ESSENTIAL
energy services trust

Second Quarter Report 2006

TSX
ESN.un

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

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

HIGHLIGHTS FOR THE QUARTER ENDED JUNE 30, 2006

- **REVENUE**
  Revenue increased 183% to $18.7 million for the second quarter.

- **NET INCOME**
  Net income increased 301% to $1.7 million for the second quarter.

- **FUNDS FROM OPERATIONS**
  Funds from operations increased 170% to $4.4 million for the second quarter.

- **ACCRUED DISTRIBUTIONS TO ESSENTIAL UNITHOLDERS**
  Accrued distributions to unitholders: $2.3 million for the second quarter.

- **ANNUAL MEETING OF AVENIR UNITHOLDERS**
  On May 11, 2006 the unitholders of Avenir approved the Plan of Arrangement (the "Arrangement") to spin-off the Energy Services division of Avenir into Essential. The effective date was May 31, 2006.

- **DISTRIBUTION OF UNITS TO AVENIR UNITHOLDERS**
  The units of Essential were distributed to Avenir unitholders of record on May 31, 2006 whereby Avenir unitholders received one trust unit of Essential for each two Avenir trust units held. Essential has and will continue to distribute $0.083 per Trust unit per month ($0.996 per unit per year). Future distributions and the actual payout ratio will be subject to the discretion of the Board of Directors of Essential Energy Services Operating Corp. and may vary depending on, among other things, the current and anticipated level of activity in the energy services industry.

- **INCREASE IN EXTENDIBLE REVOLVING CREDIT FACILITY FROM $25.0 MILLION TO $55.0 MILLION**
  On May 31, 2006, the extendible revolving and term loan facilities were increased with a syndicate of two Canadian chartered banks from $25.0 million to $55.0 million.

- **ACQUISITION OF CLASSIC WELL SERVICING PARTNERSHIP IN MAY 2006**
  Effective May 31, 2006 and concurrent with the Plan of Arrangement, Essential acquired the assets and business of Classic Well Servicing Partnership ("Classic") of Nisku, Alberta. Classic operates 9 service rigs including 4 doubles and 5 singles throughout central and southern Alberta. Total consideration consisted of 3,191,721 units of Essential.

- **ACQUISITION OF DRB-AV PARTNERSHIP IN MAY 2006**
  Effective May 31, 2006 and concurrent with the plan of arrangement, Essential acquired the assets and business of DRB-AV Partnership ("DRB"). The assets acquired include 4 swab rigs, 2 hot oilers, 2 vacuum trucks, 1 hydro-vac, a tank truck and a combination steamer-vac. All equipment acquired was absorbed by other operating units of Essential. Total consideration consisted of 1,985,960 units of Essential.

- **ACQUISITION OF NON-CONTROLLING INTERESTS IN MAY 2006**
  Effective May 31, 2006 and concurrent with the plan of arrangement, Essential acquired the outstanding 10% non-controlling interests of Cascade Services Partnership, Westvac Energy Services Partnership and Kodiak Coil Tubing Limited Partnership. Total consideration consisted of 1,144,533 units of Essential and $618,000 in cash.

- **ACQUISITION OF PELICAN LAKE ASSETS IN JUNE 2006**
  Effective June 1, 2006, Essential purchased 4 flush-bys, 2 tank trucks, related equipment and a 100 person camp in the Pelican Lake, Alberta area from a private company for total consideration of approximately $5.6 million.

FINANCIAL HIGHLIGHTS

	Three Months Ended June 30			Six Months Ended June 30		
$ thousands, except per unit amounts, margins and ratios	**2006**	**2005**	**% Change**	**2006**	**2005**	**% Change**
Financial Results						
Revenue	18,729	6,624	183%	38,250	10,828	253.3%
EBITDA[1]	4,800	1,684	185%	12,168	3,196	281%
EBITDA margin (%)[1]	25.6%	25.4%	0.2%	31.8%	29.5%	2.3%
Net income	1,651	412	301%	4,714	1,277	269%
Net income margin (%)	8.8%	6.2%	2.6%	12.3%	11.8%	0.5%
Funds from operations[2]	4,438	1,641	170%	11,494	3,128	267%
Financial Position and Liquidity						
Working capital (excluding debt)[3]	6,911	n/a	n/a	6,911	n/a	n/a
Working capital ratio[3]	1.5:1	n/a	n/a	1.5:1	n/a	n/a
Funded debt (including current portion)[4]	40,804	n/a	n/a	40,804	n/a	n/a
Funded debt to equity ratio	0.3:1	n/a	n/a	0.3:1	n/a	n/a
Unit Information						
Weighted average number of units outstanding – basic & diluted	27,142	n/a	n/a	27,142	n/a	n/a
Funds from operations per unit	0.16	n/a	n/a	0.42	n/a	n/a
Distributions per unit	0.083	n/a	n/a	0.083	n/a	n/a
Earnings per unit – basic & diluted	0.06	n/a	n/a	0.17	n/a	n/a
Unit price – June 30, 2006	8.65	n/a	n/a	8.65	n/a	n/a

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

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

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

4 Funded debt (including current portion) is calculated by taking bank indebtedness which includes revolving term loan facility plus current and long-term portions of capital lease obligations, long-term debt, and non-controlling interest plus Due to Avenir.

5 Distribution payout ratio is calculated by dividing the distributions to Essential unitholders by the funds from operations.

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

n/a means not applicable as the comparative numbers for the period ended June 30, 2005 were those of Avenir Diversified Income Trust and would not be meaningful on a per unit basis to Essential unitholders.

OVERVIEW

The second quarter of 2006 marked several outstanding achievements for Essential including the completion of the spin out from Avenir on May 31, 2006, three important acquisitions, outstanding operational results under very challenging conditions and the initiation of operations as a stand alone entity. Operational results exceeded management expectations in all areas and are directly attributable to the quality and dedication of the men and women that make up Essential. The second quarter is always the weakest quarter for oil and gas service companies and this year was particularly challenging. Three acquisitions were completed late in the quarter and the impact of these acquisitions as well as the addition of new equipment through the quarter will be realized in the third and fourth quarter results which are anticipated to be significantly better than the second quarter. The Trust has managed to achieve dramatic growth over the year and to manage cost pressures while improving the overall quality and competitiveness of our fleet. The solid foundation that has been built in the second quarter is setting the stage for even better results through the balance of the year.

During the second quarter, the Trust was created from the spin out of the energy service division of Avenir Diversified Income Trust ("Avenir") pursuant to a Plan of Arrangement. Unitholders of Avenir received one unit of Essential as a special distribution for every two units of Avenir. In return for providing Avenir unitholders with Essential units, Avenir contributed its entire energy services division to Essential on May 31, 2006. The spin out was accounted for on a continuity of interests basis and accordingly, these second quarter financial statements reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly conducted by Avenir Diversified Income Trust.

