

## First 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”.*

### MERGER WITH BUILDERS ENERGY SERVICES TRUST

On April 4, 2008 Essential Energy Services Trust (“Essential” or the “Trust”) 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.

**Although the two trusts have been operating as one entity since April 4, 2008, in accordance with Generally Accepted Accounting Principles (“GAAP”), the first quarter reporting in the Financial Statements and Management’s Discussion and Analysis represents Essential’s stand-alone activities. The results do not include Builders’ operating or financial results. Management has provided combined results for Builders and Essential in the section below to assist the reader in understanding the new entity on a combined basis. The financial results for Essential are unaudited but have been reviewed by the Trust’s auditors, which is consistent with preceding quarterly reports. The financial results for Builders are unaudited and have not been reviewed by Builders’ auditors.**

### FINANCIAL HIGHLIGHTS - Essential and Builders Combined

(\$ thousands, except per unit amounts, margins and ratios)	For the three months ended March 31, 2008			For the three months ended March 31, 2007		
	Essential	Builders	Combined	Essential	Builders	Combined
Revenue	35,866	53,487	<b>89,353</b>	35,901	62,013	<b>97,914</b>
Gross margin <sup>1</sup>	13,812	16,145	<b>29,957</b>	15,093	21,180	<b>36,273</b>
Gross margin as a percentage of revenue <sup>1</sup>	39%	30%	<b>34%</b>	42%	34%	<b>37%</b>
EBITDAC <sup>1</sup>	8,747	12,880	<b>21,627</b>	10,750	17,042	<b>27,792</b>
EBITDAC as a percentage of revenue <sup>1</sup>	24%	24%	<b>24%</b>	30%	27%	<b>28%</b>
Net income	2,713	5,267	<b>7,980</b>	4,948	9,068	<b>14,016</b>
Funds from operations <sup>1</sup>	7,109	11,827	<b>18,936</b>	9,454	15,996	<b>25,450</b>

<sup>1</sup> Refer to Non-GAAP Measures.

## FINANCIAL HIGHLIGHTS - Essential and Builders Combined

(\$ thousands)	As at		
	March 31, 2008		
	Essential	Builders	Combined
Long-term debt	74,167	80,041	154,208

The merger results in a much larger and more efficient entity that will enjoy the advantages of critical mass in key business lines, annual cost reductions anticipated to be approximately \$6.0 million per year, improved market relevance and the operational strength to pursue new markets and opportunities.

### Non-GAAP Measures

This report makes reference to certain non-GAAP financial measures to assist users in assessing the Trust's performance. Management believes that these measures are useful supplemental measures to analyze operating performance as they demonstrate the Trust's ability to generate the funds necessary to, among other things, fund future distributions, principal debt repayment 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.

**Gross margin and gross margin as a percentage of revenue** – Gross margin is a non-GAAP measure that is considered a primary indicator of operating performance as calculated by revenue less operating expenses. This non-GAAP measure can also be expressed as a percentage of revenue.

**EBITDAC, EBITDAC as a percentage of revenue and EBITDAC per unit** – EBITDAC is defined as earnings before non-controlling interest, interest, taxes, depreciation, amortization and unit-based compensation. This non-GAAP measure is considered an indicator of the Trust's ability to generate cash flow in order to meet distributions, fund required working capital, service debt, pay current income taxes and fund equipment programs. This non-GAAP measure can also be expressed as a percentage of revenue or on a fully diluted basis.

**Funds from operations and funds from operations per unit** – Funds from operations is defined as cash provided by operating activities plus change in non-cash operating working capital. This non-GAAP measure is considered an indicator of the Trust's ability to generate cash flow in order to meet distributions, fund required working capital, service debt and fund equipment programs. This non-GAAP measure can also be expressed on a fully diluted basis.

### 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 improved liquidity and cost reductions from the combination of the Trust with Builders, expectations with respect to the price of oil and natural gas and expectations regarding the level of drilling activity in the Western Canadian Sedimentary Basin. 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. There are risks also inherent in the nature of the combination with Builders, including failure to realize anticipated synergies or cost savings, risks regarding the integration of the two entities and incorrect assessments of the values of the other entity. 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 DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED MARCH 31, 2008

This Management's Discussion & Analysis ("MD&A") was prepared as of May 13, 2008 and is provided to assist readers in understanding Essential Energy Services Trust's ("Essential" or the "Trust") financial performance for the three months ended March 31, 2008 and 2007 and significant trends that may affect future performance of the Trust. This MD&A should be read in conjunction with the consolidated financial statements for the period ended March 31, 2008 and 2007 and the notes contained therein. 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".

For additional information on the Trust, please go to the Trust's profile on SEDAR at [www.sedar.com](http://www.sedar.com) or the Trust's website at [www.essentialenergy.ca](http://www.essentialenergy.ca).

### FINANCIAL HIGHLIGHTS

(\$ thousands, except per unit amounts, margins and ratios)	For the three months ended March 31,	
	2008	2007
<b>Financial Results</b>		
Revenue	35,866	35,901
EBITDAC <sup>1</sup>	8,747	10,750
EBITDAC margin <sup>1</sup>	24%	30%
Funds from operations <sup>2</sup>	7,109	9,454
Net income	2,713	4,948
Net income margin	8%	14%
Distributions to unitholders <sup>3</sup>	5,308	6,917
<b>Unit Information (Diluted)</b>		
Weighted average number of units outstanding – diluted	35,392	30,118
EBITDAC per unit - diluted	0.25	0.36
Funds from operations per unit - diluted	0.20	0.31
Net income per unit - diluted	0.08	0.16

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

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

<sup>2</sup> Funds from operations is calculated by taking net income (loss) and adding back non-cash balances such as depreciation and amortization, gain (loss) on sale of property and equipment, goodwill impairment and unit-based compensation expense.

## **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 improved liquidity and cost reductions from the combination of the Trust with Builders, expectations with respect to the price of oil and natural gas and expectations regarding the level of drilling activity in the Western Canadian Sedimentary Basin. 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. There are risks also inherent in the nature of the combination with Builders, including failure to realize anticipated synergies or cost savings, risks regarding the integration of the two entities and incorrect assessments of the values of the other entity. 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.

## **NON-GAAP MEASURES**

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

## **CORPORATE PROFILE**

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

## HIGHLIGHTS FOR THE FIRST QUARTER ENDED MARCH 31, 2008

- **Revenue**

Revenue remained consistent at \$35.9 million for the three months ended March 31, 2008 compared to Q1 2007.

