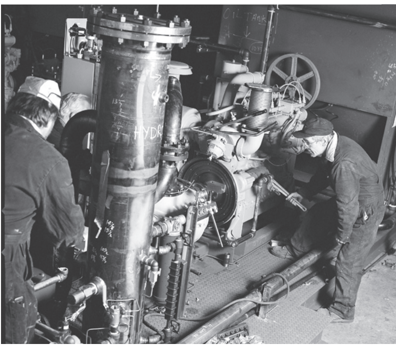
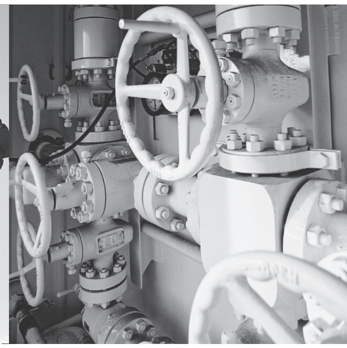




FOCUS DISCIPLINE GROWTH

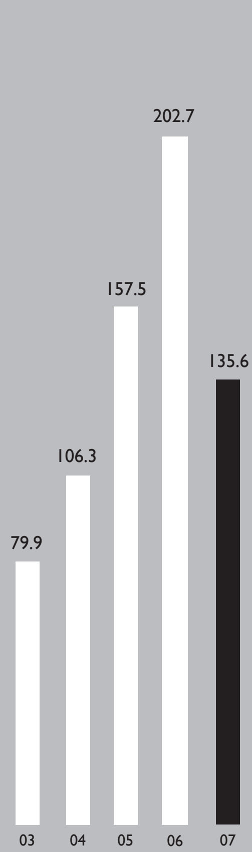
Annual Report 2007

TOTAL ENERGY SERVICES TRUST

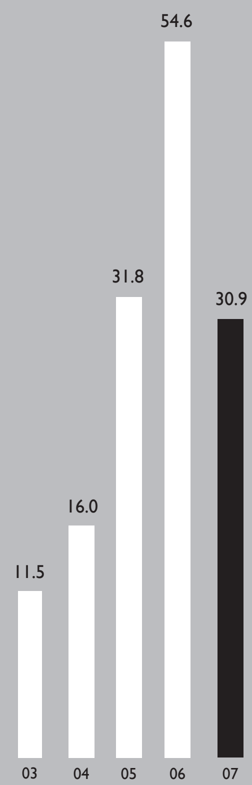
Total Energy Services Trust ("Total Energy" or the "Trust") is a growth oriented energy services income trust based in Calgary, Alberta. Through its wholly-owned subsidiaries, Total Energy is involved in two core business sectors. The first is DRILLING SERVICES comprised of contract drilling and the rental and transportation of equipment used in the drilling and production of oil and natural gas wells. The second is PRODUCTION SERVICES consisting of the fabrication, sale, rental and servicing of new and used natural gas compression equipment. Together these businesses provide a platform for building long-term unitholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth.

The trust units of Total Energy are listed and trade on the Toronto Stock Exchange under the symbol TOT.UN.

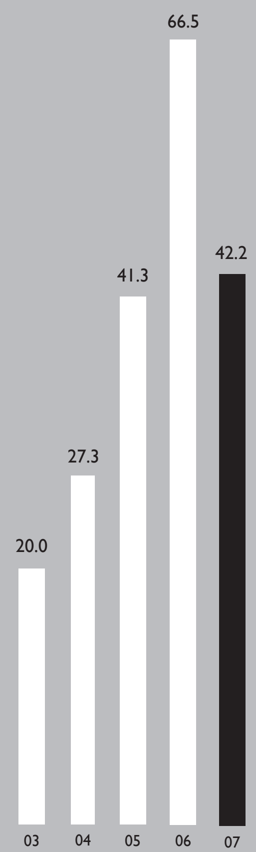
FINANCIAL HIGHLIGHTS



Revenues
(in millions of dollars)



Net Earnings
(in millions of dollars)



Cash Flow (1)
(in millions of dollars)

(1) Cash Flow means cash provided by operations before changes in non-cash working capital items.

REPORT TO UNITHOLDERS

2007 was a challenging year for energy services firms operating in Western Canada. Continued natural gas price weakness, uncertainty surrounding government royalty changes on certain oil and natural gas production in Alberta, a high Canadian dollar and increased Canadian service industry capacity all contributed to a difficult business environment.

Our Contract Drilling Services and Drilling and Production Rentals divisions experienced reduced demand for their services in 2007 compared to 2006. In an attempt to increase our exposure to oil drilling and production activity, during 2007 our Drilling and Production Rentals division established branches in northeastern Alberta and southeastern Saskatchewan. Our Gas Compression Services division also witnessed weaker industry activity levels in Western Canada but was able to offset this somewhat with international sales.

