

### Third Quarter Report

*This report contains "forward-looking information and statements". For a full discussion of the forward-looking information and statements and the inherent risks and uncertainties, see "Reader Advisory".*

*This report contains Non-GAAP measures and an explanation of their purpose and usefulness can be found under "Non-GAAP Measures".*

### SIGNIFICANT TRANSACTIONS

In the second and third quarters of 2008 Essential Energy Services Trust ("Essential" or the "Trust") completed two significant transactions. On April 4, 2008 Essential completed a strategic combination with Builders Energy Services Trust ("Builders"). On July 2, 2008 the Trust completed the sale of the assets of its Transport division for proceeds of \$135 million and applied the proceeds from this transaction against long-term debt. To better understand the combined continuing operations of Essential and its performance over the past nine months, readers are referred to the following section entitled "Selected Combined Financial Information".

### SELECTED COMBINED FINANCIAL INFORMATION

#### Essential and Builders Combined as of January 1, 2008, excluding the Transport Assets

In accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), the reporting in the Management's Discussion and Analysis and the 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 September 30, 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 are unaudited but have been reviewed by the Trust's auditors, which is consistent with the preceding quarterly reports. 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.

To assist the reader in understanding the current operations of Essential, management has provided 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.

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

(\$ Thousands)	March 31, 2008	Three months ended		Nine months ended September 30, 2008
		June 30, 2008	September 30, 2008	
Revenue	56,190	25,145	43,891	125,226
Gross margin <sup>(1)</sup>	18,694	1,513	11,236	31,443
Gross margin as a percentage of revenue <sup>(1)</sup>	33%	6%	26%	25%
General and administrative expense	4,957	3,170	2,612	10,739
General and administrative expense as a percentage of revenue	9%	13%	6%	9%
EBITDAS <sup>(1)</sup>	13,737	(1,657)	8,624	20,704
EBITDAS as a percentage of revenue <sup>(1)</sup>	24%	(7%)	20%	16%

To assist the reader, management has provided the following reconciliation between the results from the table above to the financial results for Essential for nine months ended September 30, 2008.

(\$ Thousands)	Revenue	EBITDAS
Combined results per table above	\$ 125,226	\$ 20,704
Less: Results from Builders for the period January 1 to April 3, 2008	(41,144)	(10,122)
<b>Results per Essential Consolidated Financial Statements</b>	<b>\$ 84,082</b>	<b>\$ 10,582</b>

#### **(1)NON-GAAP MEASURES**

Throughout this report, 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** – 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.

#### **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 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](http://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.*

**ESSENTIAL ENERGY SERVICES TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008**

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Trust ("Essential" or the "Trust") is for the three months and nine months ended September 30, 2008.

This MD&A is an update to, and should be read in conjunction with, the June 30, 2008 interim report and the annual consolidated financial statements and MD&A included in the Trust's 2007 Annual Report to Unitholders and the attached financial statements as at and for the three and nine months ended September 30, 2008, to which readers are referred. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned interim report or annual MD&A. This MD&A was prepared effective November 13, 2008.

**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](http://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 a range of 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 a \$7.9 million gain on the sale of its Transport division. This gain was recorded in the financial statements of the Trust during the third quarter of 2008.

## **BASIS OF PRESENTATION**

The following Management's Discussion and Analysis, and the consolidated financial statements as at and for the three and nine months ended September 30, 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 September 30,		Nine months ended September 30,	
	2008	2007 (restated)	2008 (restated)	2007 (restated)
Revenue	43,891	12,992	84,082	38,267
Gross margin <sup>(1)</sup>	11,236	4,544	17,706	12,401
EBITDAS <sup>(1)</sup> from continuing operations	8,624	3,690	10,582	8,467
Earnings (loss) from continuing operations	456	591	(8,758)	(1,499)
Per unit – basic and diluted	\$ 0.01	\$ 0.02	\$ (0.17)	\$ (0.04)
Earnings from discontinued operations	7,944	1,176	5,447	3,774
Per unit – basic and diluted	\$ 0.13	\$ 0.03	\$ 0.10	\$ 0.11
Net earnings (loss)	8,400	1,767	(3,311)	2,275
Per unit – basic and diluted	\$ 0.14	\$ 0.05	\$ (0.07)	\$ 0.07
Funds flow from operations <sup>(1)</sup>	8,125	5,759	9,873	16,210
Per unit – basic and diluted	\$ 0.13	\$ 0.16	\$ 0.18	\$ 0.50
Distributions to Unitholders	2,712	8,782	14,952	23,626
Per unit – diluted	\$ 0.05	\$ 0.25	\$ 0.29	\$ 0.73
Total assets	215,556	234,874	215,556	234,874
Total long term debt	22,063	56,337	22,063	56,337
Unitholders' equity	173,540	159,506	173,540	159,506

### Additional Information

Additional information regarding Essential, including the March 31, 2008 and June 30, 2008 interim reports, the 2007 Annual Report and the Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### OVERVIEW OF SECTOR ACTIVITY

As expected, the third quarter was significantly more active than the second quarter which is always hampered by spring break-up conditions. In addition, the third quarter of 2008 was busier than the third quarter of 2007. Drilling rig utilization rates in the Western Canadian Sedimentary Basin ("WCSB") averaged 46% for the third quarter of 2008 compared to 19% in the second quarter of 2008 and 38% in the third quarter of 2007. 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") was 53% in the third quarter of 2008, slightly ahead of service rig utilization of 50% in the third quarter of 2007.

