Consolidated Financial Statements

Essential Energy Services Trust

December 31, 2009

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

Management has prepared Management's Discussion and Analysis ("MD&A"). The MD&A is based upon Essential Energy Services Trust's (the "Trust") financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2009 to December 31, 2008.

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

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

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

Signed "Garnet K. Amundson"

GARNET K. AMUNDSON
President and
Chief Executive Officer

Signed "Jeff B. Newman"

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

March 10, 2010

AUDITORS' REPORT

To the Unitholders of
Essential Energy Services Trust

We have audited the consolidated balance sheets of **Essential Energy Services Trust** as at December 31, 2009 and 2008, and the consolidated statements of operations, comprehensive loss and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Essential Energy Services Trust** as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Alberta
March 10, 2010

Chartered Accountants

ESSENTIAL ENERGY SERVICES TRUST
CONSOLIDATED BALANCE SHEETS

(Thousands)		**As at December 31, 2009**		As at December 31, 2008
Assets *(note 10)*				
Current assets				
Cash	**$**	**1,080**	$	-
Accounts receivable		**22,855**		33,140
Inventory *(note 5)*		**9,194**		8,570
Prepaid expenses and deposits		**1,897**		2,650
		35,026		44,360
Property and equipment *(note 6)*		**125,704**		142,464
Assets held for sale *(note 7)*		**1,215**		-
Intangible assets *(note 8)*		**3,853**		5,211
Future income tax asset *(note 15)*		**3,582**		-
	$	**169,380**	$	192,035
Liabilities				
Current liabilities				
Bank indebtedness	**$**	**-**	$	1,192
Accounts payable and accrued liabilities		**9,413**		13,972
Distributions payable *(note 14)*		**-**		898
Current portion of long-term debt *(note 10)*		**3,228**		3,468
		12,641		19,530
Long-term debt *(note 10)*		**13,372**		14,057
Future income tax liability *(note 15)*		**-**		3,624
		26,013		37,211
Commitments *(note 17)*				
Unitholders' Equity				
Unitholders' capital *(note 11)*		**265,573**		265,573
Contributed surplus *(note 12)*		**6,722**		5,508
Accumulated deficit		**(128,928)**		(116,257)
		143,367		154,824
	$	**169,380**	$	192,035

See accompanying notes to consolidated financial statements

On behalf of the Board:

Signed "Garnet K. Amundson"

Garnet K. Amundson
Director

Signed "James A. Banister"

James A. Banister
Director

ESSENTIAL ENERGY SERVICES TRUST
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND ACCUMULATED DEFICIT

(Thousands, except per unit amounts)	For the years ended December 31, **2009**	2008
Revenue	**$ 111,722**	$ 127,924
Operating expenses	**92,243**	98,132
	19,479	29,792
Expenses		
General and administrative	**9,458**	10,991
Unit-based compensation *(note 13)*	**1,214**	1,588
Depreciation and amortization *(notes 6 & 8)*	**20,156**	17,427
Interest on long-term debt *(note 10)*	**1,230**	2,861
Loss on disposal of assets	**4,107**	610
Loss from continuing operations before impairment of goodwill and income taxes	**(16,686)**	(3,685)
Impairment of goodwill *(note 9)*	**-**	17,902
Loss from continuing operations before income taxes	**(16,686)**	(21,587)
Income tax expense (recovery)		
Future *(note 15)*	**(7,206)**	1,856
Loss from continuing operations	**(9,480)**	(23,443)
Loss from discontinued operations - net of tax *(note 19)*	**-**	(4,373)
Gain on sale of discontinued operations - net of tax *(note 19)*	**-**	8,555
Earnings from discontinued operations	**-**	4,182
Net loss and comprehensive loss	**(9,480)**	(19,261)
Accumulated deficit, beginning of year	**(116,257)**	(79,341)
Distributions to unitholders *(note 14)*	**(3,191)**	(17,655)
Accumulated deficit, end of year	**$ (128,928)**	$ (116,257)
Loss per unit from continuing operations *(note 16)*		
Basic and diluted	**$ (0.16)**	$ (0.44)
Earnings per unit from discontinued operations *(note 16)*		
Basic and diluted	**$ -**	$ 0.08
Net loss per unit *(note 16)*		
Basic and diluted	**$ (0.16)**	$ (0.36)

