

For Immediate Release: November 13, 2006

## ESSENTIAL RELEASES RECORD THIRD QUARTER FINANCIAL STATEMENTS, MD&A, AND COMMENTS ON TAXATION OF INCOME TRUSTS

**Calgary, Alberta** – (TSX: ESN.UN) Essential Energy Services Trust (“Essential”, or the “Trust”) is pleased to release the operational and financial results for the three and nine months ended September 30, 2006 and to announce it has filed the complete Management Discussion and Analysis and unaudited financial statements for the three and nine months ended September 30, 2006 on SEDAR. An electronic copy of these documents may be obtained on the Trust’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

These operational and financial results contain the results of the energy services division of Avenir Diversified Income Trust (“Avenir”, TSX: AVF.UN) for the periods prior to May 31, 2006. Essential was formed on May 31, 2006 as a spin out from Avenir which took place as a special distribution to unitholders of Avenir on the basis of one unit of Essential for every two units of Avenir.

### Third Quarter 2006 Financial Highlights

(Unaudited)	Three Months Ended September 30			Nine Months Ended September 30		
	2006	2005	% Change	2006	2005	% Change
<b>\$ thousands, except per unit amounts and margins</b>						
<b>Financial Results</b>						
Revenue	25,267	9,906	155%	63,517	20,733	206%
EBITDA <sup>1</sup>	6,972	3,545	92%	19,140	6,740	181%
EBITDA margin (%) <sup>1</sup>	27.6%	35.8%		30.1%	32.5%	
Net income	2,421	1,247	94%	7,135	2,523	182%
Net income margin (%)	9.6%	12.6%		11.2%	12.2%	
Funds from operations <sup>2</sup>	6,293	3,464	82%	17,787	6,591	170%
<b>Unit Information</b>						
Weighted average number of units outstanding – basic & diluted	27,217	n/a	n/a	27,198	n/a	n/a
Funds from operations per unit	0.23	n/a	n/a	0.65	n/a	n/a
Distributions per unit <sup>3</sup>	0.249	n/a	n/a	0.332	n/a	n/a
Earnings per unit – basic & diluted	0.09	n/a	n/a	0.26	n/a	n/a

<sup>1</sup> 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.

<sup>2</sup> 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, non-cash unit compensation expense and non-controlling interest.

EBITDA, funds from operations and funds from operations per unit 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 and funds from operations per unit 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>3</sup> The distributions per unit for the nine months ended September 30, 2006 reflects only four months of distributions from Essential due to its spin out from Avenir on May 31, 2006.

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

## Overview

The third quarter of 2006 saw Essential achieve significant milestones and record financial results which will set the stage for significant growth in a challenging environment. Year over year growth in revenue for the quarter increased by 155% over the comparable period while EBITDA increased 92% and net income increased by 94%. This marks nine consecutive quarters of growth since inception. "We are pleased with the results from the third quarter as this was a challenging period of integration following explosive growth and the initial spin out of Essential from Avenir," said James Burns, President and CEO. "We are now seeing the beginning of the typical winter season expansion of activity with better utilization and improved margins, particularly in our northern operations. The ongoing organic growth of Essential's fleet and the strong performance of the recent Jacar acquisition adds to our optimistic outlook for the winter months and beyond." Essential expected the distribution payout ratio in the third quarter to be high and anticipates a sharp drop in the payout ratio as business activity levels increase in the winter months of the fourth quarter of 2006 and first quarter of 2007. The payout ratio will decline to levels comparable to our peers at current industry activity levels as Essential's operations are focused on production services which helps to insulate the company from any drop in capital spending by our customers. The optimism for the winter is, however, tempered by the uncertainty created by the federal government's announcement on October 31, 2006 of their intent to change the tax treatment of income trusts. The Board of Directors and management of Essential are actively evaluating all strategies to ensure that unitholders realize the full value of the strong operations of Essential.

During the quarter, Essential expanded its Transport division in southern Alberta by purchasing all of the assets and business of Jacar Energy Services Partnership ("Jacar") from Jacar Hot Oil Service Ltd., a 72 unit fleet of tank trucks, pressure trucks, hot oilers and a chemical sales business operating out of 4 locations in southern Alberta. This acquisition, which only contributed to 12 days of operating results in the third quarter, is expected to exceed performance expectations as the operational synergies between Jacar and Richmond Energy Services L.P. ("Richmond") become apparent. The addition of Jacar significantly increases Essential's Transport division which now operates a full suite of services with its 183 revenue generating Transport units from northern BC and Alberta through central Alberta and into southern Alberta and Saskatchewan. The Transport division is now expected to contribute approximately 55% (previously 38%) of the revenue and EBITDA for Essential with the remaining 45% (previously 62%) contributed by the Rig division.

On the positive side, performance of the two service rig operations, Classic Well Servicing Partnership ("Classic") and Millard Oilfield Services Partnership ("Millard"), executed as expected for the quarter. Such performance allowed for implementation of a rig rate increase in October 2006. No fall in demand or utilization has been observed following these rate increases. The coil tubing operations at Kodiak Coil Tubing Limited Partnership ("Kodiak") and Endless Tubing Services Partnership ("Endless") saw slightly reduced revenue due to wet weather conditions, general industry slowdown and delays in equipment delivery, but managed to control costs and meet cash flow objectives. Our swabbing rig division, HK Well Service ("HK"), is in a highly competitive pricing environment for swabbing services in southern Alberta. Steady improvements to HK's operations will improve fourth quarter results. Operationally, we have moved the one rod rig that HK was operating into Cardinal Well Services Partnership ("Cardinal") resulting in improved utilization and margins.

On the challenges side, continued delays in the delivery of new equipment and repairs and upgrading of other equipment affected third quarter operating results which otherwise would have been even stronger. These equipment and repair delivery delays are a direct result from a booming western Canadian economy with chronic shortages of parts, equipment and skilled personnel. Cardinal has had three new rod rigs on order since early 2006. Delivery of the first unit occurred in late October with two more units scheduled to be delivered in November or early

December. Cardinal also had at least one rig out of service on a rotating basis throughout the third quarter for refurbishment, thereby reducing the operating fleet to only 8 units from the expected 12 rigs. Essential also saw its fleet throughout the third quarter at 8 or 9 coil tubing rigs rather than the 11 units that were expected for the quarter. The impact of these delays resulted in revenue which did not materialize and increased costs for the third quarter as these operating entities had staffed up with trained individuals and maintained higher staff levels in anticipation of larger equipment fleets. Having qualified personnel and increased staff levels to operate equipment despite the delay in equipment delivery was a conscious decision by management to absorb the short-term costs in this quarter than to face a shortage of qualified staff in our challenging labour market when the equipment does get delivered in the fourth quarter. Essential expects these delivery and repair delays to have only temporarily affected financial results and margins in the third quarter with improvements likely in the fourth quarter.