Concurrent with the spin out at the end of May, Essential completed the acquisitions of Classic Well Servicing Partnership, a Nisku, Alberta based private company that operates 9 service rigs in central Alberta, and DRB-AV Partnership which contains the assets of three smaller private companies. Two of these private companies have been absorbed by the Trust's Cascade Services Partnership ("Cascade") business unit increasing Cascade's fleet capacity by 7 units including 3 vacuum trucks, 2 hot oilers, a hydro-vac and a tank truck along with the valuable contracts and relationships brought to Cascade through the addition of several key management personnel. The third private company has 4 swabbing rigs and related tank trucks and were added to HK Well Service's fleet in Medicine Hat. In June, Essential completed the acquisition of certain assets in the Pelican Lake area of Alberta including 4 rod rigs (flush-bys), 2 tank trucks and a 100 person camp which has added to the existing services provided in this region by Westvac Energy Services Partnership.

The second quarter is typically the most challenging for oilfield service companies and financial results are historically weaker than the other quarters. This year saw very difficult conditions due to below average temperatures in March followed by above average temperatures in April. This caused a severe spring break up which was followed by above average rainfall later in the quarter. June saw rainfall in southern Alberta that was almost double typical amounts. These extreme weather conditions resulted in lower utilization of Essential's equipment. Despite the difficult conditions Essential is pleased to announce strong results across our nine operating entities. As the financial highlights show, we were able to achieve significant growth and stable margins compared to the previous year. With the return to normal weather patterns in July, the third quarter is off to a strong start.

The recent weakness in the stock market and relative softening of North American natural gas prices have resulted in some industry observers speculating that industry activity may slow down. It is important that Essential's unitholders understand that the Trust is focused on providing services that maintain and enhance production from producing wells and facilities. The Trust's operations will be less affected by any slow down in capital spending, particularly drilling, by the oil and gas industry than would be those companies focused on drilling and other upstream activities. While the Trust is not immune from broad industry slow downs, it has always been focused on providing those services that are least affected by commodity price and capital spending fluctuations.

Strong oil prices and recently stabilizing natural gas prices have reaffirmed the financial health of the oil and gas sector. Essential is uniquely positioned to benefit from continuing strong demand for the services we offer. We firmly believe that we will continue to provide sustainable distributions and accretive growth on a per unit basis.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") was prepared as of August 4, 2006 and is provided to assist readers in understanding Essential Energy Services Trust's ("Essential" or the "Trust") financial performance for the second quarter ended June 30, 2006 and 2005 and significant trends that may affect future performance of the Trust. This MD&A should be read in conjunction with the accompanying interim consolidated financial statements for the second quarter ended June 30, 2006 and the notes contained therein. The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") Essential is a reporting issuer in each of the provinces of Canada, except Quebec. The Trust's units trade on the Toronto Stock Exchange under the symbol "ESN.UN".

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

This MD&A also makes reference to certain non-GAAP financial measures to assist users in assessing the Trust's performance. Earnings before interest, taxes, depreciation and amortization ("EBITDA"), funds from operations and funds from operations per unit are not recognized measures under Canadian GAAP and do not have any standardized meanings prescribed by GAAP. See the Financial Highlights section for a description of how these non-GAAP measures are calculated. Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds from operations necessary to fund future distributions and capital investments. The Trust's method of calculating these measures may differ from other issuers, and accordingly, they may not be comparable to measures used by other issuers. Investors should be cautioned that these non-GAAP measures should not be construed as alternatives to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.

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

CORPORATE PROFILE

Essential is an open-end unincorporated, limited purpose investment trust. Essential provides rig and transport based, essential production services to oil and gas producers across western Canada. The Trust operates through nine independent operating entities (the "Business Units") which offer a diversified range of services focused on the maintenance and enhancement of production from oil and gas wells and other related services. Essential Energy Services Operating Corp. (the "Manager") is the manager of the Trust, which provides management, administration and financial services to the Business Units. In addition, the Manager provides cross-selling opportunities, equipment and facility sharing, as well as bulk purchasing, shared insurance, benefit administration and other services to enhance revenue, reduce employee turnover and reduce costs.

Essential is an energy service trust that provides a range of essential production services to oil and gas producers across western Canada from northeast British Columbia to southwest Saskatchewan including service rigs, coil tubing, rod rigs, swab rigs, vacuum truck, pressure truck, tank truck, hydro-vac, steaming and hot oiling along with other related services. Essential focuses on post drilling production maintenance and enhancement services to ensure stable cash flows for Essential's unitholders.

PLAN OF ARRANGEMENT

On April 5, 2006, Avenir Diversified Income Trust ("Avenir") announced that, in accordance with its originally stated business plan, it was proceeding with the formation of a new publicly traded oilfield services trust, Essential Energy Services Trust, to which it conveyed the entire existing Energy Services Division of Avenir. The trust units of Essential were distributed to existing unitholders of Avenir on May 31, 2006 by way of a special distribution on a basis such that for every two Avenir trust units held by a unitholder, such unitholder would receive one trust unit of Essential. The senior management of the Energy Services Division of Avenir, along with each business entity manager, have continued with Essential. In order to provide continuity to Essential, Mr. William Gallacher, President & Chief Executive Officer, and Mr. Gary Dundas, Vice President Finance & Chief Financial Officer, of Avenir, have joined the board of directors of Essential along with three independent outside directors.

The Trust, as the successor in interest to Avenir's Energy Services Division, has been accounted for using the continuity of interests method. Commencing with this second quarter, the consolidated financial statements of the Trust for the three and six months ended June 30, 2006 and comparables for the three and six month periods ended June 30, 2005 will reflect the financial position, results of operations and cash flows as if the Trust had always carried on the business formerly carried on by Avenir's Energy Services Division. No per unit measures have been presented for the comparable period ended June 30, 2005 as such information would not be meaningful.

FINANCIAL RESULTS

	Three Months Ended June 30		Six Months Ended June 30	
$ thousands, except per unit amounts and margins	**2006**	**2005**	**2006**	**2005**
Revenue by segment:				
Rigs	8,841	3,551	14,718	3,551
Transport	9,888	3,073	23,538	7,277
Total Revenue	18,729	6,624	38,250	10,828
Operating expense by segment:				
Rigs	4,618	2,054	7,719	2,054
Transport	6,208	1,627	12,877	3,640
Total operating expense	10,826	3,681	20,596	5,694
General and administrative	3,103	1,259	5,486	1,938
	13,929	4,940	26,082	7,632
EBITDA	4,800	1,684	12,168	3,196
EBITDA margin (%)	25.6%	25.4%	31.8%	29.5%
Short-term Interest and bank fees	446	19	709	26
Interest on long-term debt and capital lease obligations	20	18	69	36
Depreciation and amortization	2,680	1,229	6,265	1,754
Non-controlling interest	3	6	411	103
	3,149	1,272	7,454	1,919
Net income	1,651	412	4,714	1,277
Net income margin (%)	8.8%	6.2%	12.3%	11.8%
Earnings per unit – basic & diluted	0.06	n/a	0.17	n/a

Overview

The second quarter is typically the most challenging for oilfield service companies due to spring thawing and the inability to move heavy equipment into the oil and gas fields. See Seasonality of Operations under Risks and Uncertainties for a further explanation. Essential expected financial results to be weaker than the other three quarters which is consistent with other companies in the oilfield services industry. This year saw a prolonged spring break up in April and May followed by above average rainfall in southern Alberta in June. These longer than anticipated wet weather conditions resulted in lower utilization of Essential's equipment in the second quarter compared to the other three quarters. Despite these difficult conditions, Essential's financial results in the second quarter exceeded management's and analysts' expectations. As the financial results show, Essential was able to achieve significant growth and stable margins compared to the prior year. With the return to normal weather patterns in July, the third quarter is off to a strong start.

