
\$14.01 – \$15.54	11	2.28	\$0.11	7
	4,758	3.85	\$1.26	1,147

As at December 31, 2007

Exercise Prices	Trust Unit Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Fair Value of Trust Unit Options (per unit)	Number of Options Exercisable
\$3.00	100	5.00	\$1.44	-
\$5.87	1,095	4.25	\$2.87	-
\$8.64	90	3.67	\$3.40	30
\$10.00	1,209	3.42	\$3.49	437
	2,494	4.05	\$3.48	467

Notes to Consolidated Financial Statements

The fair value of Trust unit options issued during the year was estimated using the Black-Scholes option pricing model using the following underlying assumptions:

	For the years ended December 31,	
	2008	2007
Risk-free interest rate	2.15% – 3.42%	3.96%
Expected volatility	52.6% - 63.6%	48.9%
Expected term	1.8 - 5 years	5 years
Distribution yield	nil	nil

15. ACCUMULATED DISTRIBUTIONS AND DISTRIBUTIONS PAYABLE

During 2008 and 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.

	For the years ended December 31,	
	2008	2007
Accumulated distributions, beginning of the year	\$ 46,039	\$ 15,960
Distributions declared and paid in the year	16,757	28,316
Distributions declared and payable	898	1,763
Accumulated distributions for the year	17,655	30,079
Accumulated distributions, end of year	\$ 63,694	\$ 46,039

16. PER UNIT AMOUNTS

The weighted average number of units outstanding for the year ending December 31, 2008 was 53,859,084 (2007 - 32,232,644). For the years ended December 31, 2008 and 2007, options convertible to units are not included in the denominator as their effect is anti-dilutive.

17. INCOME TAXES

The Trust is subject to income taxes for Specified Investment Flow-Through Trusts ("SIFT") based on the temporary differences expected to be in effect at January 1, 2011. Changes in the current period result from changes in these expectations.

Income tax expense differs from the amount computed by applying the Canadian statutory rates on income before income taxes as follows:

	For the years ended December 31,	
	2008	2007
Loss before income taxes	\$ (21,587)	\$ (38,757)
Effective tax rate	0%	0%
Expected income tax expense	-	-
Increase (decrease) resulting from:		
Valuation allowance	250	-
Effective tax law changes and future tax rate reductions	1,606	990
Income tax expense	\$ 1,856	\$ 990

Notes to Consolidated Financial Statements

The future income tax liability consists of:

	As at December 31, 2008	As at December 31, 2007
Tangible assets	\$ (8,117)	\$ -
Net operating losses	2,015	-
Goodwill/ Intangible assets	3,134	(1,279)
Trust unit issuance costs	372	289
Valuation allowance	(250)	-
Other	(778)	-
Future income tax liability	\$ (3,624)	\$ (990)

18. COMMITMENTS

The Trust has entered into operating leases for office and shop premises and equipment that provide for minimum annual lease payments as follows:

	Amount
For the year ended:	
2009	\$ 4,287
2010	3,989
2011	3,093
2012	2,191
2013	1,197
Thereafter	1,438
	\$ 16,195

19. CAPITAL DISCLOSURE

The Trust considers its capital structure to include unitholders' equity, long-term debt and working capital. The Trust makes adjustments to its capital structure based on changes in economic conditions and the Trust's planned requirements. The Trust has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to unitholders, and making adjustments to its capital expenditure program. The Trust is subject to externally imposed capital requirements associated with its debt facility, including financial covenants that incorporate funded debt, EBITDA (as defined by the Facility agreement) and total capitalization. As at December 31, 2008, the Trust is in good standing with respect to these covenants.

20. FINANCIAL INSTRUMENTS

a) Designation and Valuation of Financial Instruments

Essential has classified its accounts receivable as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, long-term debt and capital leases are classified as other financial liabilities.

The fair value of a financial instrument is the amount that would be agreed to in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. Fair value can be determined by reference to prices in active markets to which the Trust has access. In the absence of active markets, the Trust determines fair value based on market or by reference to other similar products. The carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their estimated fair values due to their short terms to maturity.

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 and due to the relative short term to maturity.

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 use derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Trust's operations.

(i) Credit Risk

The Trust's accounts receivable are exposed to credit risk. Although a substantial portion of trade receivables is dependent upon the strength of the Canadian oil and gas industry, management considers credit risk to be minimal as a significant portion of the balances are with large oil and gas companies with whom the Trust has lengthy relationships, and without any significant incidence of default. Management routinely assesses the financial strength of customers and monitors the exposure for credit losses. As at December 31, 2008 accounts receivable are aged as follows: 40% - current; 35% - 31-60 days; 16% - 61-90 days; and 9% - over 90 days (2007 - 44% - current; 37% - 31-60 days; 11% - 61-90 days; and 8% - over 90 days). The Trust utilizes an allowance for doubtful accounts, based on specific receivables, to record potential credit losses associated with its trade receivables.