Oil peaked at the beginning of July at US\$145 per barrel and natural gas at US\$13.58 per mcf. As a result of the global credit crisis and recessionary concerns, the price of both commodities dropped swiftly and significantly throughout the quarter. By the end of the third quarter, the price of oil had dropped 31% and the price of natural gas had dropped 45%.

<sup>1</sup> Refer to "Non-GAAP Measures" section for further information.

## OVERVIEW OF THIRD QUARTER RESULTS

The results from the three and nine month periods ended September 30, 2008 are generally not comparable to the results for the same periods in 2007 due to the increased size, scope and geographical reach of the operations acquired in the Builders merger. Additionally, all variances are impacted by the exclusion of the Builders results for the period January 1, 2008 to April 3, 2008.

Utilization rates for Essential improved during the third quarter of 2008 following the wet weather conditions and extended spring break-up experienced in the second quarter of 2008. Increased activity translated into both higher revenues and positive earnings within each business segment for the third quarter of 2008. Compared to the third quarter of 2007, the financial performance of the Trust from continuing operations showed significant growth due primarily to the completion of the Builders merger. However, this revenue growth is only included in the operations of the Trust during the second and third quarters, as the operating results related to the Builders acquisition are only reflected in the financial results of Essential from April 4, 2008 to September 30, 2008.

- Revenue from continuing operations for the three and nine month periods ended September 30, 2008 was \$43.9 million and \$84.1 million, respectively, compared to \$13.0 million and \$38.3 million for the same periods ended September 30, 2007.
- Gross margin<sup>(1)</sup> from continuing operations for the three and nine month periods ended September 30, 2008 was \$11.2 million and \$17.7 million, respectively, compared to \$4.5 million and \$12.4 million for the same periods ended September 30, 2007.
- Earnings (loss) from continuing operations for the three and nine month periods ended September 30, 2008 was \$0.5 million and \$(8.8) million, compared to \$0.6 million and \$(1.5) million for the same periods ended September 30, 2007.
- Funds flow from operations<sup>(1)</sup> for the three and nine month periods ended September 30, 2008 was \$8.1 million and \$9.9 million, respectively, compared to \$5.8 million and \$16.2 million for the same periods ended September 30, 2007.

## RESULTS OF OPERATIONS

(Thousands, except per unit amounts)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007 (restated)	2008 (restated)	2007 (restated)
Revenue	\$ 43,891	\$ 12,992	\$ 84,082	\$ 38,267
Operating expenses	32,655	8,448	66,376	25,866
Gross margin <sup>(1)</sup>	11,236	4,544	17,706	12,401
Gross margin as a percentage of revenue <sup>(1)</sup>	26%	35%	21%	32%
General and administrative expenses	2,612	854	7,124	3,934
EBITDAS <sup>(1)</sup>	8,624	3,690	10,582	8,467
EBITDAS as a percentage of revenue <sup>(1)</sup>	20%	28%	13%	22%
Unit-based compensation	511	436	1,228	1,232
Depreciation and amortization	5,116	2,036	12,585	6,417
Interest on long-term debt	499	691	2,572	2,312
Other	194	(37)	197	5
Earnings (loss) from continuing operations before income taxes	2,304	564	(6,000)	(1,499)
Future income tax expense (recovery)	1,848	(27)	2,758	-
Earnings (loss) from continuing operations	456	591	(8,758)	(1,499)
Earnings from discontinued operations	7,944	1,176	5,447	3,774
Net earnings (loss)	\$ 8,400	\$ 1,767	\$ (3,311)	\$ 2,275
Net earnings (loss) per unit – basic and diluted	\$ 0.14	\$ 0.05	\$ (0.07)	\$ 0.07

### Revenue

(Thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue				
Well Servicing	\$ 31,221	\$ 12,992	\$ 64,836	\$ 38,267
Wireline & Rentals	12,670	-	19,246	-
	\$ 43,891	\$ 12,992	\$ 84,082	\$ 38,267

Revenue from continuing operations for the three and nine month periods ended September 30, 2008 was \$43.9 million and \$84.1 million, respectively, compared to \$13.0 million and \$38.3 million for the same periods ended September 30, 2007.

The period over period increase from 2007 to 2008 is due to the completion of the Builders transaction and the resultant increased size and geographic reach of the Trust's equipment fleet and the addition of the downhole tool and rental operations. Comparative fleet information as at September 30, 2008 and 2007 is as follows:

	2008	2007
Well Servicing Equipment:		
Service Rigs	55	15
Flush-by/ Rod/ Swabbing Rigs	26	22
Coil Tubing/Nitrogen Units	39	23
Wireline Equipment		
E-line Units	13	-
Slickline Units	7	-

Note: The Trust reduced the size of its service rig fleet to 54 units, as a result of the sale of one service rig in October 2008.

## 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/ flushby rigs and swabbing units.

Well Servicing generated revenue of \$31.2 million and \$64.8 million for the three and nine month periods ending September 30, 2008, respectively, compared to \$13.0 million and \$38.3 million for the same periods ended September 30, 2007.

Overall, activity levels showed signs of continued improvement throughout the quarter. The seasonal decrease in activity levels associated with the winter access work sites in northwestern Alberta and northeastern British Columbia was offset by continued growth of the Trust's operations in southern Saskatchewan. Traditionally, the Trust serviced client demand for service rig and coil tubing services in southwestern Saskatchewan from its business units in Brooks and Medicine Hat, Alberta. During the third quarter 2008, the Trust also experienced increased demand for service rig and coil tubing services in southeastern Saskatchewan. In response to this increased demand, the Trust has established a base of operations in the area of the Bakken resource play and redeployed two of its intermediate coil tubing units into the area.