Revenue

Revenue for the second quarter was $18.7 million, up $12.1 million or 183% from $6.6 million in 2005. The increase in the Rigs segment of $5.2 million was primarily due to the inclusion of a full quarter of revenue in 2006 from Millard Oilfield Services Partnership ("Millard"), Endless Tubing Services Partnership ("Endless"), and Cardinal Well Services Partnership ("Cardinal") acquisitions which were completed in the second quarter of 2005. In addition, the acquisitions of HK Well Service ("HK") in the first quarter of 2006 and Kodiak Coil Tubing Limited Partnership ("Kodiak") in the second quarter of 2006 added to the

2006 Rigs revenue without a corresponding 2005 contribution. The Transport segment increased its revenues by $6.8 million, reflecting the acquisition of Westvac Energy Services Partnership ("Westvac") in August 2005 and Richmound Energy Services L.P. ("Richmound") in December 2005. Overall the Transport segment generated 53% of the total revenue as compared to 46% during the same period last year.

Operating Expenses

Operating expenses for the second quarter increased by $7.1 million or 194% to $10.8 million, from $3.7 million in 2005. Operating expenses in the Rigs segment increased $2.5 million while the Transport segment increased $4.6 million from 2005. The increase is consistent with the significant growth in revenue from acquisitions and new equipment. The increase in operating costs was also affected by the upward pressure on wages and fuel costs felt throughout the industry. However, as indicated by the stable EBITDA margins, Essential was able to recover these wage and fuel cost increases in its pricing to its customers.

General and Administrative Expenses

General and administrative ("G&A") expenses for the second quarter increased by $1.8 million or 146% to $3.1 million, from $1.3 million in 2005. The increase in G&A expenses is consistent with the increase in the number of business units due to acquisitions from four in 2005 to nine in 2006 and the corresponding interest expense on debt incurred to complete the acquisitions. In addition, a management team was put in place to run Essential as a stand-alone public entity which resulted in increased staff, regulatory, legal and audit costs in 2006 compared to 2005.

EBITDA

EBITDA for the second quarter was $4.8 million, an increase of $3.1 million or 185%, from $1.7 million in 2005. This increase is a direct result of increased revenues derived from acquisitions and increased revenues from the Cascade Services Partnership ("Cascade") business unit. EBITDA margin was maintained from 25.4% in 2005 to 25.6% in 2006 reflecting the Trust's ability to recover labour and fuel cost increases through higher price rates from its customers.

Net Income

Net income for the second quarter was $1.7 million, an increase of $1.3 million or 300%, from $0.4 million in 2005. Net income margin also increased from 6.2% in 2005 to 8.8% in the second quarter of 2006. This net income and margin increase was positively affected by the earning generated by the acquisitions and by the longer life equipment that were acquired in the Millard, Endless, Cardinal, Kodiak and Classic transactions resulting in lower depreciation and amortization as a percentage of revenue from 18.6% in 2005 to 14.3% in 2006.

SUMMARY OF QUARTERLY DATA

$ thousands, except per unit amounts	June 2006	March 2006	Dec 2005	Sept 2005	June 2005	March 2005	Dec 2004	Sept 2004
Revenue	18,729	19,521	13,253	9,905	6,624	4,204	2,385	1,493
EBITDA[1]	4,800	7,368	3,611	3,546	1,684	1,511	746	463
Net income	1,651	3,068	1,003	1,247	412	864	270	231
Earnings per unit – basic & diluted[2]	0.06	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

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

FINANCIAL RESOURCES AND LIQUIDITY

$ thousands, except ratios	June 30, 2006	December 31, 2005
Current assets	20,925	12,927
Total assets	184,994	75,238
Bank indebtedness (excluding debt)[1]	5,590	950
Current liabilities (excluding debt)[2]	14,014	3,905
Funded debt (including current portion)[3]	40,804	28,363
Total liabilities	49,228	32,367
Unitholders' equity	135,766	n/a
Investment from Avenir and accumulated earnings	n/a	42,871
Working capital (excluding debt)[4]	6,911	9,022
Working capital (excluding debt) ratio[4]	1.5:1	3.3:1
Funded debt to equity ratio	0.3:1	0.7:1

1 Bank indebtedness (excluding debt) is calculated by taking bank indebtedness less revolving term loan facility.
2 Current liabilities (excluding debt) is calculated by taking current liabilities less current portions of revolving term loan facility included in bank indebtedness, capital lease obligations and long-term debt.
3 Funded debt (including current portion) is calculated by taking bank indebtedness which includes revolving term loan facility plus current and long-term portions of capital lease obligations, long-term debt, and non-controlling interest plus Due to Avenir.
4 Working capital (excluding debt) ratio is calculated by taking current assets divided by current liabilities excluding current portions of revolving term loan facility, capital lease obligations and long-term debt.

Working Capital

Working capital (excluding debt) on June 30, 2006 was $6.9 million compared to $9.0 million on December 31, 2005. The decrease of $2.1 million in working capital (excluding debt) was due primarily to transaction costs related to the spin out of the Energy Services division of Avenir into Essential. The working capital (excluding debt) ratio of 1:5:1 indicates that Essential remains in a strong liquidity position to pay its debts as they become due.

Funded Debt

On May 31, 2006, the Trust increased its credit facilities from $25 million to $55 million. The Trust now has an extendible revolving loan facility with a syndicate of two major Canadian banks in the amount of $15,000,000 bearing interest at prime plus one-half of one percent for operating purposes. In addition, the Trust has an extendible revolving term loan facility with a syndicate of two Canadian banks in the amount of $40,000,000 bearing interest at prime plus three-quarters of one percent for capital expenditures and acquisition purposes. As at June 30, 2006, $5.6 million was drawn on the revolving loan facility and $33.1 million was drawn on the revolving term loan facility resulting in current availability on the revolving loan facilities of $16.3 million.

The average effective interest rate on borrowings under all of the above loan facilities for the second quarter including service fees was 5.6%.