- **EBITDAC<sup>1</sup>**

EBITDAC was \$8.7 million for the three months ended March 31, 2008 compared to \$10.8 million in Q1 2007.

- **Funds From Operations<sup>2</sup>**

Funds from operations were \$7.1 million for the three months ended March 31, 2008 compared to \$9.5 million in Q1 2007.

- **Net Income**

Net income was \$2.7 million for the three months ended March 31, 2008 compared to \$4.9 million in Q1 2007.

- **Distributions to Essential Unitholders**

Distributions declared in the first quarter of 2008 to unitholders were \$5.3 million compared to \$6.9 million in Q1 2007.

- **Merger with 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 combined trust will continue to operate under the name Essential Energy Services Trust. Under the terms of the Agreement, the combination was accomplished through a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta). The Arrangement received customary stock exchange, court and regulatory approval as well as approval by 98% of Builders' unitholders voting in person or by proxy at the Builders' unitholder meeting, held on April 3, 2008 and became effective on April 4, 2008. Each Builders unit was exchanged for 1.25 Essential Units 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 \$74.0 million, excluding acquisition costs.

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

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

<sup>2</sup> Funds from operations is calculated by taking net income (loss) and adding back non-cash balances such as depreciation and amortization, gain (loss) on sale of property and equipment, goodwill impairment and unit-based compensation expense.

## **DISCUSSION OF FINANCIAL RESULTS**

### **Overview**

The first quarter of 2008 can best be characterized as a challenging period for the energy services industry. Equipment utilization increased over fourth quarter 2007 levels, however utilization remained below the levels seen in the first quarter of 2007, while operating and general and administrative expenses increased due to growth of the equipment fleet which was caused by the acquisition of the assets of four private companies in the second quarter of 2007 and the acquisition of one private company in the current quarter. Additionally, for much of the quarter, operating costs increased over the comparative quarter due to higher costs of fuel.

The first quarter is typically the strongest quarter for oilfield service companies due to cold weather and high levels of activities. However, due to spring thawing at the end of the quarter there is often an inability to move heavy equipment into the oil and gas fields. This year, spring break-up occurred in early March for our southern operations and late March for our northern operations.

Throughout the quarter, the Trust maintained its monthly distribution to unitholders at \$0.05 per unit, or \$5.3 million for the quarter.

Subsequent to the end of the quarter, on April 4, 2008 Essential completed its merger with Builders Energy Service Trust ("Builders"). The merger will result in a larger, more efficient and stronger entity that will enjoy the advantages of critical mass in key business lines, cost reductions of approximately \$6.0 million per year, and the ability to pursue new markets and opportunities. The merger was effected through a plan of arrangement whereby Essential issued to Builders' unitholders, 1.25 Essential trust units for each trust unit of Builders.

### **Overview of First Quarter 2008 Sector Activity**

The first quarter of 2008 started off slowly for the western Canadian oilfield service sector. As the quarter progressed, activity increased somewhat, but did not reach the levels seen in the first quarter of 2007. According to the Canadian Association of Oilwell Drilling Contractors, a total of 4,986 wells were drilled and completed in western Canada in the first quarter of 2008, which is 24% lower than the first quarter of 2007. Wells drilled generally acts as a barometer for oilfield service activity.

Drilling activity continued to be negatively impacted by the high Canadian dollar relative to the U.S. dollar. While oil and natural gas prices are referenced in U.S. dollars, a significant portion of producers' Canadian operations are denominated in Canadian dollars. The strength of the Canadian dollar has a negative impact on Essential's customers' netbacks, thus reducing the economics of their exploration and developments programs. While the Canadian dollar decreased from the record highs reached in the fourth quarter of 2007, the dollar remained very strong relative to the first quarter of 2007.

Later in the quarter, some optimism arose for the sector, as colder weather in certain parts of the U.S. and a reduction in liquefied natural gas imports into North America decreased U.S. natural gas storage levels. Storage levels finished the quarter just slightly below the five-year average. This had a positive impact on the price of natural gas, which steadily increased through the quarter. While the increase in natural gas prices did not, and would not be expected to, have an immediate effect on natural gas drilling, the sustained higher price creates optimism for the latter part of 2008.

## Revenue

(\$ thousands)	For the three months ended March 31	
	2008	2007
Revenue by segment:		
Rigs	15,046	15,936
Transport	20,820	19,965
Total revenue	35,866	35,901

Revenue for the quarter was \$35.9 million, consistent with the \$35.9 million in Q1 2007. The Rigs division generated 42% (Q1 2007 – 44%) and the Transport division generated 58% (Q1 2007 – 56%) of the Q1 2008 revenue.

Revenue from the Rigs division decreased by \$0.9 million to \$15.0 million compared to \$15.9 million in Q1 2007. This decrease reflects the net result of a decline in the revenue of our coil tubing operations of \$0.9 million; a decline in the revenue of our service rig operations of \$0.7 million; and an increase in the revenue of the rod rig division of \$0.7 million. While the coil tubing fleet increased by 4 units in July 2007 from the asset acquisition of Canadian Coil Tubing Inc. (“CCT”), coil tubing revenue decreased as utilization levels of this type of equipment has declined over the past 12 months. The decrease in revenue of the service rig operations is a result of lower demand for service rigs primarily due to the impact of commodity prices and the Alberta royalty review. The increase in rod rig revenue is due to the acquisition of 4 units in June 2007 from the asset acquisition of Redneck Flushbys Ltd. (“Redneck”).

Revenue from the Transport division increased by \$0.8 million to \$20.8 million compared to \$20.0 million in Q1 2007 primarily reflecting the 15% increase in the fleet size from 202 units to 233 units as a result of the addition of 8 hot oilers from the asset acquisition of Anderson Well Servicing (1986) Ltd. (“Anderson”) in June 2007, the addition of 13 vacuum trucks and 3 scrubber units from the asset acquisition of Blue-Vac Vacuum Truck Service (“Blue-Vac”) in July 2007 and the addition of 3 hot oilers, 3 pressure trucks plus a heating unit from the asset acquisition of A & B Hot Oil Services (1993) Ltd (“A&B”) in March of 2008.