Service rig utilization for the three month period ended September 30, 2008 was 52% in comparison to the overall industry utilization per CAODC<sup>(2)</sup> of 53%.

## 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 \$19.2 million for the three and nine month periods ending September 30, 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 the quarter. This is particularly true within the Trust's downhole tool and rental businesses where the type and nature of the drilling programs undertaken by customers resulted in increased demand for these service offerings.

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

## Operating Expenses

(Thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Operating expenses	\$ 32,655	\$ 8,448	\$ 66,376	\$ 25,866

Operating expenses from continuing operations for the three and nine month periods ending September 30, 2008 were \$32.7 million and \$66.4 million, respectively, compared to \$8.4 million and \$25.9 million for the same periods ended September 30, 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.

During the quarter, and on a year to date basis, the Trust's operations continue to be impacted by escalating costs, particularly in the area of rising labour and fuel costs. Management continues to proactively manage its cost profile, including introducing modest rate increases to offset deterioration in operating margins.

Since the closing of 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 related to the merger. This process identified several areas of cost savings, and has allowed the Trust to further streamline its operations. Annualized savings of approximately \$2 million are expected in 2009.

## General and Administrative Expenses

(Thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
General and administrative expenses	\$ 2,612	\$ 854	\$ 7,124	\$ 3,934
As a % of revenue	6%	7%	8%	10%

General and administrative expenses from continuing operations for the three and nine month periods ending September 30, 2008 were \$2.6 million and \$7.1 million, respectively, compared to \$0.9 million and \$3.9 million for the same periods ended September 30, 2007. General and administrative expenses as a percentage of revenue<sup>(1)</sup> were 6% and 8% for the three and nine month periods ended September 30, 2008, respectively and 7% and 10% for the same periods in 2007, respectively.

The period over period increase from 2007 to 2008 is due to the completion of the Builders transaction and the addition of businesses to the pre-existing operations of the Trust (excluding business operations of both entities associated with the discontinued operations) and the incremental general and administrative costs related thereto. Management has completed several integration initiatives intended to realize the synergies resulting from the Builders transaction through reduced general and administrative expenditures. The streamlined cost structure and operational efficiencies realized particularly with respect to the elimination of executive positions from the combined operations of Essential and Builders, reduced public company and insurance costs and other benefits of integrating the two publically traded Trusts, are anticipated to generate annualized savings of approximately \$6 million in fiscal 2009.

During the quarter, a judgement in favour of the Trust was received in relation to successful litigation against a former general manager of the Trust regarding the non-competition clause of a management agreement. The courts awarded the Trust reimbursement of all costs associated with the litigation.

### Unit-based Compensation Expense

Unit-based compensation for the three and nine month periods ended September 30, 2008 was \$0.5 million and \$1.2 million, respectively, compared to \$0.4 million and \$1.2 million for the same period in 2007.

On November 13, 2008 there were 3,692,062 options outstanding (including 991,895 Essential Replacement Options issued in conjunction with the acquisition of Builders).

### Depreciation and Amortization

(Thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Depreciation and amortization	\$ 5,116	\$ 2,036	\$ 12,585	\$ 6,417

Depreciation and amortization expense from continuing operations for the three and nine month periods ending September 30, 2008 were \$5.1 million and \$12.6 million, respectively, compared to \$2.0 million and \$6.4 million for the same periods ended September 30, 2007. The period over period increase from 2007 to 2008 is a result of the completion of the Builders transaction and the resultant increased size of the equipment fleet.

During the quarter, 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 three and nine month periods ending September 30, 2008 was \$1.0 million lower than it would have been on 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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest on long-term debt	\$ 499	\$ 691	\$ 2,572	\$ 2,312

Interest and standby charges on long-term debt from continuing operations for the three months ended September 30, 2008 have decreased primarily as a result of a lower average term acquisition loan outstanding throughout the period. The interest on long-term debt from continuing operations for the nine months ended September 30, 2008 has increased primarily as a result of the incremental debt added in conjunction with the completion of the Builders transaction. Interest rates on the Trust's long-term debt facility averaged 6.2% for the third quarter of 2008, compared with 7.3% in 2007. For the nine months ended September 30, 2008, interest rates on the Trust's long-term debt facility averaged 6.2% for 2008 compared with 6.9% for 2007.

## Income Taxes

(Thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Future income tax expense (recovery)	\$ 1,848	\$ (27)	\$ 2,758	\$ -

In June 2007, the Government of Canada enacted legislation imposing additional income taxes on trusts for taxation years commencing January 1, 2011. During the three and nine months ended September 30, 2008, the Trust recognized \$1.8 million and \$2.8 million, respectively, in future tax expense from continuing operations. The future tax expense results from reduced tax deductions associated with lower distributions announced in the second quarter and reduced values in the Trust's tax pools associated with the disposition of the Transport division.

In July 2008, the Government of Canada released draft legislation to permit a trust to convert to a corporation. The draft 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 is expected to be finalized and enacted before the end of 2008.