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

Unitholders' Equity

Given the nature of continuity of interests accounting, Essential recorded its unitholders' equity based on the contribution made by Avenir's unitholders to the Energy Services division as at May 31, 2006. This contribution to Essential's equity amounted to $79.9 million. In return for this contribution, Avenir unitholders were issued 20,820,036 Essential units at a deemed market price of $10.00 per unit representing a fair market value for the assets of the Avenir Energy Service division of $208.2 million. Had Avenir structured the transaction as a direct sale of their Energy Services division to Essential, Essential would not have followed continuity of interests accounting and Essential's equity would have increased by an additional $128.3 million. Also on May 31, 2006, Essential purchased Classic, DRB and the 10% non-controlling interest of Cascade, Westvac and Kodiak using 6,322,214

Trust units at a deemed market price of $10.00 per unit for an increase to Essential's equity of $63.2 million. Total unitholders' capital following continuity of interests accounting at June 30, 2006 was $143.1 million.

BUSINESS ACQUISITIONS

Other than the spin out of the Energy Services division of Avenir, The Trust pursued a number of acquisition opportunities during the second quarter. A summary of these business acquisitions are outlined below.

Classic Well Servicing Partnership

On May 31, 2006 as part of the Plan of Arrangement, the Trust acquired 100% of the partnership units of Classic Well Servicing Partnership, which provides well servicing through nine mobile service rigs to the oil and gas industry. The purchase price of approximately $31.9 million was paid for with issuance of 3,191,721 Trust units at $10.00 per unit. Transaction costs and cash adjustments for the acquisition were approximately $339,000.

DRB-AV Partnership

On May 31, 2006 as part of the Plan of Arrangement, the Trust acquired 100% of the partnership units of DRB-AV Partnership. The assets acquired include 4 swab rigs, 2 hot oilers, 2 vacuum trucks, 1 hydro-vac, a tank truck and a combination steamer-vac. All equipment acquired was absorbed by other operating units of Essential. The purchase price of approximately $19.9 million was paid for with the issuance of 1,985,960 Trust units at $10.00 per unit. Immediately following this acquisition, the assets were transferred to other business units of the Trust.

Non-controlling Interests

On May 31, 2006 as part of the Plan of Arrangement, the Trust acquired the remaining 10% of the partnership units it did not already own of Cascade Services Partnership, Westvac Energy Services Partnership and Kodiak Coil Tubing Limited Partnership. The purchase price of approximately $12.1 million was paid for with the issuance of 1,144,533 Trust units at $10.00 per unit and approximately $618,000 in cash.

Pelican Lake Assets

Effective June 1, 2006, Essential purchased 4 flush-bys, 2 tank trucks, related equipment and a 100 person camp in the Pelican Lake, Alberta area from a private company. The purchase price of approximately $5.6 million was paid in cash. These assets were integrated into the Westvac Energy Services Partnership business unit thereby providing additional complimentary services that Westvac's customers were requesting.

FUNDS FROM OPERATIONS AND ACCRUED DISTRIBUTIONS

	Three Months Ended June 30		Six Months Ended June 30	
$ thousands, except per unit amounts	**2006**	**2005**	**2006**	**2005**
Net income	1,651	412	4,714	1,277
Non-controlling interest	3	6	411	103
Non-cash unit compensation expense	98	-	98	-
Depreciation and amortization	2,680	1,229	6,265	1,754
Loss (gain) on sale of property and equipment	6	(6)	6	(6)
Funds from operations	4,438	1,641	11,494	3,128
Cash distributions to unitholders	2,253	n/a	2,253	n/a

Funds From Operations

Funds from operations for the second quarter increased $2.8 million or 170% to $4.4 million from $1.6 million in 2005. The increase is a direct result of the contribution made to funds from operations due to the acquisitions of Millard, Endless, Cardinal, Westvac, Richmound, HK, Kodiak and Classic.

Accrued Distributions

The Trust made accrued distributions to unitholders of $2.3 million in the second quarter. Since the Trust came into existence on May 31, 2006, these distributions were for the month ended June 30, 2006 rather than for the entire second quarter. The Manager of the Trust anticipates monthly cash distributions to continue at $0.083 per Trust unit ($0.996 per annum) with a targeted payout ratio of approximately 65%.

COMMITMENTS AND CONTINGENCIES

Commitments

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

	$ thousands
2006	690
2007	1,156
2008	1,045
2009	861
2010	499

Contingencies

The Trust agreed to pay an additional contingent amount for Kodiak Coil Tubing Limited Partnership ("Kodiak") based on a predetermined multiple of Kodiak's 2006 earnings before interest, taxes, depreciation and amortization in excess of $5,200 up to a maximum payment of $18,000. As the additional consideration is contingent on future earnings, which are not readily determinable, it has not been reflected in the purchase price.

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 lower 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.

Service Industry Conditions

The oil and gas service 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. Significant increases in fuel prices, equipment prices, other input prices, interest rates or insurance costs, could reduce profitability and could adversely affect Essential's ability to maintain distributions. 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

All of Essential's operations are carried out in Western Canada where the ability to move heavy equipment is dependant on weather conditions. An example of such a condition includes thawing in the spring, which renders many secondary roads incapable of supporting heavy equipment until the ground is dry. As a result, our operations traditionally follow a seasonal pattern, with revenue and earnings being higher in the first three months than in the other quarters of the year. However, this has not always been the case over the past eight quarters due to a number of factors, including the completion of a number of significant business acquisitions.

The Trust's operations rely on the movement of heavy equipment, usually on poorly surfaced roads. The pattern of equipment utilization in the northern operations of the Trust sees strongest utilization in the first quarter followed by relatively poor utilization in the second quarter due to "spring break-up" and the attendant restrictions on moving equipment with improvement occurring steadily through the third and fourth quarters. In the southern area the Trust's operations tend to show good utilization through the first quarter, a slow down in the second quarter due to spring break-up which is less pronounced than in the north followed by very strong utilization in the third quarter if dry conditions prevail and generally good utilization in the fourth quarter.

To date, 2006 has seen a very strong first quarter due to protracted cold weather across Western Canada stretching later than usual through March. The onset of the second quarter saw rapid warming temperatures in April leading to a quick onset of severe spring break-up conditions in April. In addition, extremely wet conditions in June across southern Alberta severely impacted the mobility and utilization of our heavy equipment. July has seen improved conditions and improving utilization across the Trust's service areas.

Credit and Interest Rate Risk

Substantial portions 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. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be low at this time. Management routinely assesses the financial strength of partners and customers, and monitors the exposure for credit losses.

The Trust is exposed to interest rate fluctuations on its bank indebtedness, which is tied to Canadian bank prime rate.

Competition

Essential competes with several large companies in the energy services industry that have greater financial and other resources than Essential. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of Essential or that new competitors will not enter the various markets in which Essential is active.

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 it expects that all taxable income will be passed on to unitholders in the form of distributions.