Essential noticed a significant drop in utilization levels immediately after the September 18, 2007 announcement of the Alberta Royalty Tax Review which recommended significant increases in the Alberta royalties being paid by our customers. This announcement created uncertainty for our customers, which resulted in their decision to slow down activity levels throughout the fourth quarter of 2007 and the first quarter of 2008. As well, since the end of Q1 2007, Essential has experienced modest discounting of hourly and daily rates charged to our largest customers.

## Operating Expenses

(\$ thousands)	For the three months ended March 31	
	2008	2007
Operating expense by segment:		
Rigs	9,214	8,976
Transport	12,840	11,832
Total operating expenses	22,054	20,808

Operating expenses for the quarter were \$22.1 million, an increase of \$1.2 million from \$20.8 million in Q1 2007.

Operating expenses for the Rigs division of \$9.2 million for the quarter are slightly higher when compared with the expenses in Q1 2007. This consistency was achieved despite the fact that the

assets and business of 2 private companies were added into the Rigs division since Q1 2007. The additional operating costs of the 2 acquisitions were partially offset by cost control measures put in place since Q1 2007 including the restructuring of the coil tubing operations in Q4 2007.

The increase in operating expenses for the Transport division of \$1.0 million, is due primarily to increased fuel costs, and additional equipment as a result of the 3 private company acquisitions completed since the end of Q1 2007.

### General and Administrative Expenses

	For the three months ended March 31	
(\$ thousands)	2008	2007
General and administrative	5,065	4,343

General and administrative ("G&A") expenses for the quarter were \$5.1 million, an increase of \$0.7 million from \$4.3 million in Q1 2007.

The increase in G&A expenses is due to increased rent on premises leases of \$0.2 million, increased wages and benefits of \$0.4 million (primarily relating to the management and administrative staff of the 5 acquisitions that have been completed since the end of Q1 2007), and increased professional fees of \$0.1 million.

### Depreciation and Amortization

	For the three months ended March 31	
(\$ thousands)	2008	2007
Depreciation and amortization	4,197	4,173

Depreciation and amortization for the quarter was \$4.2 million consistent with the \$4.2 million in Q1 2007. This is consistent with the average property, plant and equipment balances throughout each period.

### Interest and Bank Charges

	For the three months ended March 31	
(\$ thousands)	2008	2007
Interest and bank charges	1,265	1,299

Interest and bank charges for the quarter were \$1.3 million consistent with the \$1.3 million in Q1 2007.

This consistency is caused by a combination of a \$4.1 million increase in the amount drawn on the Trust's various bank facilities and a reduction in interest rates since Q1 2007.

### Unit-based Compensation Expense

	For the three months ended March 31	
(\$ thousands)	2008	2007
Unit-based compensation expense	572	330

Unit-based compensation expense for the quarter was \$0.6 million, an increase of \$0.3 million from Q1 2007.

This increase is primarily as a result of the issuance of 1.2 million options on March 26, 2007.

## Net Income

	For the three months ended March 31	
(\$ thousands)	2008	2007
Net income	2,713	4,948

Net income for the quarter was \$2.7 million, a decrease of \$2.2 million or 45% from \$4.9 million in Q1 2007.

Operationally, Q1 2008 was a much more challenging quarter than Q1 2007 due to reduced activity levels. The decrease in net income reflects industry conditions, partially offset by the closing of 5 private company acquisitions since the end of Q1 2007, coupled with the increased operating expenses, general and administrative expenses and unit-based compensation expenses discussed above result in a lower net income than in the comparative period.

## EBITDAC

	For the three months ended March 31	
(\$ thousands)	2008	2007
EBITDAC <sup>1</sup>	8,747	10,750

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

EBITDAC for the quarter was \$8.7 million, a decrease of \$2.0 million or 19% from \$10.8 million in Q1 2007.

The decrease in EBITDAC is a direct result of lower utilization of our equipment and correspondingly lower revenue than expected due to a slowdown in demand for services related to natural gas production during Q1 2008 compared to Q1 2007. The decrease in EBITDAC of 19% is primarily due to the increase in G&A expenses which was due to the inclusion of G&A and operating expenses from the 5 private company asset acquisitions that the Trust completed since the end of Q1 2007. As well, since the end of Q1 2007, Essential has experienced modest discounting of hourly and daily rates charged to our largest customers which also contributed to the lower EBITDAC.

## SUMMARY OF QUARTERLY DATA

(\$ thousands, except per unit amounts)	Mar. 2008	Dec. 2007	Sep. 2007	Jun. 2007	Mar. 2007	Dec. 2006	Sep. 2006	Jun. 2006
Revenue	35,866	26,741	27,675	22,098	35,901	32,791	25,267	18,729
EBITDAC <sup>1</sup>	8,747	4,826	6,984	2,392	10,750	10,642	7,266	4,898
Net income (loss)	2,713	(38,479)	1,767	(4,440)	4,948	5,650	2,421	1,651
Net income (loss) per unit - diluted	0.08	(1.09)	0.05	(0.14)	0.16	0.19	0.09	0.06

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

## FINANCIAL RESOURCES AND LIQUIDITY

### Working Capital

(\$ thousands, except ratios)	March 31, 2008	December 31, 2007
Current assets	31,164	24,859
Current liabilities (excluding debt) <sup>1</sup>	10,169	23,326
Working capital (excluding debt) <sup>2</sup>	20,995	1,533
Working capital (excluding debt) ratio <sup>2</sup>	3.1:1	1.1:1

<sup>1</sup> Non-GAAP measure - Current liabilities (excluding debt) is calculated by taking current liabilities less current portions of long-term debt.

<sup>2</sup> Non-GAAP measure - Working capital (excluding debt) is calculated by taking current assets less current liabilities excluding current portions of long-term debt. Working capital ratio is calculated by taking current assets divided by current liabilities excluding current portions of long-term debt.

Working capital (excluding debt) on March 31, 2008 was \$21.0 million (December 31, 2007 - \$1.5 million). The increase of \$19.5 million in working capital (excluding debt) was due primarily to the new April 4, 2008 credit agreement which resulted in the former operating line being grouped with the overall facility (see discussion below), increased utilization rates of equipment in Q1 2008 compared to Q4 2007 and a corresponding increase in accounts receivable.

The working capital (excluding debt) ratio of 3.1:1 (December 31, 2007 - 1.1:1) indicates that Essential remains in a positive liquidity position.