## SUMMARY OF QUARTERLY DATA

(\$Thousands, except per unit amounts)	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007	Dec. 31, 2006
Revenue from continuing operations	43,891	25,145	15,046	11,929	12,992	9,339	15,936	15,904
Net earnings (loss)	8,400	(14,424)	2,713	(38,479)	1,767	(4,440)	4,948	5,650
Per-unit – basic	0.14	(0.24)	0.08	(1.09)	0.05	(0.15)	0.18	0.20
Per-unit – diluted	0.14	(0.24)	0.08	(1.09)	0.05	(0.15)	0.16	0.19
Funds flow from (used) in Operations <sup>(1)</sup>	8,125	(5,734)	7,109	3,791	5,759	996	9,454	9,434
Per-unit – basic	0.14	(0.10)	0.20	0.11	0.16	0.03	0.34	0.34
Per-unit – diluted	0.14	(0.10)	0.20	0.11	0.16	0.03	0.31	0.32
Distributions per unit	0.05	0.12	0.15	0.18	0.25	0.25	0.25	0.25

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

## FINANCIAL RESOURCES AND LIQUIDITY

On an annualized basis, the Trust expects to finance its distributions through funds flow from operations<sup>(1)</sup>. Overall, the Trust establishes its distribution level based on actual results to date, future expected funds flow from operations<sup>(1)</sup>, in addition to assessing the Trust's credit capacity in relation to the capital requirements for operational growth and maintenance of equipment.

During the three months ended September 30, 2008, funds flow from operations<sup>(1)</sup> were \$8.1 million. The changes in non-cash working capital, mainly comprised of a reduction in accounts payable related to the wind down of the Transport division, were financed through cash flow from operations for the quarter.

## Funds Flow from (used in) Operations<sup>(1)</sup>

(Thousands, except per unit amounts)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Cash flow from operations	\$ 6,402	\$ 1,326	\$ 25,632	\$ 17,286
Less:				
Changes in non-cash operating working capital	1,723	4,433	(15,759)	(1,076)
<b>Funds flow from operations</b>	<b>\$ 8,125</b>	<b>\$ 5,759</b>	<b>\$ 9,873</b>	<b>\$ 16,210</b>
Per unit – basic and diluted	\$ 0.14	\$ 0.16	\$ 0.18	\$ 0.50

Funds flow from operations<sup>(1)</sup> for the three and nine month periods ended September 30, 2008 were \$8.1 million and \$9.9 million, respectively, compared to \$5.8 million and \$16.2 million for the same periods in 2007. The period over period increase for the three months ended September 30 is attributed primarily to the completion of the Builders transaction. Improved industry conditions resulting in higher activity levels has also factored into the increase in funds flow from operations during this period.

## Equipment Expenditures

(Thousands)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Equipment expenditures				
Well Servicing	\$ 2,622	\$ 684	\$ 3,682	\$ 3,133
Wireline & Rentals	1,319	-	2,069	-
Corporate	202	152	472	236
	4,143	836	6,223	3,369
Less proceeds on disposal of property and equipment	(134)	(413)	(366)	(520)
<b>Net equipment expenditures</b>	<b>\$ 4,009</b>	<b>\$ 423</b>	<b>\$ 5,857</b>	<b>\$ 2,849</b>

Net equipment expenditures<sup>(1)</sup> for the three and nine month periods ended September 30, 2008 were \$4.0 million and \$5.9 million compared to \$0.4 million and \$2.8 million for the same periods in 2007. The current year-to-date net equipment expenditures<sup>(1)</sup> is comprised of \$2.9 million in growth capital<sup>(1)</sup>, \$2.6 million in net maintenance capital<sup>(1)</sup> and \$0.4 million for information systems, operational facilities and leasehold improvements.

Due to the uncertainty of sector activity levels, management has reviewed the existing capital program and approximately \$3.8 million of equipment expenditures previously planned in the latter half of 2008 have been deferred into 2009.

## Trust Units

During the nine months ended September 30, 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.

As at November 13, 2008, there were 60,272,865 Trust units and 3,692,062 Trust unit options outstanding (including 991,895 Essential Replacement Options issued in conjunction with the acquisition of Builders). Of the 3,692,062 Trust unit options, 1,347,838 were exercisable of which nil were "in-the-money".

### **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 September 30, 2008, of which \$22 million 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 existing facility is sufficient to meet the Trust's obligations for the remainder of the year.

As at September 30, 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.

### **DISCLOSURE CONTROLS AND PROCEDURES**

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

The Trust reported on these as part of the 2007 reporting (please refer to the management discussion and analysis for the year ended December 31, 2007 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.essentialenergy.ca](http://www.essentialenergy.ca)) and there have been no significant changes to disclosure controls in the current period.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

The Trust reported on these as part of the 2007 reporting (please refer to the management discussion and analysis for the year ended December 31, 2007 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.essentialenergy.ca](http://www.essentialenergy.ca)) and there have been no significant changes to the design of internal controls over financial reporting in the current period.

### **NORMAL COURSE ISSUER BID**

On October 29, 2008, the Trust announced that it received approval from the Toronto Stock Exchange (the "TSX") to implement a normal course issuer bid ("NCIB") for Essential trust units ("Units"). Any Unit purchases pursuant to the NCIB will be for cancellation. Under the NCIB, Essential may purchase up to 5,900,715 of its issued and outstanding Units on the open market through the facilities of the TSX, representing 10 percent of the public float.

The NCIB commenced on October 31, 2008, and will terminate on October 30, 2009, or at such earlier date as the NCIB is completed or terminated at the option of Essential.

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](mailto:service@essentialenergy.ca).