The third quarter also saw operational challenges in our northern and central Transport operations of Cascade Services Partnership ("Cascade") and Westvac Energy Services Partnership ("Westvac"). Utilization in the third quarter at Cascade fell by approximately 30% from our expectations, largely due to bad weather negatively affecting cash flow margins of a more remote fixed cost operation. The onset of colder weather in the fourth quarter is improving utilization and we expect another busy and profitable winter for Cascade. Westvac's operations generated revenue in line with our expectations. However, the integration of assets acquired in June including 4 rod rigs, a permanent 100 man camp, and several tank trucks proved more difficult than expected and resulted in temporarily increased operating and administrative costs that negatively impacted the cash flow contribution of the operation. These issues have been resolved by strengthening Westvac's management and placing management of the rod rigs under Cardinal which specializes in rod rigs. Higher utilization with improved margins is now being observed with these changes.

Overall Essential had a maximum of only 46 operational rigs at any one time during the third quarter. Including the expected decommissioning of one rod rig, the available rig fleet for the fourth quarter will total 61 units with improved utilization as is typical in the industry for the fourth quarter. Improving utilization and margins at Cascade and more effective cost control at Westvac will return these operations to expected cash flow contribution levels. Significant upgrading of the fleet through refurbishment, aggressive repair and maintenance programs, delivery of new equipment, more experienced management and improved systems are all contributing to improving performance and a strong outlook for the fourth quarter and into 2007.

## **Taxation on Income Trusts**

On October 31, 2006, the Minister of Finance announced its proposal to amend the *Income Tax Act* (Canada) to apply a Distribution Tax on distributions from publicly-traded income trusts. Under the proposal, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Minister of Finance issued a Notice of Ways and Means Motion to Amend the *Income Tax Act* and on November 7, 2006 obtained approval from Parliament to enact the proposal.

In simplified terms, under the proposed tax plan, income distributions will first be taxed at the trust level at a special rate estimated to be 31.5%. Income distributions to individual unitholders will then be treated as dividends from a Canadian corporation and eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free inter-corporate dividends. Tax-deferred accounts (RRSPs, RRIFs and Pension Plans) will continue to pay no tax on distributions. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they can take advantage of the dividend tax credit. However, as a result of the 31.5% Distribution Tax at the trust level, distributions to tax-deferred accounts will be reduced by approximately 31.5%, and distributions to non-residents will be reduced by approximately 26.5%.





## **ESSENTIAL ENERGY SERVICES TRUST MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2006**

This Management's Discussion & Analysis ("MD&A") was prepared as of November 1, 2006 and is provided to assist readers in understanding Essential Energy Services Trust's ("Essential" or the "Trust") financial performance for the third quarter ended September 30, 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 third quarter ended September 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 believe are reasonable. Actual results and developments may differ materially from the results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties as discussed throughout this MD&A. Certain of these risks and uncertainties are beyond our control. Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Trust. These forward-looking statements are made as of the date of this MD&A, and we assume no obligation to update or revise them to reflect subsequent information, events, or circumstances unless otherwise required by applicable securities legislation.

This MD&A also makes reference to certain non-GAAP financial measures to assist users in assessing the Trust's performance. Earnings before 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](http://www.sedar.com) or the Trust's website at [www.essentialenergy.ca](http://www.essentialenergy.ca).

## CORPORATE PROFILE

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

## METHOD OF ACCOUNTING

The Trust, as the successor in interest to Avenir Diversified Income Trust's Energy Services Division, has been accounted for using the continuity of interests method. The consolidated financial statements of the Trust for the three and nine months ended September 30, 2006 and comparables for the three and nine month periods ended September 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 September 30, 2005 as such information would not be meaningful.

## HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2006

- **Revenue**  
Revenue increased 155% to \$25.2 million for the third quarter.
- **Net Income**  
Net income increased 94% to \$2.4 million for the third quarter.
- **Funds From Operations**  
Funds from operations increased 82% to \$6.3 million for the third quarter.
- **Distributions to Essential Unitholders**  
Distributions in the third quarter were \$6.8 million.
- **Increase in Extendible Revolving Credit Facility from \$55.0 million to \$85.0 million**  
On August 31, 2006, the extendible revolving and term loan facilities were increased with a syndicate of two Canadian chartered banks from \$55.0 million to \$85.0 million.
- **Acquisition of Jacar Energy Services Partnership in September 2006**  
Effective September 18, 2006, Essential acquired the assets and business of Jacar Energy Services Partnership ("Jacar") from Jacar Hot Oil Service Ltd. Jacar is based in Taber, Alberta with operational bases in Medicine Hat, Taber, Pincher Creek and Cayley, Alberta. Jacar has a fleet of 72 revenue generating units including 6 hot oilers, 6 pressure trucks and 55 tank trucks and trailers and 5 acid shower units which provide a range of production services to oil and gas operators across southern Alberta and into southwest Saskatchewan. Jacar also provides chemicals such as methanol and KCl (potassium chloride) solution to the oil and gas industry and maintains facilities for mixing, storage and transport of these chemicals. Total consideration was approximately \$20.7 million consisting of \$15.6 million in cash and 544,053 units of the Trust. Transaction costs for the acquisition were approximately \$300,000.