### Funded Debt

\$ thousands	March 31, 2008	December 31, 2007
Total liabilities	84,867	81,524
Current liabilities (excluding debt and bank indebtedness) <sup>1</sup>	9,082	8,918
Future income tax liability	531	531
Funded debt (including current portion) <sup>2</sup>	75,254	72,075

<sup>1</sup> Non-GAAP measure - Current liabilities (excluding debt and bank indebtedness) is calculated by taking current liabilities less bank indebtedness, and current portions of long-term debt.

<sup>2</sup> Non-GAAP measure - Funded debt (including current portion) is calculated by taking bank indebtedness plus current and long-term portions of long-term debt.

Funded debt on March 31, 2008 was \$75.3 million compared to \$72.1 million on December 31, 2007, an increase of \$3.2 million.

As at March 31, 2008, \$15.9 million was drawn on the \$25.0 million revolving loan facility. As at March 31, 2008, \$57.7 million was drawn on the \$85 million revolving term loan facility.

In addition to the above facilities, the Trust also had \$0.5 million of long-term debt, comprised of various loans payable ("Term Debt") in monthly instalments with interest rates ranging from 0.00% to 10.95%.

The average effective interest rate on borrowings under all of the above loan facilities for the quarter was 6.4%.

On April 4, 2008, concurrent with the strategic combination with Builders, the Trust amended its credit agreement with its banking syndicate comprised of an extendible revolving loan facility (the "Facility"). Under this agreement, the Facility is limited to the lesser of \$160.0 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.

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 instalments over a three-year period. As a result, there is no current portion of the Facility classified as current portion of long-term debt at March 31, 2008 (\$11.1 million at December 31, 2007). The Facility is collateralized by a general security agreement.

The existing facility is sufficient to meet the Trust's obligations for the remainder of the year.

### Unitholders' Equity

\$ thousands	March 31, 2008	December 31, 2007
Unitholders' equity	114,482	115,180

On March 31, 2008, the Trust had 35,633,040 (December 31, 2007 – 35,267,976) units outstanding. During the period ended March 31, 2008, the Trust issued the following units:

- On March 1, 2008, 365,064 trust units for total consideration of \$1.4 million were issued to the vendors of A&B Hot Oil Services (1993) Ltd. ("A&B") as consideration with respect to the acquisition of the assets and business of A&B.

The Trust had 60,272,865 units outstanding on May 13, 2008. The increase is due to the completion of the merger with Builders Energy Services Trust.

The Trust had 2,398,801 unit options outstanding at March 31, 2008 and 3,613,009 unit options outstanding at May 13, 2008 (including 1,214,208 Essential Replacement Options issued in conjunction with the transaction further described in the Subsequent Events section below).

The Trust had 100,000 options in-the-money at March 31, 2008.

### BUSINESS ACQUISITION

The Trust completed one business acquisition during the quarter as summarized below:

#### A&B Hot Oil Services (1993) Ltd.

On March 1, 2008 the Trust acquired all of the assets and business of A & B Hot Oil Services (1993) Ltd. for total consideration of \$1.4 million. A&B operates 3 hot oilers, 3 pressure trucks and a heating unit from Brooks in southern Alberta. The assets form part of the Transport business segment.

### FUNDS FROM OPERATIONS AND DISTRIBUTIONS TO UNITHOLDERS

(\$ thousands)	For the three months ended March 31	
	2008	2007
Cash provided by operating activities	1,012	8,891
Change in non-cash working capital	6,097	563
Funds from operations	7,109	9,454
Required principal repayments	(132)	(254)
Maintenance capital expenditures	(782)	(839)
Funds retained	(887)	(1,452)
Distributions declared to Essential unitholders	5,308	6,909

## **Funds From Operations**

Funds from operations for the quarter was \$7.1 million, a decrease of \$2.3 million from \$9.5 million in Q1 2007. The decrease is a direct result of lower utilization of our equipment and correspondingly lower revenue than expected due to a slowdown in demand for services related to natural gas during Q1 2008 compared to Q1 2007.

Required principal repayments on debt in the quarter of \$0.1 million compared to Q1 2007 of \$0.2 million are expected to increase in future quarters due to the merger with Builders Energy Services Trust.

Maintenance capital expenditures in both Q1 2008 and Q1 2007 were \$0.8 million and are expected to vary from quarter to quarter.

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

Funds retained for the quarter were \$0.9 million (Q1 2007 - \$1.5 million), a decrease of \$0.6 million. Due to the seasonality of the energy service sector, funds retention often occurs in the first and fourth quarters and fund shortfalls can often occur in the second and third quarters as these are generally the slowest months operationally. Such funds shortfall is expected and taken into consideration when determining distributions to Essential unitholders on a monthly and annualized basis. Funds shortfalls in the second and third quarter have historically been covered by funds from operations in the first and fourth quarters of the year and from available credit facilities and equity financings.

Distributions typically exceed net income as a result of non-cash expenses such as depreciation and amortization, future income tax expense, and unit-based compensation expense. These non-cash expenses result in a reduction of net income, with no impact to cash flow from operating activities.

## **Distributions To Unitholders**

The Trust declared distributions to unitholders of \$5.3 million for the quarter, a decrease of \$1.6 million or 23% from \$6.9 million in Q1 2007. The decrease is due to a reduction of the monthly distribution in November 2007 from \$0.083 per unit to \$0.05 per unit.

## **COMMITMENTS**

There have been no material changes in the Trust's commitments since December 31, 2007, except for the addition of the commitments of Builders Energy Services Trust. Their commitments do not materially differ from the ones they disclosed in their audited financial statements of December 31, 2007.

## **CONTINGENCIES**

The Trust has no contingent liabilities at March 31, 2008.

## **FINANCIAL INSTRUMENTS**

### **Fair values of financial assets and liabilities**

The Trust's financial instruments consist of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable and long-term debt. Unless otherwise noted, as at March 31, 2008 and 2007, there were no significant differences between the carrying amounts of these financial instruments and their estimated fair values.

### **Credit risk**

The Trust's accounts receivable are exposed to credit risk. Although a substantial portion of trade receivables is dependent upon the strength of the Canadian oil and gas industry, management

considers credit risk to be minimal. Management routinely assesses the financial strength of customers, and monitors the exposure for credit losses.

Of the Trust's significant accounts receivable as at March 31, 2008, approximately 25% was due from two companies (14% and 11% respectively) (March 31, 2007 – 23% was due from two companies; 12% and 11% respectively).

#### **Interest rate risk**

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

### **RELATED PARTY TRANSACTIONS**

The Trust rents land and buildings from an officer of the Trust which are included in operating expenses. The expense totaled \$0.1 million for the quarter (Q1 2007 - \$0.2 million). These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the respective parties, and were recorded at the exchange amount.