See accompanying notes to consolidated financial statements

ESSENTIAL ENERGY SERVICES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)	For the years ended December 31, **2009**	2008
Operating activities:		
Loss from continuing operations	**$ (9,480)**	$ (23,443)
Items not affecting cash:		
Depreciation and amortization *(notes 6 & 8)*	**20,156**	17,427
Future income tax expense (recovery) *(note 15)*	**(7,206)**	1,856
Unit-based compensation *(note 13)*	**1,214**	1,588
Impairment of goodwill *(note 9)*	**-**	17,902
Loss on disposal of assets	**4,107**	610
Funds flow from continuing operations	**8,791**	15,940
Funds flow from discontinued operations	**-**	47
	8,791	15,987
Changes in non-cash working capital	**6,317**	21,196
	15,108	37,183
Financing activities:		
Units repurchased for cancellation *(note 11 (iii))*	**-**	(423)
Distributions paid	**(4,089)**	(18,521)
Decrease in operating line of credit	**-**	(13,216)
Decrease in long-term debt	**(2,117)**	(119,143)
	(6,206)	(151,303)
Investing activities:		
Property and equipment	**(7,833)**	(13,969)
Proceeds on disposal of equipment	**473**	1,619
Decrease in assets held for sale	**-**	1,983
Business acquisitions *(note 18)*	**-**	(8,004)
Proceeds on disposal of discontinued operations *(note 19)*	**-**	133,029
Changes in non-cash working capital	**(462)**	(538)
	(7,822)	114,120
Change in cash	**1,080**	-
Cash, beginning of the year	**-**	-
Cash, end of the year	**$ 1,080**	$ -
Supplementary cash flow information:		
Interest paid	**$ 861**	$ 4,293

See accompanying notes to consolidated financial statements

ESSENTIAL ENERGY SERVICES TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2009 and 2008
(All tabular amounts in thousands unless otherwise stated, except for per unit amounts)

1. NATURE OF THE ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

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

b) Principles of consolidation

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

c) Financial instruments

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

d) Property and equipment

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

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

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

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

e) Inventory

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

f) Capital lease obligations

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

g) Intangible assets

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

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

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

h) Impairment of long-lived assets

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

i) Goodwill

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

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

j) Income taxes

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

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

k) Revenue recognition

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

l) Unit-based compensation

Options to purchase Trust units granted under the Unit Option Plan are described further in Note 13 of these consolidated financial statements. At the time of issuance, the Trust uses the Black-Scholes options pricing model to determine the fair value of the options grant. The fair value is recorded as unit-based compensation in the consolidated statement of operations over the vesting period of the options, with a corresponding increase in contributed surplus. Forfeitures of unvested options are recorded as a reduction of unit-based compensation in the period of forfeiture.

m) Per unit amounts

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

n) Measurement uncertainty

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

3. ADOPTION OF NEW ACCOUNTING POLICIES

During the year ended December 31, 2009, Essential adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 3064 "Goodwill and Intangible Assets", Handbook Section 3862 "Financial Instruments — Disclosures" and EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities".

Goodwill and Intangible Assets
This section establishes the standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. This standard has been adopted effective January 1, 2009. Essential has assessed the impact of this standard and noted no impact to its intangible assets.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities
This EIC impacts the application of Section 3855 "Financial Instruments – Recognition and Measurement". This EIC outlines the inclusion of an entity's credit risk and the credit risk of counterparties in the determination of fair value of financial assets and liabilities. The treatment outlined in this EIC is to be applied retroactively without restatement effective January 20, 2009. This standard was adopted effective January 20, 2009. The Trust has assessed the impact of this standard and noted no impact to its consolidated financial statements.

Financial Instruments — Disclosures
This section outlines the criteria under which the fair value of financial instruments is recognized and measured. In June 2009, the CICA issued amendments to Section 3862. The standard expands disclosure requirements regarding the reliability of the inputs used in the measurement of financial instruments. The section has also been amended to require disclosure of the three levels of fair value hierarchy for the recognized financial instruments as well as additional liquidity disclosures. The amendments outlined in this standard apply to annual financial statements relating to fiscal years ending after September 30, 2009. This standard has been adopted effective December 31, 2009. The Trust has assessed the impact of this standard and noted no impact to its financial statements.