Total Energy has maintained a disciplined approach to growing its business. During the robust industry conditions experienced during 2005 and the first half of 2006, Total Energy's focus was on internal growth and building its balance sheet strength through a disciplined approach to capital expenditures and distributions. As such, Total Energy's balance sheet remains very strong and provides significant financial flexibility. At year-end, Total Energy had less than $8.0 million of net debt (being long term debt plus obligations under capital leases minus working capital) and total assets of almost $229 million. During 2007, Total Energy simplified its capital structure through the redemption of all exchangeable shares on June 6, 2007. As well, through purchases made under Total Energy's normal course issuer bid during 2007, the number of Trust Units outstanding at December 31, 2007 was reduced by almost 400,000 to 29.5 million.

LOOKING FORWARD

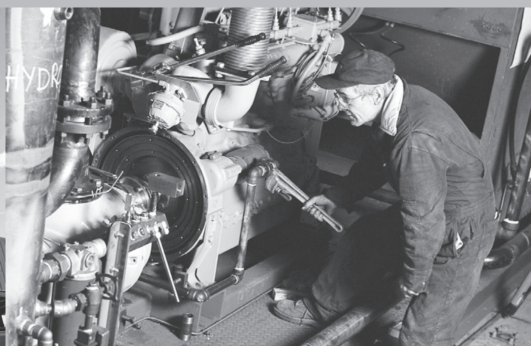
While drilling activity has increased during the seasonally strong first quarter of 2008, the business environment in which Total Energy operates remains challenging and uncertain due to several factors including concern over general economic conditions particularly in the United States, continued uncertainty surrounding natural gas prices and the impact of government royalty changes in Alberta and increased Canadian service industry capacity. However, strong oil prices and substantial declines in Western Canadian natural gas production over the past year give cause for optimism. As well, while current industry conditions present operational challenges, they also give rise to opportunities. During 2008 Total Energy will be focused on capitalizing on such opportunities to the extent possible with a view to building long term value for our owners.

On behalf of the board of directors and management, I would like to thank all of our employees for their continued hard work and commitment to the success of our organization.

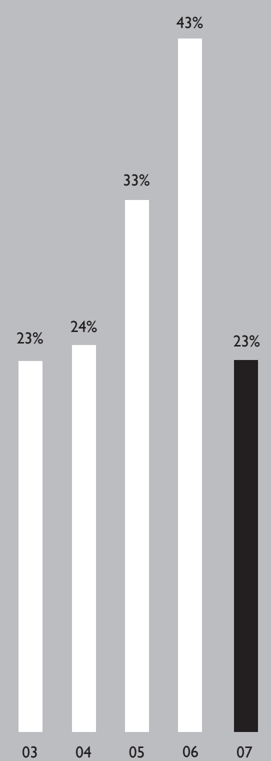
DANIEL K. HALYK

President and Chief Executive Officer

March 2008



FINANCIAL HIGHLIGHTS



Return on Average Equity [1]

[1] Return on average equity is calculated as follows:
Net earnings divided by (opening Unitholders' equity plus ending Unitholders' equity divided by two).

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following MD&A, dated March 6, 2008, focuses on key statistics from the consolidated financial statements of Total Energy Services Trust (the "Trust" or "Total Energy") and pertains to known risks and uncertainties relating to the energy services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the three and twelve months ended December 31, 2007, should be read in conjunction with the audited annual consolidated financial statements and related notes and material contained in other parts of this Annual Report as well as the Trust's Annual Information Form ("AIF"). Additional information relating to Total Energy, including the Trust's AIF, may be found on SEDAR at www.sedar.com. Unless otherwise indicated, all dollar amounts presented herein are in Canadian dollars.

FORWARD-LOOKING STATEMENTS

Certain information and statements contained in this MD&A constitute forward-looking information, including the anticipated costs associated with the purchase of capital equipment, expectations concerning the nature and timing of growth within the various business divisions operated through affiliates of Total Enery, expectations respecting the competitive position of such business divisions, expectations concerning the financing of future business activities, statements as to future economic and operating conditions and opinions concerning the magnitude of any future redemptions of Trust Units. Readers should review the cautionary statement respecting forward-looking information that appears below.