### **OFF-BALANCE SHEET ITEMS**

The Trust has no off-balance sheet items as at March 31, 2008.

### **SUBSEQUENT EVENTS**

On January 31, 2008, Essential entered into an agreement (the "Agreement") with Builders Energy Services Trust ("Builders") to merge the two trusts. The combined trust will continue to operate under the name Essential Energy Services Trust. Under the terms of the Agreement, the combination was accomplished through a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta). The Arrangement received customary stock exchange, court and regulatory approval as well as approval by 98% of Builders' unitholders voting in person or by proxy at the Builders' unitholder meeting, held on April 3, 2008 and became effective on April 4, 2008. Each Builders unit was exchanged for 1.25 Essential Units 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 combined consideration for Builders is \$74.0 million, excluding acquisition costs.

As this Arrangement has a significant effect on the future activities of Essential, pro forma summary consolidated balance sheet financial information, incorporating the effect of the Arrangement as if it had occurred as at March 31, 2008, pro forma summary consolidated statement of operations, incorporating the effect of the Arrangement as if it had occurred as at January 1, 2008 and accompanying notes to the pro forma summary consolidated financial statements are provided below.

Pro-forma summary balance sheet financial information is as follows:

(\$ thousands)	As at March 31, 2008				
	Essential	Builders		Pro Forma Adjustments	Pro Forma Consolidated
Accounts receivable and prepaid expenses	28,927	46,953		-	75,880
Property and equipment	94,649	155,141	(a)	(35,121)	214,669
Long-term debt	74,167	80,041		-	154,208
Total assets	199,349	226,086	(a) (b)	(48,546)	376,889
Unitholders' Equity	114,482	115,061	(c)	74,015	188,497
			(d)	(115,061)	

Pro forma summary consolidated statement of operations is as follows:

(\$ thousands)	For the three months ended March 31, 2008				
	Essential	Builders		Pro Forma Adjustments	Pro Forma Consolidated
Revenue	35,866	53,487		-	89,353
Income before taxes	2,713	5,461	(e)	1,717	9,891

Accompanying notes to the pro forma summary consolidated financial statements:

- a) The fair values ascribed to Builders' equipment is less than the net book value on Builders' financial statements as at March 31, 2008 in the amount of \$35.1 million.
- b) The fair values ascribed to Builders' intangibles and goodwill is less than the net book value on Builders' financial statements as at March 31, 2008 in the amount of \$13.4 million.
- c) The consideration issued to acquire Builders, excluding acquisition costs is as follows:

(\$ thousands)	
Market value of Essential trust units issued	73,673
Fair value of Essential Replacement Options issued	342
	74,015

- d) Builders unitholders' equity is eliminated upon acquisition.
- e) The fair values ascribed to Builders' equipment and intangible assets are less than the values on Builders' financial statements as at March 31, 2008. As a result of these reductions in net book values, depreciation and amortization expense has been reduced by \$1.7 million, on a consistent basis with Builders' depreciation and amortization policies.
- f) The unaudited pro forma consolidated results, presented above, are preliminary in nature and subject to change.

## RECONCILIATION OF NON-GAAP MEASURES

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

	For the three months ended March 31	
(\$ thousands, except ratios)	2008	2007
<b>EBITDAC<sup>1</sup></b>		
Net income	2,713	4,948
Unit-based compensation	572	330
Depreciation and amortization	4,197	4,173
Interest and bank charges	1,265	1,299
<b>EBITDAC<sup>1</sup></b>	<b>8,747</b>	10,750
<b>Funds From Operations</b>		
Cash provided by operating activities	1,012	8,891
Change in non-cash working capital	6,097	563
<b>Funds from operations</b>	<b>7,109</b>	9,454

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

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

## 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 audited consolidated financial statements 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 audited consolidated financial statements 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.

## **TAXATION OF INCOME TRUSTS**

The Trust reported on these as part of the 2007 reporting (please refer to the audited consolidated financial statements 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 taxation of income trust rules in the current period.

## **RISKS AND UNCERTAINTIES AND CRITICAL ACCOUNTING ESTIMATES**

For a discussion of Risks and Uncertainties, and Critical Accounting Estimates, please refer to the audited consolidated financial statements 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).

## **RECENT ACCOUNTING PRONOUNCEMENTS**

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. The adoption of these pronouncements resulted in additional disclosure in the notes to the financial statements.

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.

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.

Section 3031 requires inventories to be measured at the lower of cost or net realizable value and the reversal of previously recorded write downs to realizable value when circumstances that caused the write down no longer exist.

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. Essential adopted these standards retroactively.

## **OUTLOOK**

The second quarter of 2008 began with a sense of optimism that has been absent in the Canadian oilfield services sector since mid-2006. This optimism is a result of the reduction in U.S. natural gas storage to a level below the five-year average, and the recent increase in the forward strip price for

natural gas. On May 13, 2008, the near-month price for natural gas was approximately U.S.\$11.42/mmbtu and the forward strip for natural gas reflects prices at or above U.S.\$10/mmbtu for the ensuing twelve months.

While the price of crude oil has been very strong for a longer time period, it is the recent increase in the price of natural gas that is fueling optimism in the sector, as conventional drilling in the Western Canadian Sedimentary Basin is heavily weighted toward natural gas drilling.

In April 2008, the Petroleum Services Association of Canada increased its forecast for wells drilled in 2008 from 14,500 wells to 16,500 wells. While this is below the 2007 level of 18,557 wells, it suggests that the sector may be emerging from the downturn that began in mid-2006.

While optimism is evident, a sustained period of high commodity prices is required for producers to adjust their spending activity, and a recovery is not anticipated until the latter part of 2008. In addition, the second quarter is always the weakest quarter of the year in the western Canadian oilfield services sector for operating and financial results due to spring break-up.

On April 4, 2008, the merger of Essential and Builders was completed. Management has been integrating the two companies and continues to expect annualized synergies of \$6 million, with \$4 million expected to be realized in 2008. In addition to the realization of synergies, the combination is expected to provide critical mass to further maximize the value of the underlying assets and increase the trading liquidity of the Trust's units. Essential is now better-positioned for growth and further consolidation of the industry.