## **OUTLOOK**

The decisive steps taken by Essential in 2008, including the merger with Builders and the disposition of the Transport division, has positioned the Trust well to deal with a potential downturn in activity. The proceeds from the sale of the Transport Division were used to repay debt when the deal closed on July 2, 2008. On November 13, 2008, debt outstanding was \$19.7 million, and net of working capital was \$nil. With the uncertainty in the sector, management will continue to manage debt and spending prudently.

Approximately fifty percent of Essential's services are focused on production-related activities. Even if there is a slowdown in drilling activity, these services are still required to support the over 200,000 producing wells in the WCSB. While production work is not immune to a slow-down in activity, as there is still significant competition for services, it does provide a level of more predictable revenue.

The slowdown in the U.S. economy and global financial issues are expected to negatively impact the demand for oil and natural gas, as reflected in the current level of these commodity prices. The decline in commodity prices and limited access to capital is anticipated to have a constraining effect on the level of spending by some exploration and production companies. A reduction in such spending translates into a reduction in the demand for some of Essential's services. Conversely, the recent decline in the Canadian dollar relative to the U.S. dollar is positive for the Canadian oil and natural gas industry as a significant portion of revenues for the producers in the WCSB are denominated in U.S. dollars while the expenses are primarily in Canadian dollars.

While drilling activity was relatively flat in Alberta in the third quarter of 2008 relative to the third quarter of 2007, drilling activity continued to be active in northeast British Columbia and Saskatchewan with increases in the weekly active rig count of 85% and 51% respectively in the third quarter of 2008 relative to the third quarter of 2007. This activity is expected to continue into 2009, as there are some significant resource plays in these regions. Essential has service rigs and coil tubing units deployed in the Fort St John region and north to Fort Nelson, British Columbia. In addition, Essential is becoming more active in Saskatchewan with equipment working in the southeast region of the province and plans to deploy more assets to this region in the near term.

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. The high production decline rates in the WCSB will require more drilling to maintain current production levels.

## **<sup>(1)</sup>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<sup>(3)</sup> – This measure is considered a primary indicator of operating performance as calculated by revenue less operating expenses.

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

EBITDAS<sup>(4)</sup> (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<sup>(4)</sup> – This measure is considered an indicator of the Trust’s ability to generate funds flow as calculated by EBITDAS<sup>(4)</sup> divided by revenue.

Funds flow or funds flow from (used in) operations<sup>(5)</sup> – This measure is an indicator of the Trust’s ability to generate funds flow<sup>(5)</sup> 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.

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<sup>(6)</sup> – 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 our oilfield services equipment.

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<sup>3</sup> 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”.

<sup>4</sup> 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”.

<sup>5</sup> Funds flow is reconciled to the GAAP measure, cash flow from operations, in the table “Funds Flow from Operations”.

<sup>6</sup> Net equipment expenditures is calculated from the GAAP measures, equipment expenditures and proceeds on disposal of equipment, in the table “Equipment Expenditures”

# **Consolidated Financial Statements**

Essential Energy Services Trust

September 30, 2008

**ESSENTIAL ENERGY SERVICES TRUST**  
**CONSOLIDATED BALANCE SHEETS**  
*(unaudited)*

<i>(Thousands)</i>	As at September 30, 2008	As at December 31, 2007 <i>(restated note 5)</i>
<b>Assets</b> <i>(note 7)</i>		
Current assets		
Accounts receivable	\$ 41,917	\$ 22,206
Inventory	7,856	1,558
Prepaid expenses and deposits	1,590	683
Assets held for sale <i>(note 5)</i>	-	92,261
	51,363	116,708
Property and equipment <i>(note 6)</i>	140,708	57,861
Intangible assets	5,583	4,233
Goodwill	17,902	17,902
	\$ 215,556	\$ 196,704
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness	\$ 1,609	\$ 1,092
Operating line of credit	-	13,316
Accounts payable and accrued liabilities	13,002	7,175
Distributions payable <i>(note 11)</i>	904	1,763
Current portion of long-term debt <i>(note 7)</i>	2,549	11,084
Liabilities held for sale <i>(note 5)</i>	-	187
	18,064	34,617
Long-term debt <i>(note 7)</i>	19,514	45,917
Future income tax liability <i>(note 13)</i>	4,438	990
	42,016	81,524
Commitments <i>(note 14)</i>		
<b>Unitholders' Equity</b>		
Unitholders' capital <i>(note 8)</i>	267,436	192,041
Contributed surplus <i>(note 9)</i>	3,708	2,480
Accumulated deficit	(97,604)	(79,341)
	173,540	115,180
	\$ 215,556	\$ 196,704

See accompanying notes to unaudited consolidated interim financial statements

**ESSENTIAL ENERGY SERVICES TRUST**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE EARNINGS (LOSS) AND**  
**ACCUMULATED DEFICIT**  
*(unaudited)*