## FINANCIAL HIGHLIGHTS

\$ thousands, except per unit amounts, margins and ratios	Three Months Ended September 30			Nine Months Ended September 30		
	2006	2005	% Change	2006	2005	% Change
<b>Financial Results</b>						
Revenue	25,267	9,906	155%	63,517	20,733	206%
EBITDA <sup>1</sup>	6,972	3,545	92%	19,140	6,740	181%
EBITDA margin (%) <sup>1</sup>	27.6%	35.8%	(9)%	30.1%	32.5%	(3)%
Net income	2,421	1,247	94%	7,135	2,523	182%
Net income margin (%)	9.6%	12.6%	(3)%	11.2%	12.2%	(1)%
Funds from operations <sup>2</sup>	6,293	3,464	82%	17,787	6,591	170%
<b>Financial Position and Liquidity</b>						
Working capital (excluding debt) <sup>3</sup>	6,143	n/a	n/a	6,143	n/a	n/a
Working capital ratio <sup>3</sup>	1.3:1	n/a	n/a	1.3:1	n/a	n/a
Funded debt (including current portion) <sup>4</sup>	64,252	n/a	n/a	64,252	n/a	n/a
Funded debt to equity ratio	0.5	n/a	n/a	0.5	n/a	n/a
<b>Unit Information</b>						
Number of units outstanding	27,713	n/a	n/a	27,713	n/a	n/a
Number of options outstanding	1,561	n/a	n/a	1,561	n/a	n/a
Weighted average number of units outstanding – basic & diluted	27,217	n/a	n/a	27,198	n/a	n/a
Funds from operations per unit	0.23	n/a	n/a	0.65	n/a	n/a
Distributions per unit <sup>5</sup>	0.249	n/a	n/a	0.332	n/a	n/a
Earnings per unit – basic & diluted	0.09	n/a	n/a	0.26	n/a	n/a
Unit price – September 30, 2006	8.27	n/a	n/a	8.27	n/a	n/a

<sup>1</sup> 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.

<sup>2</sup> 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, non-cash unit compensation expense and non-controlling interest.

<sup>3</sup> 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.

<sup>4</sup> Funded debt (including current portion) is calculated by taking bank indebtedness plus the current and long-term portions of the 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.

<sup>5</sup> The distributions per unit for the nine months ended September 30, 2006 reflects only four months of distributions from Essential due to its spin out from Avenir on May 31, 2006..

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 September 30, 2005 were those of Avenir Diversified Income Trust and would not be meaningful on a per unit basis to Essential unitholders.

## RECONCILIATION OF NON-GAAP MEASURES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<b>\$ thousands</b>				
<b>EBITDA</b>				
Net income	2,421	1,247	7,135	2,523
Depreciation and amortization	3,611	2,148	9,876	3,902
Interest on long-term debt and capital lease obligations	637	60	706	96
Short-term interest and bank fees	303	21	1,012	47
Non-controlling interest	-	69	411	172
<b>EBITDA</b>	<b>6,972</b>	<b>3,545</b>	<b>19,140</b>	<b>6,740</b>
<b>FUNDS FROM OPERATIONS</b>				
Net income	2,421	1,247	7,135	2,523
Gain on sale of property and equipment	(33)	-	(27)	(6)
Depreciation and amortization	3,611	2,148	9,876	3,902
Non-cash unit compensation	294	-	392	-
Non-controlling interest	-	69	411	172
<b>Funds from operations</b>	<b>6,293</b>	<b>3,464</b>	<b>17,787</b>	<b>6,591</b>

## FINANCIAL RESULTS

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
<b>\$ thousands, except per unit amounts and margins</b>				
Revenue by segment:				
Rigs	14,431	5,224	29,143	8,769
Transport	10,836	4,682	34,374	11,964
Total revenue	25,267	9,906	63,517	20,733
Operating expense by segment:				
Rigs	8,247	2,393	15,966	4,447
Transport	6,791	2,351	19,668	5,990
Total operating expense	15,038	4,744	35,634	10,437
General and administrative	2,963	1,617	8,351	3,556
Non-cash unit compensation	294	-	392	-
	18,295	6,361	44,377	13,993
EBITDA	6,972	3,545	19,140	6,740
EBITDA margin (%)	27.6%	35.8%	30.1%	32.5%
Short-term interest and bank fees	303	21	1,012	47
Interest on long-term debt and capital lease obligations	637	60	706	96
Depreciation and amortization	3,611	2,148	9,876	3,902
Non-controlling interest	-	69	411	172
	4,551	2,298	12,005	4,217
Net income	2,421	1,247	7,135	2,523
Net income margin (%)	9.6%	12.6%	11.2%	12.2%
Earnings per unit – basic & diluted	0.09	n/a	0.26	n/a

### Overview

The third quarter of 2006 saw Essential achieve significant milestones and record financial results which will set the stage for significant growth in a challenging environment. Year over year growth in revenue for the quarter increased by 155% over the comparable period while EBITDA increased 97% and net income increased by 94%. This marks nine consecutive quarters of growth since inception.

On the positive side, performance of the two service rig operations, Classic Well Servicing Partnership (“Classic”) and Millard Oilfield Services Partnership (“Millard”), executed as expected for the quarter. Such performance allowed for implementation of a rig rate increase in October 2006. No fall in demand or utilization has been observed following these rate increases. The coil tubing operations at Kodiak Coil Tubing Limited Partnership (“Kodiak”) and Endless Tubing Services Partnership (“Endless”) saw slightly reduced revenue due to wet weather conditions, general industry slowdown and delays in equipment delivery, but managed to control costs and meet cash flow objectives. The acquisition of Jacar in mid September 2006 is expected to exceed performance expectations but only contributed financially to the last 12 days of the third quarter. The synergies between Jacar and Richmond Energy Services L.P.’s (“Richmond”) operations are becoming apparent and greater integration of these two similar business units will enhance future operating results. Our swabbing rig division, HK Well Service (“HK”), is in a highly competitive pricing environment for swabbing services in southern Alberta. Steady improvements to HK’s operations will improve fourth quarter results. Operationally, we have moved the one rod rig that HK was operating into Cardinal Well Services Partnership (“Cardinal”) resulting in improved utilization and margins.

On the challenges side, continued delays in the delivery of new equipment and repairs and upgrading of other equipment affected third quarter operating results which otherwise would have been even stronger. These equipment and repair delivery delays are a direct result from a booming western Canadian economy with chronic shortages of parts, equipment and skilled personnel. Cardinal has had three new rod rigs on order since early 2006. Delivery of the first unit occurred in late October with two more units scheduled to be delivered in November or early December. Cardinal also had at least one rig out of service on a rotating basis throughout the third quarter for refurbishment thereby reducing the operating fleet to only 8 units from the expected 12 rigs. Endless also saw its fleet throughout the third quarter at 8 or 9 coil tubing rigs rather than the 11 units that were expected for the quarter. The impact of these delays resulted in revenue which did not materialize and increased costs for the third quarter as these operating entities had staffed up with trained individuals and maintained higher staff levels in anticipation of larger equipment fleets. Having qualified personnel and increased staff levels to operate equipment despite the delay in equipment delivery was a conscious decision by management to absorb the short-term costs in this quarter than to face a shortage of qualified staff in our challenging labour market when the equipment gets delivered in the fourth quarter.