Management is encouraged by the recent optimism in the sector and continues to remain confident in the long-term fundamentals for Canadian natural gas drilling and Canadian-based oilfield services. Management continues to expect that high production decline rates combined with anticipated rising natural gas demand will work in tandem to encourage an increase in Canadian natural gas drilling and increased activity levels for Canadian-based oilfield services.

**Consolidated Financial Statements**

**Essential Energy Services Trust**

**March 31, 2008**

**Essential Energy Services Trust**  
**CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

As at (\$ thousands)	March 31, 2008	December 31, 2007
<b>ASSETS [notes 4 and 5]</b>		
<b>Current</b>		
Accounts receivable and prepaid expenses	28,927	22,889
Materials and supplies	2,237	1,970
	31,164	24,859
<b>Property and equipment</b>	94,649	97,806
<b>Goodwill</b>	60,080	60,080
<b>Intangibles</b>	13,456	13,959
	199,349	196,704
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness [note 4]	1,087	14,408
Accounts payable and accrued liabilities	7,300	7,175
Distributions payable	1,782	1,763
Current portion of long-term debt [note 5]	334	11,559
	10,503	34,905
<b>Long-term debt [note 5]</b>	73,833	46,088
<b>Future income tax liabilities</b>	531	531
	84,867	81,524
<b>Unitholders' equity</b>		
Unitholders' capital [note 6]	193,366	192,041
Contributed surplus [note 6]	3,052	2,480
Accumulated deficit	(81,936)	(79,341)
	114,482	115,180
	199,349	196,704

See accompanying notes to the unaudited interim consolidated financial statements

## Essential Energy Services Trust

### CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND ACCUMULATED DEFICIT

(unaudited)

For the three months ended March 31

(\$ thousands)	2008	2007
<b>REVENUE</b>		
Energy services	35,866	35,901
<b>EXPENSES</b>		
Operating <i>[note 9]</i>	22,054	20,808
General and administrative	5,065	4,343
Unit-based compensation <i>[note 7]</i>	572	330
Interest on short-term debt and bank fees	320	331
Interest on long-term debt	945	968
Depreciation and amortization	4,197	4,173
	33,153	30,953
Income before income taxes	2,713	4,948
Income taxes		
Future income taxes	-	-
Net income and comprehensive income for the period	2,713	4,948
Accumulated deficit, beginning of period	(79,341)	(13,058)
Distributions to unitholders <i>[note 11]</i>	(5,308)	(6,917)
Accumulated deficit, end of period	(81,936)	(15,027)
Net income per unit <i>[note 6]</i>		
Basic	0.08	0.18
Diluted	0.08	0.16

See accompanying notes to the unaudited interim consolidated financial statements

**Essential Energy Services Trust**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

For the three months ended March 31

(\$ thousands)	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net income for the period	2,713	4,948
Add non-cash items:		
Depreciation and amortization	4,197	4,173
Unit-based compensation	572	330
Loss (gain) on sale of property and equipment	(373)	3
	7,109	9,454
Change in non-cash working capital	(6,097)	(563)
Cash provided by operating activities	1,012	8,891
<b>FINANCING ACTIVITIES</b>		
Distributions to unitholders	(5,289)	(6,909)
Increase (decrease) in bank indebtedness	(13,321)	3,060
Repayments of capital lease obligations	(3)	(37)
Increase in long-term debt	16,649	500
Repayments of long-term debt	(129)	(217)
Change in non-cash working capital	19	-
Cash used in financing activities	(2,074)	(3,603)
<b>INVESTING ACTIVITIES</b>		
Purchase of energy service business <i>[note 3]</i>	(50)	-
Purchase of property and equipment	(1,652)	(2,835)
Sale of property and equipment	2,846	158
Change in non-cash working capital	(82)	-
Cash (used in) provided by investing activities	1,062	(2,677)
<b>Increase in cash during the period</b>	-	2,611
Cash, beginning of period	-	1,110
<b>Cash, end of period</b>	-	3,721
<b>Cash interest paid</b>	1,195	881

See accompanying notes to the unaudited interim consolidated financial statements

## Essential Energy Services Trust

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

*(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)*

## 1. NATURE OF THE ORGANIZATION

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles and in a manner consistent with the accounting policies in the audited consolidated financial statements of the Trust for the year ended December 31, 2007, except as noted below. Certain information has been condensed or omitted although the Trust believes that the disclosures are adequate to make the information presented not misleading.

### Adoption of new accounting policies

On January 1, 2008, Essential adopted several new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook section 1400 "General Standards of Financial Statement Presentation", section 1535 "Capital Disclosures", section 3031 "Inventories", section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation." 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.

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

*(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)*

The Trust's strategy is to carry a capital base to maintain investor, creditor and market confidence and to sustain future distributions and development of the business. The Trust's capital management strategy remained unchanged during the three months ended March 31, 2008, as it has been able to sustain its objectives for managing capital. 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/or distributions.

The Trust considers its capital structure to include unitholders' equity and funded debt. The Trust is subject to externally imposed capital requirements associated with its debt facility, including financial covenants that incorporate funded debt, earnings before interest, taxes, depreciation and amortization, and total capitalization. As at March 31, 2008, the Trust is in compliance with respect to these covenants.

#### Inventories

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

#### 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.

### 3. ACQUISITION

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 consisting of estimated transaction costs of \$50 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 form part of Essential's Transport business segment. 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:

<b>Calculation of purchase price</b>	<b>(\$ thousands)</b>
Essential trust units issued	1,325
Transaction costs	50
<b>Total purchase price</b>	<b>1,375</b>

  

<b>Allocation of purchase price</b>	<b>(\$ thousands)</b>
Property and equipment	1,375
<b>Total purchase price</b>	<b>1,375</b>

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

#### 4. BANK INDEBTEDNESS

At March 31, 2008, the Trust had an extendible revolving loan facility with a syndicate of four Canadian chartered banks in the amount of \$25,000 bearing interest at prime plus one-half of one percent per annum payable monthly. As at March 31, 2008, \$15,949 (December 31, 2007 – \$13,316) was drawn on the revolving loan facility. This facility was collateralized by a floating charge debenture over all of the Trust's assets.

On April 4, 2008, concurrent with the strategic combination with Builders, (note 12), the Trust amended its credit agreement with its banking syndicate comprised of an extendible revolving loan facility (the "Facility"). As a result, the facility has been presented in long-term debt (note 5).