4. FUTURE ACCOUNTING POLICIES

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

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

There may be significant changes arising from the differences between the Trust's current accounting policies and its accounting policies under IFRS. Based on the work completed to date, management has determined that IFRS may have a significant impact on the Trust's accounting for property and equipment and unit based compensation. In addition, the Trust also anticipates that its policies with respect to financial statement presentation, lease accounting and various other items will change as a result of adopting IFRS. The areas impacted by IFRS discussed above should not be regarded as a comprehensive list of changes that will result from the transition to IFRS.

The impact of IFRS on the Consolidated Financial Statements is not quantifiable at this time.

CICA Handbook Sections 1582 – Business Combinations; 1601 – Consolidated Financial Statements; and 1602 – Non-controlling Interest
These standards are to be adopted prospectively for fiscal years beginning on or after January 1, 2011 and early adoption is permitted. These standards provide the Canadian equivalent to IFRS standards. The Trust has assessed the impact of this standard and noted no impact to its consolidated financial statements.

5. INVENTORY

	As at December 31, 2009	As at December 31, 2008
Downhole service tools	$ 7,848	$ 6,644
Coil tubing and wireline products	1,346	1,926
	$ 9,194	$ 8,570

Inventory is valued at the lower of cost and estimated net realizable value. For the years ended December 31, 2009 and December 31, 2008 inventory expensed through operating expenses was $9.8 million and $3.9 million, respectively. Amounts recorded in operating expenses to write down inventory to net realizable value was $nil for the year ended December 31, 2009 compared to $0.4 million for the year ended December 31, 2008.

6. PROPERTY AND EQUIPMENT

As at December 31, 2009	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Well servicing rigs and equipment	**$ 132,873**	**$ 37,543**	**$ 95,330**
Oilfield equipment	**30,414**	**8,518**	**21,896**
Vehicles	**5,866**	**2,547**	**3,319**
Other	**7,113**	**1,954**	**5,159**
	$ 176,266	**$ 50,562**	**$ 125,704**

As at December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Well servicing rigs and equipment	$ 142,560	$ 29,495	$ 113,065
Oilfield equipment	24,469	3,491	20,978
Vehicles	5,488	1,409	4,079
Other	5,235	893	4,342
	$ 177,752	$ 35,288	$ 142,464

Depreciation expense for the year ended December 31, 2009 was $18.8 million (2008 - $15.9 million).

Included in service rigs and equipment and oilfield equipment is $1.1 million (2008 - $7.1 million) of assets under construction which are not depreciated until put into use.

7. ASSETS HELD FOR SALE

During the year ended December 31, 2009 the Trust completed a review of its equipment fleet to assess the operational use and condition of its asset base. As a result of this assessment, management plans to sell certain pieces of equipment due to age, use or future business plans of the Trust. The Trust expects that the majority of these assets will be disposed of in a reasonable period of time for estimated proceeds of $1.2 million. The net book value of these assets was $4.6 million which gave rise to a loss of $3.4 million that was recognized during the year and included on the Consolidated Statement of Operations under the caption “Loss on disposal of assets”.

8. INTANGIBLE ASSETS

As at December 31, 2009	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 5,464**	**$ 2,118**	**$ 3,346**
Favourable leases	**576**	**228**	**348**
Trade names	**382**	**223**	**159**
	$ 6,422	**$ 2,569**	**$ 3,853**

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

Amortization expense for the year ended December 31, 2009 was $1.4 million (2008 - $1.5 million).

9. GOODWILL

	For the years ended December 31, **2009**	2008
Balance, beginning of the year	**$ -**	$ 17,902
Goodwill impairment	**-**	(17,902)
Balance, end of the year	**$ -**	$ -

The Trust completed its annual goodwill impairment test as of December 31, 2008 by comparing the carrying amount of the Well Servicing reporting unit to its estimated fair value. Based on these estimates, the Trust determined that there were indications of impairment in the Well Servicing reporting unit as the carrying value exceeded its estimated fair value.

As a result of the indications of impairment in the Well Servicing reporting unit, the estimated fair value of goodwill was compared to its carrying value. The result of this comparison indicated the fair value of goodwill was $nil, and accordingly management recorded goodwill impairment in the Well Servicing reporting unit of $17.9 million as at December 31, 2008. Subsequent to the recognition of this impairment on goodwill, the Trust no longer has any goodwill recorded on its consolidated balance sheet.