<i>(Thousands, except per unit amounts)</i>	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
		<i>(restated note 5)</i>	<i>(restated note 5)</i>	<i>(restated note 5)</i>
Revenue	\$ 43,891	\$ 12,992	\$ 84,082	\$ 38,267
Operating expenses <i>(note 16)</i>	32,655	8,448	66,376	25,866
	11,236	4,544	17,706	12,401
Expenses				
General and administrative	2,612	854	7,124	3,934
Unit-based compensation <i>(note 10)</i>	511	436	1,228	1,232
Depreciation and amortization	5,116	2,036	12,585	6,417
Interest on long-term debt	499	691	2,572	2,312
Other	194	(37)	197	5
Earnings (loss) from continuing operations before income taxes	2,304	564	(6,000)	(1,499)
Income tax expense (recovery) Future <i>(note 13)</i>	1,848	(27)	2,758	-
Earnings (loss) from continuing operations	456	591	(8,758)	(1,499)
Earnings (loss) from discontinued operations (net of tax) <i>(note 5)</i>	-	1,176	(2,497)	3,774
Gain on sale of discontinued operations (net of tax) <i>(note 5)</i>	7,944	-	7,944	-
Earnings from discontinued operations	7,944	1,176	5,447	3,774
Net earnings (loss) and comprehensive earnings (loss) for the period	8,400	1,767	(3,311)	2,275
Accumulated deficit, beginning of period	(103,292)	(27,394)	(79,341)	(13,058)
Distributions to unitholders <i>(note 11)</i>	(2,712)	(8,782)	(14,952)	(23,626)
Accumulated deficit, end of period	\$ (97,604)	\$ (34,409)	\$ (97,604)	\$ (34,409)
Earnings (loss) per unit from continuing operations <i>(note 12)</i>				
Basic and diluted	\$ 0.01	\$ 0.02	\$ (0.17)	\$ (0.04)
Earnings per unit from discontinued operations <i>(note 12)</i>				
Basic and diluted	\$ 0.13	\$ 0.03	\$ 0.10	\$ 0.11
Net earnings (loss) per unit <i>(note 12)</i>				
Basic and diluted	\$ 0.14	\$ 0.05	\$ (0.07)	\$ 0.07

See accompanying notes to unaudited consolidated interim financial statements

**ESSENTIAL ENERGY SERVICES TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(unaudited)*

<i>(Thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
		<i>(restated note 5)</i>	<i>(restated note 5)</i>	<i>(restated note 5)</i>
<b>Operating activities:</b>				
Earnings (loss) from continuing operations	\$ 456	\$ 591	\$ (8,758)	\$ (1,499)
<b>Items not affecting cash:</b>				
Depreciation and amortization	5,116	2,036	12,585	6,417
Future income tax expense (recovery) (note 13)	1,848	(27)	2,758	-
Unit-based compensation (note 10)	511	436	1,228	1,232
Loss on disposal of equipment	194	(37)	197	5
Cash flows from continuing operations	8,125	2,999	8,010	6,155
Cash flows from (used in) discontinued operations	-	2,760	1,863	10,055
	8,125	5,759	9,873	16,210
Changes in non-cash working capital	(1,723)	(4,433)	15,759	1,076
	6,402	1,326	25,632	17,286
<b>Financing activities:</b>				
Issue of Trust units, net of issue costs	-	-	-	32,618
Distributions paid	(2,712)	(8,781)	(15,811)	(22,999)
Increase (repayment) of operating line of credit	346	10,600	(12,799)	160
Increase in long-term debt	-	141	14,442	641
Repayment of long-term debt	(128,643)	(293)	(129,047)	(716)
Repayments of capital lease obligations	-	(28)	-	(94)
	(131,009)	1,639	(143,215)	9,610
<b>Investing activities:</b>				
Property and equipment	(4,143)	(836)	(6,223)	(3,369)
Business acquisitions	(736)	(11,932)	(8,004)	(16,382)
Proceeds on disposal of equipment	134	339	475	446
Proceeds on disposal of discontinued operations	132,352	-	132,352	-
(Increase) decrease in assets held for sale	-	(196)	1,983	(8,431)
Changes in non-cash working capital	(3,000)	250	(3,000)	650
	124,607	(12,375)	117,583	(27,086)
Decrease in cash	-	(9,410)	-	(190)
Cash, beginning of period	-	10,330	-	1,110
Cash, end of period	\$ -	\$ 920	\$ -	\$ 920
<b>Supplementary cash flow information:</b>				
Interest paid	\$ 499	\$ 1,142	\$ 2,819	\$ 3,454

See accompanying notes to unaudited consolidated interim financial statements

**ESSENTIAL ENERGY SERVICES TRUST**  
**NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

*As at and for the periods ended September 30, 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 an open-ended unincorporated investment trust governed by the laws of the province of Alberta and created pursuant to a deed of trust dated April 4, 2006 between Olympia Trust Company and Avenir Diversified Income Trust ("Avenir").

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

**2. Significant Accounting Policies**

The unaudited interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of the Trust for the year ended December 31, 2007, except as noted in note 3. These interim consolidated financial statements do not include all disclosures provided in the December 31, 2007 financial statements and should be read in conjunction with the Trust's consolidated annual financial statements for the year ended December 31, 2007 and the consolidated interim financial statements for the periods ended March 31, 2008 and June 30, 2008. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate to make the information presented not misleading.

**3. Adoption of New Accounting Policy**

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.

**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.

The Trust's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. Future adjustments to the capital management strategy may be necessary depending on changes in future economic conditions. The Trust manages its capital structure through increases or decreases in funded debt, unitholders' equity and distributions.

The Trust considers its capital structure to include unitholders' equity and long-term debt. The Trust is subject to externally imposed capital requirements associated with its debt facility, including financial

covenants that incorporate funded debt, EBITDA and total capitalization. As at September 30, 2008, the Trust is in good standing with respect to these covenants.

#### **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. The purpose of section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Trust's financial position, performance and cash flows.

#### **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 period ended September 30, 2008.

### **4. Acquisitions**

#### **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 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 10).

The Arrangement has been accounted for by the purchase method with the results of Builders being included in the Trust's 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. These preliminary fair value determinations are based on management estimates and are subject to change.