Included in bank indebtedness at March 31, 2008 is a bank overdraft of \$1,087 (December 31, 2007 - \$14,408)

#### 5. LONG-TERM DEBT

(\$ thousands)	March 31, 2008	December 31, 2007
Term acquisition loan facility	73,649	57,000
Various vehicle loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95% , and maturities from April 2008 to November 2009	518	647
Less:		
Current portion	(334)	(11,559)
	73,833	46,088

As at March 31, 2008, the long-term debt was comprised of an \$85,000 term acquisition loan facility. The average effective interest rate on borrowings under the term acquisition loan facility for the three months ended March 31, 2008 was 6.4% (March 31, 2007 – 6.9%).

On April 4, 2008, concurrent with the strategic combination with Builders (note 12), the Trust amended its credit agreement with its banking syndicate comprised of an extendible revolving loan facility (the "Facility"). Under this agreement, the Facility is limited to the lesser of \$160,000 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 at rates varying from prime rate to prime rate plus 1.375%.

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 instalments over a three-year period. As a result, there is no current portion of the Facility classified as current portion of long-term debt at March 31, 2008 (\$11,083 at December 31, 2007). The Facility is collateralized by a general security agreement over all assets.

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

#### 6. 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. Each unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Trust whether of earnings, net capital gains or other amounts, and in the net assets of the Trust in the event of termination or wind-up. All units are redeemable at the demand of the unitholder.

###### Issued

Trust Units	Number of Units	Amount (\$ thousands)
<b>Balance December 31, 2007</b>	35,267,976	192,041
Units issued on business acquisition (i)	365,064	1,325
<b>Balance March 31, 2008</b>	<b>35,633,040</b>	<b>193,366</b>

- (i) On March 1, 2008, the Trust issued 365,064 units at \$3.63 per unit to the vendors of A&B (see note 3).

##### b) Contributed surplus

	March 31, 2008
<b>Contributed surplus, beginning of period</b>	2,480
Unit-based compensation	572
<b>Contributed surplus, end of period</b>	<b>3,052</b>

##### c) Net income per unit

The Trust's basic weighted average number of trust units outstanding for the three months ended March 31, 2008 was 35,392,338 (March 31, 2007 – 27,748,379). The diluted per unit amount was calculated assuming the exercise of outstanding in-the-money options resulting in a diluted weighted average number of trust units outstanding for the three months ended March 31, 2008, of 35,392,338 (March 31, 2007 – 30,118,722).

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

#### 7. UNIT-BASED COMPENSATION

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Number of trust unit options	Weighted average exercise price (\$ per unit)	Number of options outstanding	Weighted average exercise price (\$ per unit)
Outstanding, beginning of period	2,493,633	7.82	1,450,600	9.92
Granted	-	-	1,292,200	5.65
Expired	(94,832)	8.11	(249,167)	(8.34)
Outstanding, end of period	2,398,801	7.84	2,493,633	7.82
Exercisable, end of period	779,104	8.06	466,790	9.91

The following table summarizes information about the unit options outstanding at March 31, 2008:

Grant date exercise price (\$)	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
10.00	1,157,434	3.17	394,205
8.64	90,000	3.38	30,000
5.87	1,051,367	3.99	354,899
3.00	100,000	4.70	-
	2,398,801	3.60	779,104

The total fair value of unit-based compensation for those options issued to employees, directors, and consultants was calculated using a Black-Scholes option-pricing model to estimate the fair value of unit options at the date of grant. The fair value of the options is amortized equally over the vesting period to income and equity as unit-based compensation expense and contributed surplus, respectively.

The Trust recorded unit-based compensation expense and contributed surplus of \$572 for the three months ended March 31, 2008 (March 31, 2007 - \$330).

The Trust had 100,000 outstanding in-the-money options at March 31, 2008 (March 31, 2007 – nil).

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)*

#### 8. 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 all financial instruments approximate their estimated fair values due to their terms.

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 enter into 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 March 31, 2008 accounts receivable are aged as follows 58% - current; 26%, - 31-60 days; 9% - 61-90 days; and 6% - 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. The balance of this allowance has not changed materially since December 31, 2007.

Of the Trust's trade accounts receivable as at March 31, 2008, approximately 25% was due from two companies 14% and 11%, respectively (March 31, 2007 - 12% and 11%, respectively).

###### (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 \$753.

###### (iii) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Trust believes that it has access to sufficient capital through internally generated cash flows and external equity sources, and to undrawn committed borrowing facilities to meet current spending forecasts.

#### 9. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2008, the Trust leased land and buildings from officers of the Trust which are included in operating expenses. The expense totaled \$117 (March 31, 2007 –

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

\$154). 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.

#### 10. SEGMENTED INFORMATION

The Trust determines its reportable segments based on the structure of its operations, which are primarily focused on two principal business segments – Rigs and Transport. Both business segments provide oilfield services to oil and gas producers across western Canada. The Rigs segment provides a range of oil and gas well services including completions, recompletions, workovers, abandonments and coil tubing services. The Transport segment provides vacuum, pressure, hot oiler, steaming and fluid/chemical hauling services. During the three months ended March 31, 2008 and 2007 there were no inter-segment transactions.

The following is selected financial information for each business segment:

(\$ thousands)	For the three months ended March 31	
	2008	2007
<b>Revenue</b>		
Rigs	15,046	15,936
Transport	20,820	19,965
	35,866	35,901

For the three months ended March 31, 2008 the Rigs division earned approximately 51% of its revenue from three companies: 23%; 18%; and 10%, respectively.

For the three months ended March 31, 2008 the Transport division earned approximately 29% of its revenue from two companies: 18%; 11%, respectively.