10. LONG-TERM DEBT

	As at December 31, 2009	As at December 31, 2008
Term loan	**16,600**	17,525
Less: current portion of long-term debt	**(3,228)**	(3,468)
	$ 13,372	$ 14,057

The Trust's credit agreement with its banking syndicate is comprised of an extendible revolving loan facility (the "Facility") limited to the lesser of $50.0 million or the sum of 75% of the Trust's accounts receivables less specific items (the "Borrowing Base") and 60% of the Trust's carrying value of property and equipment less Term Debt as defined in the Facility agreement. The Borrowing Base must be at least 20% of the Facility; otherwise the Facility is reduced by the amount of any shortfall. In addition, the Facility includes a $25 million accordion feature that may be exercised at a future date, subject to certain terms and conditions. The Facility has no required principal repayments until expiry and bears interest that fluctuates with the bank's prime rate or bankers' acceptance rate plus a margin based on financial covenants.

The Facility expires on May 30, 2010 and can be renewed upon request by the Trust, at the syndicate's option, for an additional 364-day period and is collateralized by a general security agreement over all assets. If not renewed, debt repayments would be made monthly over a two year period, based on a three year amortization schedule.

As at December 31, 2009, all financial debt covenants were satisfied and all banking requirements were up to date. A maximum of $50 million was available to the Trust as at December 31, 2009.

The average effective interest rate on borrowings under the Facility for the year ended December 31, 2009 was 3.3% (2008 – 5.7%).

11. UNITHOLDERS' CAPITAL

Authorized

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

Issued

	Number of Units		Amount
Balance, December 31, 2007	35,268	$	192,041
Units issued on a private transport acquisition (i)	365		1,325
Units issued on Builders acquisition (ii)	24,640		74,070
Unit buybacks (iii)	(420)		(1,863)
Balance, December 31, 2008 and 2009	59,853	$	265,573

(i) On March 1, 2008, the Trust issued 365,064 units at $3.63 per unit to the vendors of a private transport company (note 18).

(ii) On April 4, 2008, the Trust issued 24,639,825 units at $2.99 per unit to the unitholders of Builders (note 18).

(iii) On October 29, 2008 the Trust received approval from the Toronto Stock Exchange ("TSX") to implement a Normal Course Issuer Bid ("NCIB") commencing on October 31, 2008 and terminating on October 30, 2009. Purchases were made at the discretion of management at prevailing market prices, through the facilities of the TSX. As at December 31, 2008, a total of 419,900 units were acquired and cancelled under the NCIB at a cost of $422,833 and a total of $1,440,301 was transferred to contributed surplus upon the share cancellations. The NCIB continued until October 30, 2009 but was not renewed at that time.

12. CONTRIBUTED SURPLUS

		As at December 31, 2009		As at December 31, 2008
Balance, beginning of year	**$**	**5,508**	$	2,480
Unit-based compensation *(note 13)*		**1,214**		1,588
Normal course issuer bid *(note 11 (iii))*		**-**		1,440
Balance, end of year	**$**	**6,722**	$	5,508

13. TRUST UNIT OPTIONS AND UNIT-BASED COMPENSATION

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

The maximum number of Trust unit options issuable under the Option Plan may not exceed 10% of the sum of the Trust's outstanding Trust units, which at December 31, 2009 totaled 5,985,297 (2008 – 5,985,297) Trust unit options.

	For the years ended December 31, 2009		2008	
	Trust Unit Options	**Weighted Average Exercise Price**	Trust Unit Options	Weighted Average Exercise Price
Outstanding, beginning of year	**4,758**	**$ 4.01**	2,494	$ 7.82
Issued	**557**	**1.02**	4,707	3.81
Forfeitures	**(578)**	**5.38**	(2,443)	7.77
Outstanding, end of year	**4,737**	**$ 3.49**	4,758	$ 4.01
Exercisable, end of year	**2,147**	**$ 5.25**	1,147	$ 7.75

The Trust recorded unit-based compensation expense in respect of the Option Plan of $1.2 million for the year ended December 31, 2009 (2008 - $1.6 million) with a corresponding increase to contributed surplus.