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

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

#### 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 estimated transaction costs of \$50,000 and the issuance of 365,064 Trust Units at \$3.63 per unit. A&B operates 3 hot oilers, 3 pressure trucks and a heating unit. The assets formed part of Essential's Transport business segment (note 5). 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:

	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>

#### 5. Assets 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 balance sheet as assets held for sale:

	As at September 30, 2008	As at December 31, 2007
Current assets held for sale:		
Inventory	\$ -	\$ 412
Property and equipment	-	39,945
Intangibles	-	9,726
Goodwill	-	42,178
	<u>\$ -</u>	<u>\$ 92,261</u>

	As at September 30, 2008	As at December 31, 2007
Current liabilities held for sale:		
Long-term debt	\$ -	\$ 646
Future income taxes	-	(459)
	<u>\$ -</u>	<u>\$ 187</u>

The results of operations related to the assets and liabilities held for sale are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue	\$ -	\$ 14,682	\$ 38,681	\$ 47,406
Expenses				
Operating	-	9,150	28,995	29,236
General and administrative	-	2,276	6,327	6,506
Interest and bank charges	-	496	1,496	1,609
Depreciation and amortization	-	2,171	4,374	6,262
Earnings (loss) before income taxes	-	589	(2,511)	3,793
Future income tax expense (recovery)	-	(587)	(14)	19
Earnings (loss) from discontinued operations (net of income taxes)	<u>\$ -</u>	<u>\$ 1,176</u>	<u>\$ (2,497)</u>	<u>\$ 3,774</u>

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 three and nine month periods ended September 30, 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 \$1.5 million transaction costs. The net book value of assets that were sold on July 2, 2008 was \$123.8 million, resulting in a gain of \$8.6 million (\$7.9 million net of tax).

## 6. Property and Equipment

As at September 30, 2008	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	\$ 136,211	\$ 25,143	\$ 111,068
Oilfield services equipment	23,238	2,523	20,715
Vehicles and automotive	6,163	1,390	4,773
Other	4,762	610	4,152
	<u>\$ 170,374</u>	<u>\$ 29,666</u>	<u>\$ 140,708</u>

As at December 31, 2007 <i>(restated – see note 5)</i>	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	\$ 72,376	\$ 17,584	\$ 54,792
Oilfield services equipment	1,315	297	1,018
Vehicles and automotive	1,883	715	1,168
Other	1,053	170	883
	<u>\$ 76,627</u>	<u>\$ 18,766</u>	<u>\$ 57,861</u>

## 7. Long-term Debt

	September 30, 2008	December 31, 2007 <i>(restated - see note 5)</i>
Term loan	\$ 21,950	\$ 57,000
Term debt and capital leases	113	1
	<u>22,063</u>	<u>57,001</u>
Less: current portion of long-term debt	(2,549)	(11,084)
	<u>\$ 19,514</u>	<u>\$ 45,917</u>

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 + 1.375%.

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 September 30, 2008, all financial debt covenants were satisfied and all banking requirements were up to date.

The average effective interest rate on borrowings under the facility for the three and nine months ended September 30, 2008 were 6.2% for both periods (September 30, 2007 – 7.2% and 6.9%, respectively).

## 8. Unitholders' Capital

	As at September 30, 2008	
	Units	Amount
Balance, January 1, 2008	35,268	\$ 192,041
Units issued on A&B acquisition (i)	365	1,325
Units issued on Builders acquisition (ii)	24,640	74,070
Balance, September 30, 2008	60,273	\$ 267,436

- (i) On March 1, 2008, the Trust issued 365,064 units at \$3.63 per unit to the vendors of A&B (see note 4).
- (ii) On April 4, 2008, the Trust issued 24,639,825 units at \$2.99 per unit to the unitholders of Builders (see note 4).

## 9. Contributed Surplus

	As at September 30, 2008	
Balance, January 1, 2008	\$	2,480
Unit-based compensation		1,228
Balance, September 30, 2008	\$	3,708

## 10. Unit-based Compensation

	Trust Unit Options	Weighted Average Exercise Price
Outstanding, January 1, 2008	2,494	\$ 7.82
Issued	3,394	4.86
Forfeitures	2,060	7.75
Outstanding, September 30, 2008	3,828	\$ 5.25
Exercisable, September 30, 2008	1,335	\$ 10.45

The Trust recorded unit-based compensation expense in respect of the Option Plan of \$0.5 million and \$1.2 million for the three and nine months ended September 30, 2008, respectively (2007 - \$0.4 million and \$1.2 million, respectively) with a corresponding increase to contributed surplus. The amount of unit-based compensation expense has been reduced approximately \$0.2 million for Trust unit options forfeited during the period prior to vesting.

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

Risk-free Interest Rate	3.08%
Expected Volatility	61.0%
Expected Term	1.8 – 5.0 years
Distribution yield	0%
Fair value per option issued	\$1.24

## 11. Accumulated Distributions and Distributions Payable

	Nine months ended September 30, 2008
Accumulated distributions, beginning of period	\$ 46,039
Distributions declared and paid in the period	14,048
Distributions declared and payable	904
Accumulated distributions, for the period	14,952
Accumulated distributions, end of period	\$ 60,991

## 12. Net Earnings (Loss) Per Unit

The weighted average number of units outstanding for the three and nine month periods ending September 30, 2008 were 60,272,865 and 51,739,845 respectively, compared to 35,267,976 and 31,194,828 for the same periods in 2007. For the three and nine months ended September 30, 2008 and the three month period ended September 30, 2007, options convertible to units are not included in the denominator as their effect is anti-dilutive.