Employees and Labour Relations

The success of Essential is dependent upon Essential's key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of Essential. The ability of Essential to expand its services will be dependent upon Essential's ability to attract additional qualified employees which is constrained in times of strong industry activity. The failure to attract and retain a sufficient number of qualified drivers and owner-operators could also have a material adverse affect on the profitability of Essential. The largest components of Essential's overall expenses are salary, wages, benefits and costs of subcontractors. Any significant increase in these expenses could impact the financial results of Essential. In addition, Essential is at risk if there are any labour disruptions.

Access to Additional Financing

Essential 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 Essential when needed or on terms acceptable to Essential which could limit Essential's growth and may have a material adverse effect upon the Trust.

Critical Accounting Estimates

Preparation of consolidated financial statements requires that we make assumptions regarding accounting estimates for certain amounts contained within the consolidated financial statements. Our 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; goodwill impairment; and estimating bad debts on accounts receivable. We believe that each of our 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.

(1) Amortization of Property and Equipment

Our property and equipment are amortized based upon estimated useful lives and salvage values. We review our historical experience with similar assets to help ensure that these amortization rates are appropriate. However, the actual useful life of the assets may differ from our original estimate due to factors such as technological obsolescence and maintenance activity.

(2) 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, we rely on independent third party valuations.

(3) Asset Impairment

We assess the carrying value of long-lived assets, which include property and equipment 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. We arrive at the estimated fair value of a reporting unit using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth, expected earnings, and earnings multiples. Estimating the fair value of a reporting unit is a subjective process and requires the use of our best estimates. If our estimates or assumptions change from those used in our current valuation, we may be required to recognize an impairment loss in future periods.

(4) Provision for Doubtful Accounts Receivable

We perform periodic credit evaluations of our customers and grant 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. Our history of bad debt losses has been within expectations and is generally limited to specific customer circumstances. However, given the cyclical nature of the energy industry, our customer's ability to fulfill its payment obligations can change suddenly and without notice.

Outlook

We remain focused and diligent with respect to our operations and acquisitions. We continue to see and evaluate opportunities and plan to remain active on the acquisition front. We firmly believe we will continue to provide sustainable distributions and accretive growth on a per unit basis. It should be noted that the second quarter of the year is typically the weakest due to weather conditions and spring break up. The second quarter of 2006 has seen worse than average conditions including an early and extended spring break up coupled with heavier than average rainfall in the Trust's main operational areas. This has resulted in lower utilization of the Trust's equipment. We anticipate improving results through the balance of the year as production related oilfield activity remains strong.

Submitted on behalf of:

"Signed"	"Signed"
James Burns President & CEO	Duncan Au Vice President - Business Development & CFO

CONSOLIDATED BALANCE SHEETS
(unaudited)

($ in thousands)	June 30, 2006	December 31, 2005
	$	$
ASSETS *[notes 7, 8 and 9]*		
Current		
Cash and cash equivalents	3,295	2,770
Accounts receivable and prepaid expenses	16,675	9,997
Materials and supplies	955	160
	20,925	12,927
Property and equipment *[notes 3 and 4]*	86,631	37,965
Intangibles *[notes 3 and 5]*	1,718	-
Goodwill *[note 6]*	75,720	24,346
	184,994	75,238
LIABILITIES AND UNITHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 7]*	38,690	10,881
Accounts payable and accrued liabilities	6,171	2,955
Distributions payable	2,253	-
Due to non-controlling interest owner	-	44
Due to Avenir	-	14,718
Current portion of capital lease obligations *[note 8]*	180	155
Current portion of long-term debt *[note 9]*	779	1,159
	48,073	29,912
Capital lease obligations *[note 8]*	146	326
Long-term debt *[note 9]*	1,009	1,124
Non-controlling interest *[note 10]*	-	1,005
	49,228	32,367
Commitments and contingencies *[note 14]*		
Unitholders' equity		
Unitholder capital *[note 11]*	143,089	-
Investment from Avenir Diversified Income Trust	-	45,564
Contributed surplus *[note 12]*	98	-
Accumulated earnings	8,700	3,986
Accumulated cash distributions to Avenir Diversitfied Income Trust	(13,868)	(6,679)
Accumulated cash distributions to unitholders	(2,253)	-
	135,766	42,871
	184,944	75,238

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED EARNINGS

(unaudited)

($ in thousands)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
REVENUE				
Energy services revenue	18,735	6,618	38,256	10,822
(Gain) loss on sale of property and equipment	(6)	6	(6)	6
	18,729	6,624	38,250	10,828
EXPENSES				
Operating expenses	10,826	3,681	20,596	5,694
General and administrative	3,103	1,259	5,486	1,938
Short-term interest and bank fees	446	19	709	26
Interest on long-term debt and capital lease obligations	20	18	69	36
Depreciation and amortization	2,680	1,229	6,265	1,754
	17,075	6,206	33,125	9,448
Income (loss) before non-controlling interest	1,654	418	5,125	1,380
Non-controlling interest *[note 10]*	(3)	(6)	(411)	(103)
Net income (loss) for the period	1,651	412	4,714	1,277
Accumulated earnings, beginning of the period	7,049	1,326	3,986	461
Accumulated earnings, end of the period	8,700	1,738	8,700	1,738
Net income (loss) per unit *[note 11]* Basic and diluted	0.06	n/a	0.17	n/a

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

($ in thousands)	Three months ended June 30, 2006 $	Three months ended June 30, 2005 $	Six months ended June 30, 2006 $	Six months ended June 30, 2005 $
OPERATING ACTIVITIES				
Net income for the period	1,651	412	4,714	1,277
Add (deduct) non-cash items:				
Gain on sale of property and equipment	6	(6)	6	(6)
Depreciation and amortization	2,680	1,229	6,265	1,754
Non-cash general and administrative	98	-	98	-
Non-controlling interest	3	6	411	103
Funds from operations	4,438	1,641	11,494	3,128
Change in non-cash working capital	2,339	(88)	112	(820)
Cash provided by operating activities	6,777	1,553	11,606	2,308
FINANCING ACTIVITIES				
Distributions to Avenir Diversified Income Trust	(5,015)	(1,254)	(7,890)	(1,704)
Increase (decrease) in bank indebtedness	13,890	(37)	27,809	(16)
Investment by Avenir Diversified Income Trust	-	32,019	14,279	33,720
Repayments of capital lease obligations	(34)	-	(63)	-
Increase in long-term debt	65	4	65	197
Repayment of long-term debt	(1,200)	(214)	(4,022)	(406)
Change in non-cash working capital	(45)	-	-	-
Cash provided by financing activities	7,661	30,518	30,178	31,791
INVESTING ACTIVITIES				
Purchase of Eagle Oilfield Services Ltd.	-	-	-	(772)
Purchase of Kodiak Coil Tubing *[note 3]*	-	-	(13,017)	-
Purchase of Classic Well Servicing *[note 3]*	(39)	-	(39)	-
Purchase of Non controlling interests of Westvac, Cascade and Kodiak *[note 3]*	(618)	-	(618)	-
Purchase of Endless Tubing *[note 3]*	-	(11,179)	-	(11,179)
Purchase of Millard *[note 3]*	-	(7,776)	-	(7,776)
Purchase of Cardinal *[note 3]*	-	(7,404)	-	(7,404)
Purchase of property and equipment	(8,438)	(4,382)	(22,107)	(5,638)
Sale of property and equipment	213	-	549	-
Cost of formation of Essential Energy Services Trust	(4,228)	-	(4,228)	-
Change in non-controlling interest	(418)	-	(524)	-
Changes in non-cash working capital	(846)	-	(1,275)	-
Cash used in investing activities	(14,374)	(30,741)	(41,259)	(32,769)
Increase in cash and cash equivalents during the period	64	1,330	525	1,330
Cash and cash equivalents, beginning of period	3,231	-	2,770	-
Cash and cash equivalents, end of period	3,295	1,330	3,295	1,330
Cash interest paid	287	10	488	35