The third quarter also saw operational challenges in our northern and central Transport operations of Cascade Services Partnership ("Cascade") and Westvac Energy Services Partnership ("Westvac"). Utilization in the third quarter at Cascade fell by approximately 30% from our expectations, largely due to bad weather negatively affecting cash flow margins of a more remote fixed cost operation. The onset of colder weather in the fourth quarter is improving utilization and we expect another busy and profitable winter for Cascade. Westvac's operations generated revenue in line with our expectations. However, the integration of assets acquired in June including four rod rigs, a permanent 100 man camp, and several tank trucks proved more difficult than expected and resulted in temporarily increased operating and administrative costs that negatively impacted the cash flow contribution of the operation. These issues have been resolved by strengthening Westvac's management and placing management of the rod rigs under Cardinal which specializes in rod rigs. Higher utilization with improved margins is now being observed with these changes.

Overall Essential had a maximum of only 46 operational rigs at any one time during the third quarter. Including the expected decommissioning of one rod rig, the available rig fleet for the fourth quarter will total 61 units with improved utilization as is typical in the industry for the fourth quarter. Improving utilization and margins at Cascade and more effective cost control at Westvac will return these operations to expected cash flow contribution levels. Significant upgrading of the fleet through refurbishment, aggressive repair and maintenance programs, delivery of new equipment, more experienced management and improved systems are all contributing to improving performance and a strong outlook for the fourth quarter and into 2007.

## **Taxation on Income Trusts**

On October 31, 2006, the Minister of Finance announced its proposal to amend the *Income Tax Act* (Canada) to apply a Distribution Tax on distributions from publicly-traded income trusts. Under the proposal, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Income Tax Act* and on November 7, 2006 obtained approval from Parliament to enact the proposal.

In simplified terms, under the proposed tax plan, income distributions will first be taxed at the trust level at a special rate estimated to be 31.5%. Income distributions to individual unitholders will then be treated as dividends from a Canadian corporation and eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free inter-corporate dividends. Tax-deferred accounts (RRSPs, RRIFs and Pension Plans) will continue to pay no tax on distributions. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they can take advantage of the dividend tax credit. However, as a result of the 31.5% Distribution Tax at the trust level, distributions to tax-deferred accounts will be reduced by approximately 31.5%, and distributions to non-residents will be reduced by approximately 26.5%.

Following the Minister's announcement, the market's reaction was immediate and significant, with a widespread sell-off across the entire trust sector that eliminated billions of dollars in unit holder value. Income

trusts comprise a significant portion of the public issuers in Canada, and trusts provide an important income stream for individuals, especially retirees and those planning retirement.

We encourage Essential's unitholders to read the full transcript of the government's plan at: [www.fin.gc.ca/news06/06-061e.html](http://www.fin.gc.ca/news06/06-061e.html) and consult with their personal financial and tax advisors regarding potential tax consequences based on their individual circumstances. Unitholders may also express their views directly to the Minister of Finance, whose contact information is available at [www.fin.gc.ca/admin/contact-e.html](http://www.fin.gc.ca/admin/contact-e.html).

Essential has joined with other energy income trusts to form the Coalition of Canadian Energy Trusts (the "Coalition") to lobby for changes to the proposed legislation. The Coalition includes the largest, most successful and most influential energy trusts in Canada. Essential will join with the Coalition to try and seek relief for our unitholders.

Given the four-year grace period before existing trusts will be taxed, Essential has an opportunity to examine its strategy, and if warranted, modify it to provide the best possible return for its unitholders. At the same time, Essential's investors have an opportunity to arrange their investments before 2011 to minimize the impact of the proposed tax changes on their portfolios. The long-term effect of the proposed tax changes is yet to be determined.

## **Revenue**

Revenue for the third quarter was \$25.3 million, up \$15.4 million or 155% from \$9.9 million in 2005. The increase in the Rigs segment of \$9.2 million was primarily due to the acquisitions of HK in the first quarter of 2006 and Kodiak and Classic in the second quarter of 2006 which added to the 2006 Rigs revenue compared to 2005. The Transport segment increased its revenues by \$6.2 million, reflecting the acquisition of Westvac in August 2005, Richmond in December 2005 and Jacar in September 2006. Overall the Rigs segment generated 57% and the Transport segment generated 43% of the total revenue as compared to 53% and 47% respectively, during the same period last year.

## **Operating Expenses**

Operating expenses for the third quarter increased by \$10.3 million or 217% to \$15.0 million, from \$4.7 million in 2005. Operating expenses in the Rigs segment increased \$5.9 million while the Transport segment increased \$4.4 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.

## **General and Administrative Expenses**

General and administrative ("G&A") expenses for the third quarter increased by \$1.3 million or 83% to \$3.0 million, from \$1.6 million in 2005. The increase in G&A expenses is consistent with the increase in the number of business units due to acquisitions from five in 2005 to ten in 2006. 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.

## **Non-cash Unit Compensation Expense**

Non-cash unit compensation expense relates to issued and outstanding stock options which amounted to \$294,000 in the third quarter of 2006 compared to \$nil in 2005.

## **EBITDA**

EBITDA for the third quarter was \$7.0 million, an increase of \$3.5 million or 100%, from \$3.5 million in 2005. This increase is a direct result of increased revenues derived from acquisitions. EBITDA margin decreases from 35.8% in 2005 to 27.6% in 2006 were mainly due to operational issues discussed above in the Overview section.

## Net Income

Net income for the third quarter was \$2.4 million, an increase of \$1.2 million or 100%, from \$1.2 million in 2005. Net income margin decreased from 12.6% in 2005 to 9.6% in the third quarter of 2006. This net income was positively affected by the earning generated by the acquisitions and by the longer life equipment that were acquired in the Kodiak and Classic transactions resulting in lower depreciation and amortization as a percentage of revenue from 21.6% in 2005 to 14.3% in 2006.

## SUMMARY OF QUARTERLY DATA

\$ thousands, except per unit amounts	2006				2005			
	September 2006	June 2006	March 2006	December 2005	September 2005	June 2005	March 2005	December 2004
Revenue	25,267	18,729	19,521	13,253	9,906	6,624	4,204	2,385
EBITDA <sup>1</sup>	6,972	4,800	7,368	3,611	3,545	1,684	1,511	746
Net income	2,421	1,651	3,063	1,003	1,247	412	864	270
Earnings per unit – basic & diluted <sup>2</sup>	0.09	0.06	n/a	n/a	n/a	n/a	n/a	n/a

<sup>1</sup> 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.