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

	For the years ended December 31, **2009**	2008
Risk-free interest rate	**2.01% – 2.66%**	2.15% – 3.42%
Expected volatility	**74%**	52.6% – 63.6%
Expected term	**5 years**	1.8 – 5 years
Distribution yield	**nil**	nil

The following tables summarize information about the Trust unit options outstanding as at December 31, 2009 and 2008:

As at December 31, 2009

Exercise Prices	**Trust Unit Options Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Fair Value of Trust Unit Options (per unit)**	**Number of options exercisable**
$0.84 – $1.50	**1,769**	**4.13**	**$0.68**	**412**
$1.51 – $4.00	**1,744**	**3.49**	**$1.25**	**616**
$4.01 – $15.54	**1,224**	**1.13**	**$1.61**	**1,119**
	4,737	**3.12**	**$1.13**	**2,147**

As at December 31, 2008

Exercise Prices	Trust Unit Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Fair Value of Trust Unit Options (per unit)	Number of options exercisable
$1.06 – $1.50	1,310	4.94	$0.74	-
$1.51 – $4.00	1,881	4.49	$1.25	34
$4.01 – $15.54	1,567	2.16	$1.69	1,113
	4,758	3.85	$1.26	1,147

14. ACCUMULATED DISTRIBUTIONS AND DISTRIBUTIONS PAYABLE

During 2008 and the first quarter of 2009, the Trust declared monthly distributions to Unitholders of record as at the close of business on each Distribution Record Date. For the three month periods ended June 30, 2009 and September 30, 2009 the Trust paid quarterly distributions. The Trust eliminated its distributions during the three months ended December 31, 2009. Distributions are recorded as reductions of Unitholders' equity upon declaration of the distribution.

	For the years ended December 31, **2009**	2008
Accumulated distributions, beginning of the year	**$ 63,694**	$ 46,039
Distributions declared and paid in the year	**3,191**	16,757
Distributions declared and payable	**-**	898
Accumulated distributions for the year	**3,191**	17,655
Accumulated distributions, end of year	**$ 66,885**	$ 63,694

15. INCOME TAXES

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

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

	For the years ended December 31, **2009**	2008
Loss from continuing operations before income taxes	**$ (16,686)**	$ (21,587)
Effective tax rate	**0%**	0%
Expected income tax expense	**$ -**	$ -
Increase (decrease) resulting from:		
Changes in temporary differences	**(7,909)**	1,606
Valuation allowance	**703**	250
Future income tax expense (recovery)	**$ (7,206)**	$ 1,856

The future income tax asset (liability) consists of temporary differences between the carrying values for accounting versus tax:

	As at December 31, 2009	As at December 31, 2008
Tangible assets	**$ (657)**	$ (8,117)
Net operating losses	**3,008**	2,015
Goodwill/ Intangible assets	**2,657**	3,134
Trust unit issuance costs	**471**	372
Valuation allowance	**(953)**	(250)
Other	**(944)**	(778)
Future income tax asset (liability)	**$ 3,582**	$ (3,624)

As at December 31, 2009, the Trust has non-capital losses totaling $12.0M (2008 - $7.2M). These losses, which can be used to reduce future taxable income, expire as follows: $0.2M in 2026, $7.3M in 2027, $2.4M in 2028 and $2.1M in 2029. Included in the future income tax asset is $3.0M (2008 - $2.0M) related to these losses against which a valuation allowance of $1.0M (2008 – $0.3M) was recorded.

16. PER UNIT AMOUNTS

The weighted average number of units outstanding for the year ended December 31, 2009 was 59,852,965 (2008 – 53,859,084). For the year ended December 31, 2009 and 2008, options convertible to units are not included in the per unit calculation as their effect is anti-dilutive.

17. COMMITMENTS

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

		Amount
For the year ended:		
2010	$	4,601
2011		3,415
2012		2,365
2013		1,443
2014		687
Thereafter		1,178
	$	13,689

18. ACQUISITIONS

2008

a) Builders Energy Services Trust

On January 31, 2008, Essential entered into an agreement (the "Agreement") with Builders Energy Services Trust ("Builders") to merge the two trusts. The closing date of the transaction was on April 4, 2008 (the "Closing Date"). Each Builders unit was exchanged for 1.25 trust units of Essential ("Essential Units") resulting in the issuance of 24,639,825 Essential Units. The market value of the Essential Units issued was determined based on the weighted average trading value of the Essential Units for the three day trading periods immediately prior to and immediately after the date of the Agreement. In addition to the Essential Units issued, certain Builders options were exchanged for replacement options providing the holder with the right to acquire 1.25 Essential Units for each Builders option exercised ("Essential Replacement Options") resulting in the issuance of 1,214,208 Essential Replacement Options. The fair value of the Essential Replacement Options issued was determined based on the market values and historical volatility of Essential Units, the remaining contractual life of the Essential Replacement Options and the market risk-free interest rates as of the date of the Agreement (see note 13).