See accompanying notes to the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2006 (unaudited)

($ in thousands)

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. Essential began publicly trading on the Toronto Stock Exchange on May 31, 2006. The Trust is made up of various partnerships which for the purposes of these financial statements have been combined to reflect the operations relating to Essential.

The following represents the partnerships that together make up Essential as at June 30, 2006:

- Essential Energy Services Limited Partnership
- Cascade Services Partnership
- Millard Oilfield Services Partnership
- Endless Tubing Services Partnership
- Cardinal Well Services Partnership
- Westvac Energy Services Partnership
- Richmound Energy Services L.P.
- Kodiak Coil Tubing Limited Partnership
- Classic Well Servicing Partnership

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

All operations are located in Western Canada and provide oilfield services to crude oil and natural gas exploration and production customers.

All of Essential's operations are carried out in Western Canada where the ability to move heavy equipment is dependant on weather conditions.An example of such a condition includes thawing in the spring, which renders many secondary roads incapable of supporting heavy equipment until the ground is dry. As a result, our operations traditionally follow a seasonal pattern, with revenue and earnings being higher in the first three months than in the other quarters of the year. However, this has not always been the case over the past eight quarters due to a number of factors, including the completion of a number of significant business acquisitions.

The Trust's operations rely on the movement of heavy equipment, usually on poorly surfaced roads. The pattern of equipment utilization in the northern operations of the Trust shows the strongest utilization in the first quarter followed by relatively poor utilization in the second quarter due to "spring break-up" and the attendant restrictions on moving equipment with improvement occurring steadily through the third and fourth quarters. In the southern area the Trust's operations tend to show good utilization through the first quarter, a slow down in the second quarter due to spring break-up which is less pronounced than in the north followed by very strong utilization in the third quarter if dry conditions prevail and generally good utilization in the fourth quarter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes.

a) Basis of presentation

The financial statements of Essential have been prepared by management in accordance with GAAP.
The business of the Trust was carried out as the Energy Services of Avenir until May 31, 2006. After giving effect to the Plan of Arrangement the financial statements included the accounts of the Trust and its partnerships. Essential has distinct operating staff, capital budgets and targets. Historically Avenir has maintained accounting records necessary to support its consolidated financial statements and for other internal or tax reporting purposes. While Avenir did not prepare separate complete financial statements for the Energy Services Division or for any of its other divisions, separate accounting records for the Energy Services Division have been maintained by Avenir. Therefore, all revenues, expenses, assets and liabilities applicable to Essential have been derived directly from the accounting records of Avenir and it has not been necessary to allocate certain general and administrative items.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and highly liquid investments with an original maturity of three months or less.

c) Property and equipment

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

Automotive	30%
Heavy automotive equipment	Ranging from 10 to 40%
Equipment	20%
Computer	30%
Radio	25%
Building	4%
Furniture & fixtures	20%

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

The Trust reviews the valuation of long-lived assets when events or changes in circumstances may indicate impairment or cause its carrying value to exceed the total undiscounted cash flows expected from their use or disposition. 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.

d) Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired and liabilities assumed. 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 an impairment, by applying a fair value based test. The amount of impairment is determined by deducting the fair value of the reporting unit's liabilities from the fair value of the reporting unit's assets to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any goodwill impairment will be recognized as an expense in the period the impairment is determined.

e) Materials and supplies

Materials and supplies consists of coil tubing and is valued at the lower of cost, determined on a first in first out basis, and net realizable value.

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) Revenue recognition

Revenue from energy services is recognized in the period that the services are rendered to the customer.

h) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become known. The assets most subjective to estimation include property and equipment, intangible assets and goodwill.

i) Income taxes

The Trust, and its operating entity, are taxable entities under the Income Tax Act of Canada and are taxable only on income that is not distributed or distributable to the Unitholders. As the Trust distributes all of its taxable income to the Unitholders pursuant to the Trust Indenture and meets the requirements of the Income Tax Act of Canada applicable to the Trust, no provision for income taxes has been made in these consolidated financial statements.

j) Intangible assets

Intangible assets, consisting of acquired customer relationships, are recorded at cost and amortized over their useful lives, which is estimated to be between five and ten years. Intangible assets are regularly evaluated by comparing their applicable estimated future net cashflows to the unamortized net book value of the intangible assets. Any impairment would be charged to income in that period.

k) Stock-based compensation

Options to purchase Trust units granted under the Unit Option Plan are described further in Note 12 of these consolidated financial statements. Unit based compensation is recognized in accordance with the fair-value based method of accounting. Compensation expense for unit options awarded under the plan is measured at estimated fair value at the grant date. This is done using the Black-Scholes valuation model and is recognized as unit-based compensation expense over the vesting period of the options granted.

3. ACQUISITIONS

a) Classic Well Servicing Partnership

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

Results from operations for Classic are included in the Trust's financial statements from the closing date of the acquisition. The purchase price has not yet been finalized and is subject to change. The transaction has been accounted for using the purchase method as follows:

	$
Calculation of purchase price:	
Trust units issued	31,917
Estimated transaction costs	300
Bank overdraft	39
	32,256
Allocation of purchase price:	
Non-cash working capital	1,065
Property and equipment	16,192
Customer relationships	837
Goodwill	15,100
Long-term debt	(938)
	32,256

b) DRB-AV Partnership

On May 31, 2006 as part of the Plan of Arrangement the Trust acquired 100% of the partnership units of DRB-AV Partnership ("DRB-AV"). The assets acquired include 4 swab rigs, 2 hot oilers, 2 vacuum trucks, 1 hydro-vac, a tank truck and a combination steamer-vac. The acquisition was completed through the issuance of 1,985,960 Trust Units at $10.00 per unit.

Immediately following the acquisition of DRB-AV the assets were transferred to other operating divisions of the Trust.