<sup>2</sup> 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	September 30, 2006	December 31, 2005
Current assets	24,515	12,927
Total assets	207,880	75,238
Bank indebtedness <sup>1</sup>	10,390	10,881
Current liabilities (excluding debt) <sup>2</sup>	18,372	13,830
Funded debt (including current portion) <sup>3</sup>	64,252	28,363
Total liabilities	72,234	32,367
Unitholders' equity	135,646	n/a
Investment from Avenir and accumulated earnings	n/a	42,871
Working capital (excluding debt) <sup>4</sup>	6,143	(909)
Working capital (excluding debt) ratio <sup>4</sup>	1.3:1	0.9:1
Funded debt to equity ratio	0.5:1	0.7:1

<sup>1</sup> Bank indebtedness represents the amount drawn on the extendible revolving loan facilities.

<sup>2</sup> Current liabilities (excluding debt) is calculated by taking current liabilities less current portions of revolving term loan facility included in current liabilities, non-controlling interest, capital lease obligations and long-term debt and Due to Avenir Diversified Income Trust.

<sup>3</sup> Funded debt (including current portion) is calculated by taking bank indebtedness plus current and long-term portions of capital lease obligations, and long-term debt (which includes revolving term loan facility), plus Due to Avenir Diversified Income Trust.

<sup>4</sup> 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 September 30, 2006 was \$6.1 million compared to \$(0.9) million on December 31, 2005. The increase of \$5.2 million in working capital (excluding debt) was due primarily to the acquisition of Kodiak, Classic and Jacar. The working capital (excluding debt) ratio of 1.3:1 indicates that Essential remains in a strong liquidity position to pay its debts as they become due.

## **Funded Debt**

On August 31, 2006, the Trust increased its credit facilities from \$55 million to \$85 million. The Trust now has an extendible revolving loan facility with a syndicate of two major Canadian banks in the amount of \$20,000,000 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 \$65,000,000 bearing interest at prime plus three-quarters of one percent for capital expenditures and acquisition purposes. As at September 30, 2006, \$10.4 million was drawn on the revolving loan facility and \$51.9 million was drawn on the revolving term loan facility resulting in current availability on the revolving loan facilities of \$13.1 million.

In addition to the above facilities the Trust also has approximately \$1.7 million of long term debt, comprised of various loans payable 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 third quarter including service fees was 7.2%.

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

## **Unitholders' Equity**

On September 18, 2006, Essential acquired Jacar and on September 29, 2006 Essential acquired various land and buildings in Saskatchewan using 570,827 units at a price of \$8.03 per unit for an increase to Essential's equity of \$4.6 million.

Total unitholders' capital following continuity of interests accounting at September 30, 2006 was \$147.1 million.

## **BUSINESS ACQUISITIONS**

The Trust pursued business acquisition opportunities during the third quarter as summarized below:

### **Jacar Energy Services Partnership**

On September 18, 2006, the Trust acquired 100% of the assets and business of Jacar Energy Services Partnership ("Jacar") from Jacar Hot Oil Service Ltd. of Taber, Alberta. Jacar provides a range of production services to oil and gas operators across southern Alberta and into southwest Saskatchewan. The purchase price of approximately \$17.5 million plus net working capital of \$2.5 million was paid for with 15.6 million of cash and the issuance of 544,053 Trust units at \$8.03 per unit. Transaction costs for the acquisition were approximately \$300,000.

## FUNDS FROM OPERATIONS AND DISTRIBUTIONS

\$ thousands, except per unit amounts	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net income	2,421	1,247	7,135	2,523
Non-controlling interest	-	69	411	172
Non-cash unit compensation expense	294	-	392	-
Depreciation and amortization	3,611	2,148	9,876	3,902
Loss (gain) on sale of property and equipment	(33)		(27)	(6)
Funds from operations	6,293	3,464	17,787	6,591
Distributions to unitholders	6,806	n/a	9,059	n/a

### Funds From Operations

Funds from operations for the third quarter increased \$2.8 million or 80% to \$6.3 million from \$3.5 million in 2005. The increase is a direct result of the contribution made to funds from operations due to the acquisitions of Westvac, Richmond, HK, Kodiak, Classic and Jacar.

### Distributions

The Trust made distributions to unitholders of \$6.8 million in the third quarter. The Manager of the Trust anticipates monthly cash distributions to continue at \$0.083 per Trust unit (\$0.996 per annum).

## 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	615
2007	2,001
2008	1,595
2009	1,239
2010 and beyond	1,096

### 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 \$5.2 million up to a maximum payment of \$18.0 million. 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 second and third quarter and higher fourth and first quarter activity; availability of skilled workers; ability to retain key customers; and the environmental and safety risks inherent in the business.

### **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. The third quarter saw 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.

On October 31, 2006, the Minister of Finance announced its proposal to amend the *Income Tax Act* (Canada) to apply a Distribution Tax on distributions from publicly-traded income trusts. Under the proposal, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Minister of Finance has issued a Notice of Ways and Means Motion to Amend the *Income Tax Act* and on November 7, 2006 obtained approval from Parliament to enact the proposal. In simplified terms, under the proposed tax plan, income distributions will first be taxed at the trust level at a special rate estimated to be 31.5%. Income distributions to individual unitholders will then be treated as dividends from a Canadian corporation and eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free inter-corporate dividends. Tax-deferred accounts (RRSPs, RRIFs and Pension Plans) will continue to pay no tax on distributions. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they can take advantage of the dividend tax credit. However, as a result of the 31.5% Distribution Tax at the trust level, distributions to tax-deferred accounts will be reduced by approximately 31.5%, and distributions to non-residents will be reduced by approximately 26.5%.

## **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 effect 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 will continue to organically expand our business in the fourth quarter of 2006 with planned growth capital expenditures. We continue to see and evaluate business opportunities and plan to remain active on the merger and acquisition front to create value for our unitholders. The effect that taxation of income trusts will have on activity levels in our energy industry remains largely uncertain at this time. However, we will continue to strive for sustainable distributions for our unitholders until our Trust becomes taxable in 2011. We anticipate improving results through the balance of the year and into the first quarter of 2007 as production related oilfield activity remains healthy.