(\$ thousands)	For the three months ended March 31	
	2008	2007
<b>Operating Expenses</b>		
Rigs	9,214	8,976
Transport	12,840	11,832
	22,054	20,808

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

(\$ thousands)	For the three months ended March 31	
	2008	2007
<b>General and Administrative Expenses</b>		
Rigs	1,210	1,149
Transport	2,720	2,186
Corporate	1,135	1,008
	5,065	4,343

(\$ thousands)	For the three months ended March 31	
	2008	2007
<b>Depreciation and Amortization</b>		
Rigs	2,294	2,139
Transport	1,873	2,029
Corporate	30	5
	4,197	4,173

(\$ thousands)	For the three months ended March 31	
	2008	2007
<b>Net Income (Loss)</b>		
Rigs	2,325	3,659
Transport	3,370	3,889
Corporate	(2,982)	(2,600)
	2,713	4,948

#### As at March 31, 2008

(\$ thousands)	Rigs	Transport	Corporate	Total
<b>Selected Balance Sheet Items</b>				
Property and equipment	55,678	37,482	1,489	94,649
Goodwill	17,900	42,180	-	60,080
Intangibles	3,950	9,506	-	13,456
Total assets	92,110	105,531	1,708	199,349
Long-term debt including current portion and bank indebtedness	-	1,263	73,991	75,254

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

As at December 31, 2007

(\$ thousands)	Rigs	Transport	Corporate	Total
<b>Selected Balance Sheet Items</b>				
Property and equipment	57,211	39,945	650	97,806
Goodwill	17,900	42,180	-	60,080
Intangibles	4,234	9,725	-	13,959
Total assets	90,860	105,057	787	196,704
Bank indebtedness	-	-	14,408	14,408
Long-term debt including current portion	-	647	57,000	57,647

#### 11. CASH DISTRIBUTIONS TO UNITHOLDERS

During the three months ended March 31, 2008, the Trust declared monthly distributions to unitholders of record as at the close of business on each distribution record date. Such distributions are recorded as reductions of unitholders' equity upon declaration of the distribution.

Record Date	Payment Date	Cash Distributions per Unit (\$)	Total Distributions (\$)
January 31, 2008	February 15, 2008	0.050	1,763
February 29, 2008	March 17, 2008	0.050	1,763
March 31, 2008	April 15, 2008	0.050	1,782
Total		0.150	5,308

Record Date	Payment Date	Cash Distributions per Unit (\$)	Total Distributions (\$)
January 31, 2007	February 15, 2007	0.083	2,300
February 28, 2007	March 15, 2007	0.083	2,308
March 30, 2007	April 16, 2007	0.083	2,309
April 30, 2007	May 15, 2007	0.083	2,500
May 31, 2007	June 15, 2007	0.083	2,500
June 29, 2007	July 16, 2007	0.083	2,927
July 31, 2007	August 15, 2007	0.083	2,927
August 31, 2007	September 17, 2007	0.083	2,927
September 28, 2007	October 15, 2007	0.083	2,928
October 31, 2007	November 15, 2007	0.083	2,927
November 30, 2007	December 17, 2007	0.050	1,763
December 31, 2007	January 15, 2008	0.050	1,763
Total		0.930	30,079

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)

#### 12. SUBSEQUENT EVENTS

On January 31, 2008, Essential entered into an agreement (the "Agreement") with Builders Energy Services Trust ("Builders") to merge the two trusts. The combined trust will continue to operate under the name Essential Energy Services Trust. Under the terms of the Agreement, the combination was accomplished through a Plan of Arrangement (the "Arrangement") under the Business Corporations Act (Alberta). The Arrangement received customary stock exchange, court and regulatory approval as well as approval by 98% of Builders' unitholders voting in person or by proxy at the Builders' unitholder meeting, held on April 3, 2008 and became effective on April 4, 2008. Each Builders unit was exchanged for 1.25 Essential Units 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 combined consideration for Builders was \$74.0 million, excluding acquisition costs.

As this Arrangement has a pervasive effect on the future activities of Essential, unaudited pro forma summary consolidated balance sheet financial information, incorporating the effect of the Arrangement as if it had occurred as at March 31, 2008, and unaudited pro forma summary consolidated operations, incorporating the effect of the Arrangement as if it had occurred as at January 1, 2008 are provided below:

Unaudited pro-forma selected financial items:

As at March 31, 2008				
(\$ thousands)	Essential	Builders	Pro Forma Adjustments	Pro Forma Consolidated
Accounts receivable and prepaid expenses	28,927	46,953	-	75,880
Property and equipment	94,649	155,141 (a)	(35,121)	214,669
Long-term debt	74,167	80,041	-	154,208
Total assets	199,349	226,086 (a) (b)	(48,546)	376,889
Unitholders' equity	114,482	115,061 (c)	74,015	188,497
		(d)	(115,061)	

Unaudited pro forma summary consolidated statement of operations:

For the three months ended March 31, 2008				
(\$ thousands)	Essential	Builders	Pro Forma Adjustments	Pro Forma Consolidated
Revenue	35,866	53,487	-	89,353
Income before taxes	2,713	5,461 (e)	1,717	9,891

## Essential Energy Services Trust

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2008 and for the three months ended March 31, 2008 and 2007

*(All \$ amounts expressed in thousands unless otherwise stated, except for per unit amounts)*

Accompanying notes to the unaudited pro forma summary consolidated financial information:

- a) The fair values ascribed to Builders' equipment is less than the net book value on Builders' financial statements as at March 31, 2008 in the amount of \$35.1 million.
- b) The fair values ascribed to Builders' intangibles and goodwill is less than the net book value on Builders' financial statements as at March 31, 2008 in the amount of \$13.4 million.
- c) The consideration issued to acquire Builders, excluding acquisition costs was as follows:

(\$ thousands)

Market value of Essential trust units issued	73,673
Fair value of Essential Replacement Options issued	342
	74,015

- d) Builders' unitholders' equity is eliminated upon acquisition.
- e) The fair values ascribed to Builders' equipment and intangibles are less than the values on Builders' financial statements as at March 31, 2008. As a result of these reductions in net book values, depreciation and amortization expense has been reduced by \$1.7 million, on a consistent basis with Builders' depreciation and amortization policies.
- f) The unaudited pro forma consolidated results, presented above, are preliminary in nature and subject to change.

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

### **Directors**

William M. Gallacher<sup>2</sup>, Chairman

Garnet K. Amundson

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

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

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

Jeffrey J. Scott<sup>1,2,3</sup>

1. Audit Committee

2. Compensation & Governance Committee

3. Health, Safety & Environment Committee

### **Corporate Secretary**

Karen Perasalo

### **Auditors**

Ernst & Young LLP

### **Bankers**

National Bank of Canada

Toronto Dominion Bank

Bank of Montreal

Canadian Western Bank

### **Legal Counsel**

Burnet, Duckworth & Palmer LLP

Heenan Blaikie LLP

### **Transfer Agent**

Olympia Trust Company

### **Officers**

Garnet K. Amundson  
President & Chief Executive Officer

John W. Nearing  
Chief Financial Officer

Ken A. Wagner  
Chief Operating Officer

Kevin W. Job  
VP Operations

Jeff B. Newman  
VP Finance

Don A. K. Webster  
VP Operations