Concentrations of credit risk arise from exposures to a single company, a group of related companies or groups of companies that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due. The Trust has limited concentration of credit risk in its trade accounts receivable due to its diverse customer base. As at December 31, 2008, approximately 28% of the total accounts receivable balance was due from five companies.

(ii) Interest Rate Risk

The Trust is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Trust's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Net income is sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Trust's strategy is to manage interest rate risk within the current framework. If interest rates on the floating instrument were to change by 1%, it is estimated that annual net income would change by \$0.2 million assuming all other variables remain the same.

(iii) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Trust manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. The Trust believes that it has access to sufficient capital through internally generated cash flows and to undrawn committed borrowing facilities to meet current spending forecasts.

21. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, the Trust leased land and buildings from a former officer of the Trust for \$234 (2007 – \$468). These transactions were included in operating expenses related to the discontinued operations (note 7). 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.

22. SEGMENTED INFORMATION

As a result of the Builders acquisition (note 5) and the disposition of the Transport segment (note 7), the Trust has redefined its operating segments. The Trust considered the segmentation and aggregation criteria as set forth in GAAP, as well as industry standards in the determination of its operating segments. As a result, the Trust has two operating segments: Well Servicing and Wireline & Rentals, and a non-

Notes to Consolidated Financial Statements

operating segment, Corporate. Previous periods have been restated to reflect this change in segmentation.

i. Well Servicing

The Well Servicing segment provides well completion and production/workover services in northeastern British Columbia, south-east Saskatchewan and throughout Alberta. The Well Servicing segment is comprised of a fleet of service rigs, coil tubing and nitrogen units and rod rigs and swabbing units.

ii. Wireline & Rentals

The Wireline & Rentals segment is comprised of wireline services, downhole tools, and equipment rentals. The Wireline & Rentals segment includes a fleet of wireline units, including electric line and slickline, and a variety of downhole tools and drilling-related rental equipment operated primarily in Alberta.

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

	As at and for the year ended December 31, 2008				
	Well Servicing	Wireline & Rentals	Corporate	Discontinued Operations	Consolidated
Revenue	\$ 95,970	\$ 31,954	\$ -	\$ -	\$ 127,924
Earnings (loss) from continuing operations before income taxes	\$ (10,780)	\$ 3,693	\$ (14,500)	\$ -	\$ (21,587)
Depreciation and amortization	\$ 12,622	\$ 4,205	\$ 600	\$ -	\$ 17,427
Total assets	\$ 138,453	\$ 47,387	\$ 6,195	\$ -	\$ 192,035
Goodwill	\$ -	\$ -	\$ -	\$ -	\$ -
Equipment expenditures	\$ 7,816	\$ 5,289	\$ 864	\$ -	\$ 13,969

	As at and for the year ended December 31, 2007				
	Well Servicing	Wireline & Rentals	Corporate	Discontinued Operations	Consolidated
Revenue	\$ 50,197	\$ -	\$ -	\$ -	\$ 50,197
Earnings (loss) from continuing operations before income taxes	\$ (30,724)	\$ -	\$ (8,033)	\$ -	\$ (38,757)
Depreciation and amortization	\$ 8,819	\$ -	\$ 701	\$ -	\$ 9,520
Total assets	\$ 90,859	\$ -	\$ 13,584	\$ 92,720	\$ 197,163
Goodwill	\$ 17,902	\$ -	\$ -	\$ -	\$ 17,902
Equipment expenditures	\$ 4,896	\$ -	\$ 518	\$ -	\$ 5,414

23. COMPARATIVE AMOUNTS

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

24. SUBSEQUENT EVENT

In light of the current industry conditions and the uncertain outlook for 2009, the Trust reduced its March distribution to \$0.0033 per unit. Starting in April 2009, the Trust will begin paying a quarterly distribution of \$0.01 per unit, commencing with the period April 1, 2009 to June 30, 2009, payable in July 2009. Thereafter, the Trust will continue to monitor the distribution on a quarter-by-quarter basis as commodity prices and industry conditions evolve.

CORPORATE INFORMATION

Directors

James A. Banister^{2,3}, Chairman
Garnet K. Amundson
Dennis B. Balderston^{1,2}
Michael J. Black²
Verne G. Johnson^{1,3}
Jeffrey J. Scott^{1,3}

1. Audit Committee

2. Compensation and Governance Committee

3. Health, Safety and Environment Committee

Auditors

Ernst & Young LLP

Bankers

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

Legal Counsel

Heenan Blaikie LLP

Transfer Agent

Olympia Trust Company

Management

Garnet K. Amundson
President and Chief Executive Officer

Jeff B. Newman
VP, Finance and Chief Financial Officer

Kevin W. Job
VP, Operations

Don A. K. Webster
VP, Operations

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