## **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>2,3</sup>  
Chairman

Gary H. Dundas<sup>1,2</sup>

Dennis Balderston<sup>1,3</sup>

Jeffrey J. Scott<sup>1,4</sup>

Neil Mackenzie<sup>3,4</sup>

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**

James Burns, P. Geol., MBA<sup>2,4</sup>  
President & CEO

Duncan Au, CA, CFA  
VP Business Development & CFO

Ken Wagner  
VP Operations, Transport

Stuart King, CA  
Controller

**For further information:**

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T2P 0L4**

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**Website: [www.essentialenergy.ca](http://www.essentialenergy.ca)**

Unaudited Interim Consolidated Financial Statements

**Essential Energy Services Trust**

(Formerly the Energy Services Division of Avenir Diversified Income Trust)

September 30, 2006

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**CONSOLIDATED BALANCE SHEETS**

(unaudited)

(\$ in thousands)	September 30, 2006 \$	December 31, 2005 \$
<b>ASSETS [notes 7, 8 and 9]</b>		
<b>Current</b>		
Cash and cash equivalents	1,107	2,770
Accounts receivable and prepaid expenses [note 13]	22,186	9,997
Materials and supplies	1,222	160
	<b>24,515</b>	<b>12,927</b>
<b>Property and equipment [notes 3 and 4]</b>	<b>97,148</b>	<b>37,965</b>
<b>Intangibles [notes 3 and 5]</b>	<b>2,020</b>	<b>-</b>
<b>Goodwill [note 6]</b>	<b>84,197</b>	<b>24,346</b>
	<b>207,880</b>	<b>75,238</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness [note 7]	10,390	10,881
Accounts payable and accrued liabilities	5,682	2,955
Distributions payable	2,300	-
Due to non-controlling interest owner	-	44
Due to Avenir Diversified Income Trust	-	14,718
Current portion of capital lease obligations [note 8]	201	155
Current portion of long-term debt [note 9]	6,512	1,159
	<b>25,085</b>	<b>29,912</b>
<b>Capital lease obligations [note 8]</b>	<b>89</b>	<b>326</b>
<b>Long-term debt [note 9]</b>	<b>47,060</b>	<b>1,124</b>
<b>Non-controlling interest [note 10]</b>	<b>-</b>	<b>1,005</b>
	<b>72,234</b>	<b>32,367</b>
<b>Commitments and contingencies [note 14]</b>		
<b>Unitholders' equity</b>		
Unitholder capital [note 11]	147,060	-
Investment from Avenir Diversified Income Trust	-	45,564
Contributed surplus [note 12]	392	-
Accumulated earnings	11,121	3,986
Accumulated cash distributions to Avenir Diversified Income Trust	(13,868)	(6,679)
Accumulated cash distributions to unitholders	(9,059)	-
	<b>135,646</b>	<b>42,871</b>
	<b>207,880</b>	<b>75,238</b>

*See accompanying notes to the consolidated financial statements*

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**CONSOLIDATED STATEMENTS OF  
INCOME AND ACCUMULATED EARNINGS**

(unaudited)

(\$ in thousands)	For the			
	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	\$	\$	\$	\$
<b>REVENUE</b>				
Energy services revenue	25,234	9,906	63,490	20,727
Gain on sale of property and equipment	33	-	27	6
	<b>25,267</b>	9,906	<b>63,517</b>	20,733
<b>EXPENSES</b>				
Operating expenses	15,038	4,744	35,634	10,437
General and administrative	2,963	1,617	8,351	3,556
Non-cash unit compensation expense <i>[note 12]</i>	294	-	392	-
Short-term interest and bank fees	303	21	1,012	47
Interest on long-term debt and capital lease obligations	637	60	706	96
Depreciation and amortization	3,611	2,148	9,876	3,902
	<b>22,846</b>	8,590	<b>55,971</b>	18,038
Income before non-controlling interest	2,421	1,316	7,546	2,695
Non-controlling interest <i>[note 10]</i>	-	(69)	(411)	(172)
Net income for the period	2,421	1,247	7,135	2,523
Accumulated earnings, beginning of the period	8,700	461	3,986	461
Accumulated earnings, end of the period	<b>11,121</b>	1,708	<b>11,121</b>	2,984
Net income per unit <i>[note 11]</i>				
Basic and diluted	0.09	n/a	0.26	n/a

*See accompanying notes to the consolidated financial statements*

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

(\$ in thousands)	For the			
	Three months ended		Nine months ended	
	September 30, 2006 \$	September 30, 2005 \$	September 30, 2006 \$	September 30, 2005 \$
<b>OPERATING ACTIVITIES</b>				
Net income for the period	2,421	1,247	7,135	2,523
Add (deduct) non-cash items:				
Gain on sale of property and equipment	(33)	-	(27)	(6)
Depreciation and amortization	3,611	2,148	9,876	3,902
Non-cash unit compensation expense	294	-	392	-
Non-controlling interest	-	69	411	172
Funds from operations	6,293	3,464	17,787	6,591
Change in non-cash working capital	(3,478)	(771)	(3,366)	(1,590)
Cash provided by operating activities	2,815	2,693	14,421	5,001
<b>FINANCING ACTIVITIES</b>				
Distributions to Avenir Diversified Income Trust	-	(2,000)	(7,890)	(3,704)
Distributions to unitholders	(6,758)	-	(6,758)	-
Increase (decrease) in bank indebtedness	(28,300)	8,330	(491)	8,313
Investment by Avenir Diversified Income Trust	-	70	14,279	33,387
Repayments of capital lease obligations	(37)	-	(100)	-
Increase in long-term debt	52,065	35	52,130	233
Repayment of long-term debt	(281)	(1,840)	(4,303)	(2,246)
Change in non-cash working capital	-	-	-	-
Cash provided by financing activities	16,689	4,595	46,867	35,983
<b>INVESTING ACTIVITIES</b>				
Purchase of Eagle Oilfield Services Ltd.	-	-	-	(772)
Purchase of Jacar Energy Services <i>[note 3]</i>	(15,938)	-	(15,938)	-
Purchase of Kodiak Coil Tubing <i>[note 3]</i>	-	-	(13,417)	-
Purchase of Classic Well Servicing <i>[note 3]</i>	-	-	-	-
Purchase of Non controlling interests of Westvac, Cascade and Kodiak <i>[note 3]</i>	-	-	(618)	-
Purchase of Westvac Energy Services <i>[note 3]</i>	-	(4,923)	-	(4,923)
Purchase of Endless Tubing <i>[note 3]</i>	-	-	-	(11,179)
Purchase of Millard <i>[note 3]</i>	-	-	-	(7,776)
Purchase of Cardinal <i>[note 3]</i>	-	-	-	(7,419)
Purchase of property and equipment	(5,121)	(1,565)	(27,228)	(7,187)
Sale of property and equipment	359	41	908	41
Cost of formation of Essential Energy Services Trust	(606)	-	(4,834)	-
Change in non-controlling interest <i>[note 10]</i>	-	(89)	(524)	313
Changes in non-cash working capital	(386)	-	(1,300)	-
Cash used in investing activities	(21,692)	(6,536)	(62,951)	(38,902)
<b>Increase in cash and cash equivalents during the period</b>	<b>(2,188)</b>	<b>752</b>	<b>(1,663)</b>	<b>2,082</b>
Cash and cash equivalents, beginning of period	3,295	1,330	2,770	-
<b>Cash and cash equivalents, end of period</b>	<b>1,107</b>	<b>2,082</b>	<b>1,107</b>	<b>2,082</b>
<b>Cash interest paid</b>	<b>817</b>	<b>81</b>	<b>1,304</b>	<b>143</b>