Results from operations for DRB-AV are included in the Trust's financial statements from the closing date of the acquisition. The transaction has been accounted for using the purchase method as follows:

	$
Calculation of purchase price:	
Trust units issued	19,860
	19,860
Allocation of purchase price:	
Property and equipment	7,966
Goodwill	11,894
	19,860

c) Non-controlling interests

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

The purchase price has not yet been finalized and is subject to change. The transactions were accounted for using the purchase method as follows:

	$
Calculation of purchase price:	
Cash consideration for 10% of partnership units of Westvac	97
Cash consideration for 10% of partnership units of Kodiak	114
Cash consideration for 10% of partnership units of Cascade	407
Trust units issued for 10% of partnership units of Westvac	2,451
Trust units issued for 10% of partnership units of Kodiak	3,392
Trust units issued for 10% of partnership units of Cascade	5,603
	12,064
Allocation of purchase price:	
Accounts payable	299
Non-controlling interests	1,470
Goodwill	10,295
	12,064

d) Kodiak Coil Tubing Limited Partnership

On March 31, 2006 the Energy Services Division of Avenir acquired a 90% partnership interest in Kodiak Coil Tubing Limited Partnership ("Kodiak"), for total consideration of $22,250 consisting of net cash of $13,017, estimated transaction costs of $400 and the issuance of 729,438 Avenir Trust Units at $12.11 per unit. The Avenir Trust Units were valued based on a 5% discount to the average fair market value of the units immediately prior to the date the letter of intent was signed. The Trust further agreed to pay an additional contingent amount based on a predetermined multiple of Kodiak's 2006 earnings before interest, depreciation and taxes in excess of $5,200. As the additional consideration is contingent on future earnings which are not readily determinable it has not been reflected in the purchase price.

Results from operations for Kodiak are included in the Trust's consolidated financial statements from the closing date of acquisition. The purchase price has not yet been finalized and is subject to change. The transaction has been accounted for using the purchase method of accounting as follows:

	$
Calculation of purchase price:	
Cash consideration	13,017
Avenir trust units issued	8,833
Estimated transaction costs	400
	22,250
Allocation of purchase price:	
Non-cash working capital	3,191
Property and equipment	9,226
Intangible assets (customer relationships)	967
Goodwill	11,966
Long-term debt	(2,522)
Non-controlling interest	(578)
	22,250

e) Cardinal Well Services Inc.

On May 1, 2005 the Energy Services Division of Avenir acquired all of the issued and outstanding shares of Cardinal Well Services Inc. ("Cardinal"), which provides well servicing through rod rig "flush-by" units to the oil and gas industry, for net cash consideration of $7,404. Transaction costs of the acquisition were approximately $300.

Results from operations for Cardinal are included in the Trust's financial statements from the closing date of the acquisition. The transaction has been accounted for using the purchase method as follows:

	$
Calculation of purchase price:	
Cash consideration	6,913
Estimated transaction costs	300
Bank overdraft	191
	7,404
Allocation of purchase price:	
Non-cash working capital	977
Property and equipment	5,877
Goodwill	1,817
Long-term debt	(1,267)
	7,404

f) Richmound Endless Tubing Services Ltd.

On April 15, 2005 the Energy Services Division of Avenir acquired all of the issued and outstanding shares of Richmound Endless Tubing Services Ltd. ("Endless"), which provides coiled tubing services to the oil and gas industry, for net cash consideration of $11,179. Transaction costs of the acquisition were approximately $400.

Results from operations for Endless are included in the Trust's financial statements from the closing date of the acquisition. The transaction has been accounted for using the purchase method as follows:

	$
Calculation of purchase price:	
Cash consideration	10,874
Estimated transaction costs	400
Less cash acquired	(95)
	11,179
Allocation of purchase price:	
Non-cash working capital	429
Property and equipment	6,249
Goodwill	5,667
Bonus and note payable	(1,166)
	11,179

g) Millard Oilfield Services (91) Ltd.

On April 1, 2005 the Energy Services Division of Avenir acquired all of the issued and outstanding shares of Millard Oilfield Services (91) Ltd. ("Millard"), which provides well servicing through mobile service rigs to the oil and gas industry, for net cash consideration of $7,776. Transaction costs of the acquisition were approximately $300.

Results from operations for Millard are included in the Trust's financial statements from the closing date of the acquisition. The transaction has been accounted for using the purchase method as follows:

	$
Calculation of purchase price:	
Cash consideration	7,782
Estimated transaction costs	300
Less cash acquired	(306)
	7,776
Allocation of purchase price:	
Non-cash working capital	873
Property and equipment	6,903
	7,776

4. PROPERTY AND EQUIPMENT

	June 30, 2006		
	Cost $	Accumulated Depreciation $	Net Book Value $
Automotive	5,049	2,832	2,217
Heavy automotive equipment	88,219	9,869	78,350
Equipment	5,302	416	4,886
Office Equipment	336	65	271
Leasehold improvements	112	9	103
Land	30	-	30
Building	358	11	347
Assets under capital lease	473	151	322
Prospects and development	105	-	105
	99,984	13,353	86,631

	December 31, 2005		
	Cost $	Accumulated Depreciation $	Net Book Value $
Automotive	3,780	1,113	2,667
Heavy automotive equipment	38,046	5,502	32,544
Equipment	1,777	147	1,630
Office Equipment	218	36	182
Leasehold improvements	32	3	29
Land	30	–	30
Building	345	4	341
Assets under capital lease	558	80	478
Prospects and development	64	–	64
	44,850	6,885	37,965

5. INTANGIBLES

	June 30, 2006		
	Cost $	Accumulated Depletion and Depreciation $	Net Book Value $
Customer relationships	1,804	86	1,718

6. GOODWILL

	Amount $
Goodwill, December 31, 2005	24,346
Kodiak acquisition (note 3)	11,966
Classic acquisition (note 3)	15,100
DRB-AV acquisition (note 3)	11,894
Minority interest acquisitions (note 3)	10,295
Westvac earn out	2,119
Goodwill, June 30, 2006	75,720

Westvac Energy Services ("Westvac") was acquired in the third quarter of 2005 for net cash consideration of $7,173. As part of the acquisition of Westvac an additional contingent amount was paid at four and a half times earnings before interest, taxes and depreciation for the twelve month period ended January 31, 2006 in excess of $2,300. This amount totalled $2,119.

7. BANK INDEBTEDNESS

At June 30, 2006, the Trust has an extendible revolving loan facility with a major Canadian bank in the amount of $15,000 bearing interest at prime plus one-half of one percent payable monthly. In addition, the Trust has an extendible revolving term loan facility with a syndicate of two Canadian banks in the amount of $40,000 bearing interest at prime plus three-quarters of one percent payable monthly. As at June 30, 2006, $5,590 (June 30, 2005 -$nil) was drawn on the revolving loan facility and $33,100 (June 30, 2005 - $nil) was drawn on the revolving term loan facility.

These facilities are collateralized by a floating charge debenture over all of the Trust's assets.

The effective interest rate on borrowings under the lines for the three and six months ended June 30, 2006 including services fees were 5.6% and 6.3%, respectively.