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

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

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

b) Other

On March 1, 2008 the Trust acquired all of the assets and business of a private transport company ("A&B") for total consideration of $1.4 million, including transaction costs of $50,000 and the issuance of 365,064 Essential Units at $3.63 per unit. These assets were sold with Essential's Transport business segment on July 2, 2008 (note 19).

19. DISCONTINUED OPERATIONS

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

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

		For the year ended December 31, 2008
Revenue	$	38,472
Expenses		
Operating		30,590
General and administrative		6,396
Interest and bank charges		1,496
Depreciation and amortization		4,377
Loss before income taxes		(4,387)
Future income tax recovery		(14)
Loss from discontinued operations	$	(4,373)

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

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

20. CAPITAL DISCLOSURE

The Trust considers its capital structure to include unitholders' equity, long-term debt and working capital. The Trust makes adjustments to its capital structure based on changes in economic conditions and the Trust's planned requirements. The Trust has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to unitholders, and making adjustments to its capital expenditure program. The Trust is subject to externally imposed capital requirements associated with its debt facility, including financial covenants that incorporate funded debt, EBITDA (as defined by the Facility agreement) and total capitalization. As at December 31, 2009, the Trust is in good standing with respect to these covenants.

21. FINANCIAL INSTRUMENTS

a) Designation and valuation of financial instruments

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

The fair value of a financial instrument is the amount that would be agreed to in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. Fair value can be determined by reference to prices in active markets to which the Trust has access. In the absence of active markets, the Trust determines fair value based on market or by reference to other similar products.

The carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their estimated fair values due to their short terms to maturity. The fair-value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates and due to the relative short term to maturity.

b) Risks

Exposure to credit risk and interest rate risk arises in the normal course of the Trust's business. The Trust currently does not use derivative financial instruments to reduce exposure to fluctuations in any of the risks impacting the Trust's operations.

(i) Credit risk

As at December 31, 2009, accounts receivable are aged as follows: 47% - current; 36% - 31-60 days; 9% - 61-90 days; and 8% - over 90 days (2008 - 40% - current; 35% - 31-60 days; 16% - 61-90 days; and 9% - over 90 days). The Trust utilizes an allowance for doubtful accounts, based on specific receivables, to record potential credit losses associated with its trade receivables. As at December 31, 2009, the Trust's allowance for doubtful accounts is $0.7 million (2008 - $0.6 million) and for the year then ended had a bad debt expense of $0.1 million (2008 - $0.4 million). As at December 31, 2009, approximately 21% of the total accounts receivable balance was due from five companies (2008 – 28%).

(ii) Interest rate risk

If interest rates on the floating instrument were to change by 1%, it is estimated that annual net earnings would change by $0.1 million assuming all other variables remain the same.

(iii) Liquidity risk

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

22. SEGMENTED INFORMATION

The Trust has two operating segments, Well Servicing and Wireline & Rentals, and a non-operating segment, Corporate.

a) Well Servicing

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

b) Wireline & Rentals

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

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

	As at and for the year ended December 31, 2009			
	Well Servicing	**Wireline & Rentals**	**Corporate**	**Consolidated**
Revenue	**$ 72,415**	**$ 39,307**	**$ -**	**$ 111,722**
Earnings (loss) from continuing operations before income taxes	**$ (8,239)**	**$ 1,716**	**$ (10,163)**	**$ (16,686)**
Depreciation and amortization	**$ 13,579**	**$ 5,829**	**$ 748**	**$ 20,156**
Total assets	**$ 119,444**	**$ 43,410**	**$ 6,526**	**$ 169,380**
Assets held for sale	**$ 1,215**	**$ -**	**$ -**	**$ 1,215**
Equipment expenditures	**$ 5,641**	**$ 1,370**	**$ 822**	**$ 7,833**

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

23. COMPARATIVE AMOUNTS

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

24. SUBSEQUENT EVENT

The Trust anticipates seeking approval from its unitholders, in conjunction with its 2010 annual general meeting, to complete the conversion to an energy services corporation (the "Conversion"). The Trust expects to complete the Conversion prior to April 30, 2010 pursuant to a Plan of Arrangement under the Business Corporations Act (Alberta).