*See accompanying notes to the consolidated financial statements*

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 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 September 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
- Richmond Energy Services L.P.
- Kodiak Coil Tubing Limited Partnership
- Classic Well Servicing Partnership
- Jacar Energy Services 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 dependent 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,

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

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 Division 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.

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**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%
Office equipment	Ranging from 20 to 30%
Building	4%

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

The Trusts 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 assets and liabilities from the reporting unit's net 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.

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**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.

On October 31, 2006, the Minister of Finance announced its proposal to amend the Income Tax Act (Canada) to apply a Distribution Tax on distributions from publicly-traded income trusts. Under the proposal, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Minister of Finance has issued a Notice of Ways and Means Motion to Amend the Income Tax Act and on November 7, 2006 obtained approval from Parliament to enact the proposal.

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**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) Jacar Energy Services Partnership**

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

Results from operations for Jacar 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:

	\$
<hr/>	
Calculation of purchase price:	
Cash consideration	15,638
Bank overdraft	386
Essential Trust units issued	4,369
Estimated transaction costs	300
	<hr/>
	20,693
<hr/>	
Allocation of purchase price:	
Non-cash working capital	2,735
Property and equipment	9,028
Intangible assets (customer relationships)	398
Goodwill	8,532
	<hr/>
	20,693
<hr/>	

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**b) Classic Well Servicing Partnership**

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

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:

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

**c) DRB-AV Partnership**

On May 31, 2006 as part of the Plan of Arrangement the Trust acquired 100% of the partnership units of DRB-AV Partnership (“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:

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

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**d) 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:

	\$
<hr/>	
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	3,391
Trust units issued for 10% of partnership units of Cascade	5,603
	<hr/>
	12,063
<hr/>	
Allocation of purchase price:	
Accounts payable	353
Non-controlling interests	1,470
Goodwill	10,240
	<hr/>
	12,063
	<hr/>

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**e) 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:

	\$
<hr/>	
Calculation of purchase price:	
Cash consideration	13,017
Avenir trust units issued	8,833
Estimated transaction costs	400
	<hr/> 22,250
<hr/>	
Allocation of purchase price:	
Non-cash working capital	3,196
Property and equipment	9,226
Intangible assets (customer relationships)	962
Goodwill	11,966
Long-term debt	(2,522)
Non-controlling interest	(578)
	<hr/> 22,250
<hr/>	

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**f) Westvac Energy Services**

On August 31, 2005 the Energy Services Division acquired a 90% partnership interest in Westvac Service Ltd. ("Westvac"), which provides production related services to the oil and gas industry, for net cash consideration of \$7,173. Transaction costs of the acquisition were approximately \$200. As part of the acquisition of Westvac an additional contingent amount was paid at four and half times of earnings before interest, taxes and depreciation for the twelve month period ending January 31, 2006 in excess of \$2,300. This amount totaled \$2,119.

Results from operations for Westvac are included in the Energy Services Division financial statements from the closing date of the acquisition. The transaction has been accounted for using the purchase method as follows:

	\$
<hr/>	
Calculation of purchase price:	
Cash consideration	4,723
Trust Units issued	2,250
Transaction costs	200
	<hr/> 7,173 <hr/>
Allocation of purchase price:	
Non-cash working capital	804
Property and equipment	4,674
Goodwill	4,956
Bank indebtedness	(387)
Due to Avenir Production Services Limited Partnership	(1,247)
Long-term debt	(1,385)
Subordinated debt	(192)
Non-controlling interest	(50)
	<hr/> 7,173 <hr/>

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**g) 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:

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

**h) Richmond Endless Tubing Services Ltd.**

On April 15, 2005 the Energy Services Division of Avenir acquired all of the issued and outstanding shares of Richmond 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:

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

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**i) 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:

	\$
<hr/>	
Calculation of purchase price:	
Cash consideration	7,782
Transaction costs	300
Less cash acquired	(306)
	<hr/>
	7,776
<hr/>	
Allocation of purchase price:	
Non-cash working capital	873
Property and equipment	6,903
	<hr/>
	7,776
<hr/>	

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**4. PROPERTY AND EQUIPMENT**

	<b>September 30, 2006</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
Automotive	5,060	3,497	1,563
Heavy automotive equipment	100,928	12,500	88,428
Equipment	3,165	526	2,639
Office equipment	459	81	378
Leasehold improvements	234	13	221
Land	227	-	227
Building	3,295	38	3,257
Assets under capital lease	473	189	284
Prospects and development	151	-	151
	<b>113,992</b>	<b>16,844</b>	<b>97,148</b>

	<b>December 31, 2005</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
	\$	\$	\$
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
	<b>44,850</b>	<b>6,885</b>	<b>37,965</b>

**5. INTANGIBLES**

	<b>September 30, 2006</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	\$	\$	\$
Customer relationships	2,197	177	2,020

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**6. GOODWILL**

	<b>Amount</b>
	<b>\$</b>
<b>Goodwill, December 31, 2005</b>	<b>24,346</b>
Kodiak acquisition (note 3)	11,966
Classic acquisition (note 3)	15,100
DRB-AV acquisition (note 3)	11,894
Non-controlling interest acquisitions (note 3)	10,240
Westvac acquisition contingency payment	2,119
Jacar acquisition (note 3)	8,532
<b>Goodwill, September 30, 2006</b>	<b>84,197</b>

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 which has been added to the value assigned to goodwill.