## 13. Income Taxes

The entity 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.

The future income tax liability consists of:

	September 30, 2008	December 31, 2007
Tangible assets	\$ (8,598)	\$ -
Net operating losses	2,455	-
Goodwill/ Intangible assets	2,212	(385)
Trust unit issuance costs	632	289
Valuation allowance	(1,139)	(894)
Future income tax liability	\$ (4,438)	\$ (990)

## 14. 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:	
2008	\$ 3,911
2009	4,058
2010	3,769
2011	2,857
2012	1,874
Thereafter	2,425
	<hr/> \$ 18,894 <hr/>

## 15. Financial Instruments

### a) Designation and valuation of financial instruments

Essential has classified its cash as held for trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, distributions payable, and long-term debt are classified as other financial liabilities. The Trust did not designate any of its financial assets as either held-to-maturity or available-for-sale at January 1, 2008. The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and distribution payable 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.

### 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 any 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 September 30, 2008 accounts receivable are aged as follows: 59% - current; 19% - 31-60 days; 12% - 61-90 days; and 10% - 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.

Of the Trust's trade accounts receivable as at September 30, 2008, approximately 13% was due from two companies (September 30, 2007 – 28%).

#### (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.

### (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.

## 16. Related Party Transactions

During the three and nine months ended September 30, 2008, the Trust leased land and buildings from a former officer of the Trust which are included in operating expenses. The expense totaled \$nil and \$234, respectively (2007 – \$117 and \$351, respectively). These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the respective parties, and were recorded at the exchange amount.

## 17. Seasonality of Operations

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

## 18. Segmented Information

As a result of the Builders acquisition (note 4) and the disposition of the transport segment (note 5), the Trust has redefined its operating segments. As a result, the Trust has two operating segments: Well Servicing and Wireline & Rentals, and a non-operating segment, Corporate. Previous periods have been restated to reflect this change in reporting units.

### 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/ flushby 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 of 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:

<b>As at and for the three months ended September 30, 2008</b>					
	Well Servicing	Wireline & Rentals	Corporate	Discontinued Operations	Consolidated
Revenue	\$ 31,221	\$ 12,670	\$ -	\$ -	\$ 43,891
Earnings (loss) from continuing operations before income taxes	\$ 4,791	\$ 1,474	\$ (3,961)	\$ -	\$ 2,304
Total assets	\$ 160,480	\$ 45,321	\$ 9,755	\$ -	\$ 215,556
Equipment expenditures	\$ 2,622	\$ 1,319	\$ 202	\$ -	\$ 4,143

<b>As at and for the three months ended September 30, 2007</b>					
	Well Servicing	Wireline & Rentals	Corporate	Discontinued Operations	Consolidated
Revenue	\$ 12,992	\$ -	\$ -	\$ -	\$ 12,992
Earnings (loss) from continuing operations before income taxes	\$ 2,380	\$ -	\$ (1,816)	\$ -	\$ 564
Total assets	\$ 127,340	\$ -	\$ 864	\$ 106,670	\$ 234,874
Equipment expenditures	\$ 684	\$ -	\$ 152	\$ -	\$ 836

<b>As at and for the nine months ended September 30, 2008</b>					
	Well Servicing	Wireline & Rentals	Corporate	Discontinued Operations	Consolidated
Revenue	\$ 64,836	\$ 19,246	\$ -	\$ -	\$ 84,082
Earnings (loss) from continuing operations before income taxes	\$ 3,856	\$ 1,222	\$ (11,078)	\$ -	\$ (6,000)
Total assets	\$ 160,480	\$ 45,321	\$ 9,755	\$ -	\$ 215,556
Equipment expenditures	\$ 3,682	\$ 2,069	\$ 472	\$ -	\$ 6,223

<b>As at and for the nine months ended September 30, 2007</b>					
	Well Servicing	Wireline & Rentals	Corporate	Discontinued Operations	Consolidated
Revenue	\$ 38,267	\$ -	\$ -	\$ -	\$ 38,267
Earnings (loss) from continuing operations before income taxes	\$ 5,529	\$ -	\$ (7,028)	\$ -	\$ (1,499)
Total assets	\$ 127,340	\$ -	\$ 864	\$ 106,670	\$ 234,874
Equipment expenditures	\$ 3,133	\$ -	\$ 236	\$ -	\$ 3,369

## 19. Comparative Amounts

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

## 20. Subsequent Event

On October 29, 2008, Essential announced that it has received approval from the Toronto Stock Exchange to implement a normal course issuer bid ("NCIB") commencing on October 31, 2008 and terminating on October 30, 2009. Any units purchased by Essential pursuant to the NCIB will be for cancellation.

## **C O R P O R A T E I N F O R M A T I O N**

### **Directors**

James A. Banister<sup>2,3</sup>, Chairman

Garnet K. Amundson

Dennis B. Balderston<sup>1,2</sup>

Michael J. Black<sup>2</sup>

Verne G. Johnson<sup>1,3</sup>

Jeffrey J. Scott<sup>1,3</sup>

1. Audit Committee

2. Compensation & Governance Committee

3. Health, Safety & 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 & Chief Executive Officer

Jeff B. Newman  
Chief Financial Officer

Kevin W. Job  
VP, Operations

Don A. K. Webster  
VP, Operations

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