8. CAPITAL LEASE OBLIGATIONS

The Trust has capital leases for equipment which are repayable in monthly installments totalling approximately $14 including interest at rates implicit in the leases ranging from 3.7% to 12.7% per annum. The leases mature between April 2007 and February 2008 and are collateralized by specific equipment purchased.

Future minimum lease payments at June 30, 2006 are as follows:

	$
2006	83
2007	249
2008	17
Total minimum lease payments	349
Less amount representing interest	(23)
	326
Current portion of minimum lease payments	(180)
	146

In management's opinion, the fair value of these capital lease obligations subject to fixed rates of interest do not differ significantly from their carrying value.

9. LONG-TERM DEBT

The Trust has the following long-term loans outstanding which are collateralized by automotive and heavy automotive equipment:

	2006 $
Various loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95%, and maturities from July 2006 to November 2009	1,788
Current portion	(779)
	1,009

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

10. NON-CONTROLLING INTEREST

	2006 $
Opening non-controlling interest, January 1, 2006	1,005
Energy Services acquisitions	578
Non-controlling interest in earnings for the period	411
Distributions to non-controlling interest holders	(524)
Buyout of minority interests on May 31, 2006	(1,470)
Closing non-controlling interest, June 30,2006	-

As part of the plan of arrangement the non-controlling interest owners exchanged their share of the Trust's operations for Trust units, thereby eliminating the non-controlling interest balance going forward.

11. UNITHOLDERS' CAPITAL

a) 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. All units are redeemable at the demand of the unitholder.

Issued

Trust Units	Number of Units	Amount $
Balance December 31, 2005	-	-
Units issued via plan of arrangement on May 31, 2006, net of Trust formation costs	27,142,250	143,089
Balance June 30, 2005	27,142,250	143,089

Trust formation costs were $4,228.

The Trust units of Essential were distributed to existing Avenir unitholders pro rata to their respective interests in Avenir.

b) Net income per unit

For the period from May 31, 2006 to June 30, 2006, the Trust had a weighted average number of trust units outstanding of 27,142,250 (three and six months ended June 30, 2005 – nil). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in a weighted average number of trust units outstanding for the period from May 31, 2006 to June 30, 2006, of 27,142,250. At June 30, 2005 there were no dilutive options.

12. STOCK-BASED COMPENSATION

Essential implemented a stock Essential implemented a stock option plan whereby options to acquire Trust Units of Essential may be granted to the directors, officers and employees and consultants.

The aggregate number of Trust units issuable upon the exercise of options outstanding under the Plan at any time may not exceed 10% of the issued and outstanding Trust Units. The period during which an option granted under the Plan is exercisable may not exceed five years from the date such option is granted. The options issued under the Plan vest 1/3 after one year, 1/3 after two years and 1/3 after three years.

The following table summarizes the status and changes during the period ended June 30, 2006:

	Number of options outstanding	Weighted average grant date exercise price $
Outstanding, December 31, 2005	-	-
Granted	1,476,700	10.00
Expired	-	-
Outstanding, June 30, 2006	1,476,700	10.00
Exercisable, June 30, 2006	-	-

The following table summarizes information about the unit options outstanding at June 30, 2005:

Grant date exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
10.00	1,476,700	4.9	-
	1,476,700	4.9	-

The total value of stock-based compensation of $3,557 for those options issued to employees and directors was calculated using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The assumptions made for the options granted in 2006 are as follows:

Grant date exercise price	
Expected volatility	40%
Risk-free interest rate	4.22%
Expected life of options	5 years
Dividend Yield	nil

The Trust recorded compensation expense and contributed surplus of $98 for both the three and six months ended June 30, 2006 (three and six months ended June 30, 2005 $nil), which is recorded in general and administrative expenses.

13. FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

The Trust's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, due to non-controlling interest owner, due to Avenir Diversified Income Trust, capital lease obligations and long-term debt. Unless otherwise noted, as at June 30, 2006 and 2005, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values.

Credit risk

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

Interest rate risk

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

14. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
2006	690
2007	1,156
2008	1,045
2009	861
2010	499

Contingencies

The Trust further agreed to pay an additional contingent amount for Kodiak Coil Tubing Limited Partnership ("Kodiak") based on a predetermined multiple of Kodiak's 2006 earnings before interest, taxes, depreciation and amortization in excess of $5,200 up to a maximum payment of $18,000. As the additional consideration is contingent on future earnings, which are not readily determinable, it has not been reflected in the purchase price.

15. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on two principal business segments – transport, and rigs. The accounting policies followed by these business segments are the same as those described in the summary of significant accounting polices. During the three and six months ended June 30, 2006 there were no inter-segment eliminations (June 30, 2005 – nil).

The following is selected financial information for each business segment:

	For the three months ended		For the six months ended	
	June 30, 2006 $	June 30, 2005 $	June 30, 2006 $	June 30, 2005 $
Revenue				
Transport	9,888	3,073	23,538	7,277
Rigs	8,841	3,551	14,712	3,551
	18,729	6,624	38,250	10,828

	For the three months ended		For the six months ended	
	June 30, 2006 $	June 30, 2005 $	June 30, 2006 $	June 30, 2005 $
Operating expenses				
Transport	6,208	1,627	12,874	3,640
Rigs	4,618	2,054	7,719	2,054
Corporate	-	-	3	-
	10,826	3,681	20,596	5,694

	For the three months ended		For the six months ended	
	June 30, 2006 $	June 30, 2005 $	June 30, 2006 $	June 30, 2005 $
Net income				
Transport	1,213	(35)	4,262	830
Rigs	1,444	447	1,921	447
Corporate	(1,006)	-	(1,469)	-
	1,651	412	4,714	1,277

	Transport $	Rigs $	Corporate $	Total $
Selected balance sheet items				
Property and equipment	33,508	52,971	152	86,631
Intangibles	-	1,718	-	1,718
Goodwill	34,401	41,319	-	75,720
Total assets	78,302	106,318	374	184,994
Bank indebtedness	-	-	38,690	38,690
Long-term debt	1,788	-		1,788

CORPORATE INFORMATION

DIRECTORS

William M. Gallacher[2,3]
Chairman

Gary H. Dundas[1,2]

Dennis Balderston[1,3]

Jeffrey J. Scott[1,4]

Neil Mackenzie[3,4]

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

CORPORATE SECRETARY

J.G. (Jeff) Lawson
Burnet, Duckworth & Palmer LLP

AUDITORS

Ernst & Young LLP

BANKERS

National Bank of Canada
Toronto Dominion Bank

LEGAL COUNSEL

Burnet, Duckworth & Palmer, LLP

TRANSFER AGENT

Olympia Trust Company Officers

OFFICERS

James Burns, P. Geol., MBA[2,4]
President & CEO

Duncan Au, CA, CFA
VP Business Development & CFO

Ken Wagner
VP Operations, Transport

Stuart King, CA
Controller

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