**7. BANK INDEBTEDNESS**

At September 30, 2006, the Trust has an extendible revolving loan facility with a major Canadian bank in the amount of \$20,000 bearing interest at prime plus one-half of one percent payable monthly. As at September 30, 2006, \$10,390 (December 31, 2005 -\$10,881) was drawn on the revolving loan facility.

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

The average effective interest rate on borrowings under the line for the three and nine months ended September 30, 2006 including services fees was 5.7% and 5.8%, respectively.

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**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 September 30, 2006 are as follows:

	\$
2006	43
2007	249
2008	17
Total minimum lease payments	309
Less amount representing interest	(19)
	290
Current portion of minimum lease payments	(201)
	<u>89</u>

In management's opinion, the fair value of these capital lease obligations subject to fixed rates of interest does 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 \$
Term acquisition loan facility	51,895
Various loans payable in monthly instalments with interest rates ranging from 0.00% to 10.95% , and maturities from July 2006 to November 2009	1,677
Current portion	(6,512)
	<u>47,060</u>

On May 31, 2006, the Trust entered into an agreement with a syndicate of two Canadian chartered banks comprised of an operating line of credit (note 7) and a term acquisition loan facility. Under this agreement, the term acquisition loan facility is limited to the lesser of \$65,000 or 60 percent of the unencumbered net tangible assets. The facility has no required principal repayments during the term and bears interest at the bank's prime rate plus 0.75 percent. The facility expires on May 30, 2007 and can be renewed, at the lender's option, for an additional 364-day period. If not renewed, the loan is repayable in equal monthly instalments over a three-year period. As a result, the portion of the term acquisition loan included in the current portion of long-term debt at September 30, 2006 is \$5,800 (\$ nil at December 31, 2005). The term acquisition loan facility is collateralized by a general security agreement and a general assignment of book debts.

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

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**

	<b>2006</b>
	<b>\$</b>
Opening non-controlling interest, January 1, 2006	<b>1,005</b>
Energy Services acquisitions (note 3e)	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 (note 3d)	(1,470)
<b>Closing non-controlling interest, September 30, 2006</b>	<b>-</b>

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**

<b>Trust Units</b>	<b>Number of Units</b>	<b>Amount \$</b>
<b>Balance December 31, 2005</b>	-	-
Units issued via plan of arrangement on May 31, 2006, net of Trust formation costs	27,142,250	142,476
Units issued on September 18 for acquisition of Jacar and Saskatchewan land and buildings	570,827	4,584
<b>Balance September 30, 2006</b>	<b>27,713,077</b>	<b>147,060</b>

Trust formation costs were \$4,834.

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

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**b) Net income per unit**

The Trust had a weighted average number of trust units outstanding of 27,216,706 for the three months ended September 30, 2006 and 27,198,397 for the period from May 31, 2006 to September 30, 2006 (three and nine months ended September 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 September 30, 2006, of 27,198,397. All options outstanding at September 30, 2006 are currently anti-dilutive.

**12. STOCK-BASED COMPENSATION**

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 September 30, 2006:

	Number of options outstanding	Weighted average grant date exercise price (\$)
Outstanding, December 31, 2005	-	-
Granted	1,618,200	9.92
Expired	(56,800)	-
Outstanding, September 30, 2006	1,561,400	9.92
Exercisable, September 30, 2006	-	-

The following table summarizes information about the unit options outstanding at September 30, 2006:

Grant date exercise price	Number of options outstanding	Weighted average remaining life (years)	Number of options exercisable
10.00	1,471,400	4.7	-
8.64	90,000	4.9	-
	1,561,400	4.7	-

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

The total value of stock-based compensation of \$3,461 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:

<b>Grant date exercise price</b>	
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 \$294 and \$392 respectively for both the three and nine months ended September 30, 2006 (three and nine months ended September 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 owners, due to Avenir Diversified Income Trust, capital lease obligations and long-term debt. Unless otherwise noted, as at September 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. Although a substantial portion of trade receivables is dependant upon the strength of the Canadian oil and gas industry, management considers credit risk to be minimal. Management routinely assesses the financial strength of customers, and monitors the exposure for credit losses.

Of the Trust's significant accounts receivable as at September 30, 2006, approximately 25.6% (December 31, 2005 – 17.3% due from one company) was due from two companies relating to sales in relation to trade accounts receivable.

**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 interest rate risk.

**Essential Energy Services Trust**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**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	615
2007	2,001
2008	1,595
2009	1,239
2010 & beyond	1,096
<b>Total</b>	<b>6,546</b>

**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. RELATED PARTY TRANSACTIONS**

The Trust entered into the following transaction with a related party which is recorded at the exchange amount:

- During the period ended September 30, 2006, the Trust paid \$215, through the issuance of 26,774 Trust units, to a corporation controlled by an officer of the Trust for land and buildings.

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

**16. 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 September 30, 2006 there were no inter-segment eliminations (September 30, 2005 – nil).

The following is selected financial information for each business segment:

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Revenue</b>				
Rigs	14,431	5,224	29,143	8,769
Transport	10,836	4,682	34,374	11,964
	<b>25,267</b>	<b>9,906</b>	<b>63,517</b>	<b>20,733</b>

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Operating expenses</b>				
Rigs	8,247	2,393	15,966	4,447
Transport	6,791	2,351	19,668	5,990
	<b>15,038</b>	<b>4,744</b>	<b>35,634</b>	<b>10,437</b>

	For the three months ended		For the nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Net Income</b>				
Rigs	3,331	793	5,252	1,241
Transport	1,535	536	5,797	1,364,
Corporate	(2,445)	(82)	(3,914)	(82)
	<b>2,421</b>	<b>1,247</b>	<b>7,135</b>	<b>2,523</b>

**Essential Energy Services Trust**  
**(Formerly the Energy Services Division of Avenir Diversified Income Trust)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As at and for the three and nine months ended September 30, 2006 (unaudited)  
(\$ in thousands)

	<b>Rigs</b>	<b>Transport</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Selected balance sheet items</b>				
Property and equipment	52,734	44,171	243	97,148
Intangibles	1,623	397	-	2,020
Goodwill	41,318	42,879	-	84,197
Total assets	23,182	7,924	176,774	207,880
Bank indebtedness	-	-	10,390	10,390
Long-term debt	-	1,677	51,895	53,572