The information and statements contained in this MD&A that are not historical facts are forward-looking statements. Forward-looking statements (often, but not always, identified by the use of words such as "seek", "plan", "continue", "estimate", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "expect", "may", "anticipate" or "will" and similar expressions) may include plans, expectations, opinions, or guidance that are not statements of fact. Forward-looking statements are based upon the opinions, expectations and estimates of management as at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as changes in industry conditions (including the levels of capital expenditures made by oil and gas producers and explorers), the credit risk to which the Trust is exposed in the conduct of its business, fluctuations in prevailing commodity price or currency and interest rates, the competitive environment to which the various business divisions are, or may be, exposed in all aspects of their business, the ability of the Trust's various business divisions to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Trust's various business divisions to attract and maintain key personnel and other qualified employees, various environmental risks to which the Trust's business divisions are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Trust's business divisions operate, timing and costs associated with the acquisition of capital equipment, the impact of weather and other seasonal factors that affect business operations, availability of financial resources or third-party financing and the impact of new laws and regulations or changes in existing laws, regulations or administrative practices on the part of regulatory authorities, including without limitation taxation and environmental laws and regulations and changes in how such laws and regulations are interpreted and enforced. Forward-looking information respecting the anticipated costs associated with the purchase of capital equipment are based upon historical prices for various classes of equipment, expectations relating to the impact of inflation on the future cost of such equipment and management's views concerning the negotiating position of the Trust and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business divisions is based on the current budget of the Trust (which is subject to change), factors that affected the historical growth of such business divisions, sources of historic growth opportunities and expectations relating to future economic and operating conditions. Forward-looking information concerning the future competitive position of the Trust's business divisions is based upon the current competitive environment in which those business divisions operate, expectations relating to future economic and operating conditions, current and announced build programs and other expansion plans of other organizations that operate in the energy service business. Forward-looking information concerning the financing of future business activities is based upon the financing sources on which the Trust and its predecessors have historically relied and expectations relating to future economic and operating conditions. Forward-looking information concerning future economic and operating conditions is based upon historical economic and operating conditions, opinions of third-party analysts respecting anticipated economic and operating conditions. Forward-looking information respecting the magnitude of any future redemptions of outstanding Trust Units is based upon the rights of holders of Trust Units, as set out in the Trust Deed governing the Trust Units, expectations respecting the preferred liquidity strategy for holders of Trust Units and the existence of a liquid market for the Trust Units at all material times. Although management of the Trust believes that the expectations reflected in such forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Accordingly, readers should not place undue reliance upon any of the forward-looking information set out in this MD&A. All of the forward looking statements of the Trust contained in this MD&A are expressly qualified, in their entirety, by this cautionary statement. The various risks to which the Trust is exposed are described in additional detail in this MD&A under the heading "Risk Factors" below and in the Trust's AIF.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Trust's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Trust is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Trust's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2007. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Trust's disclosure controls and procedures were effective as at December 31, 2007.

Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). The Chief Executive Officer and Chief Financial Officer of Total Energy assessed the design of the Trust's internal control over financial reporting as at December 31, 2007 and based on that assessment determined that the Trust's internal control over financial reporting was appropriately designed. No changes were made to the Trust's internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

NON-GAAP MEASURES

Operating earnings are earnings before gain on sale of equipment and income taxes. EBITDA means earnings before interest, taxes and depreciation and is equal to earnings before income taxes plus interest on long-term debt plus other interest expense plus depreciation. Cashflow means cash provided by operations before changes in non-cash working capital items. Operating earnings, EBITDA and cashflow are not recognized measures under GAAP. Management believes that in addition to net earnings, operating earnings, EBITDA and cashflow are useful supplemental measures as they provide an indication of the results generated by the Trust's primary business activities prior to consideration of how those activities are financed, amortized or how the results are taxed in various jurisdictions as well as the cash generated by the Trust's primary business activities without consideration of the timing of the monetization of non-cash working capital items. Readers should be cautioned, however, that operating earnings, EBITDA and cashflow should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Total Energy's performance. Total Energy's method of calculating operating earnings, EBITDA and cashflow may differ from other organizations and, accordingly, operating earnings, EBITDA and cashflow may not be comparable to measures used by other organizations.

BUSINESS OF THE TRUST

Total Energy is an open-end, unincorporated mutual fund trust governed by the laws of the Province of Alberta. Through its wholly owned subsidiary, Total Energy Services Ltd. (the "Company"), and the Company's two operating divisions and its wholly owned limited partnership, Total Energy is involved in two core energy service business sectors. The first is Drilling Services, which is comprised of contract drilling services ("Chinook Drilling" or "Chinook") and the rental and transportation of equipment to the oil and gas industry ("Total Oilfield Rentals"). The second is Production Services, which consists of the fabrication, sale, rental and servicing of new and used natural gas compression equipment ("Bidell Equipment" or "Bidell"). The operations of the Trust are conducted entirely within the Western Canadian Sedimentary Basin ("WCSB") and currently Total Energy has no present intention of expanding outside of this area.

VISION, CORE BUSINESS AND STRATEGY

Total Energy is focused on building sustainable value for its unitholders through the disciplined management of its operations and a commitment to growing its business in a capital efficient manner. Historically, Total Energy has intentionally levered its business more towards the exploration and production of natural gas than conventional oil. The Trust has done this by its focus on establishing significant operations in northwestern Alberta and northeastern British Columbia (which is considered to be a relatively undeveloped natural gas prone area) and its involvement in the gas compression business. Recently, Total Energy has expanded its geographical presence in the WCSB to include areas prone to oil exploration and development. Management believes that Total Energy's existing business divisions provide a platform for building long-term unitholder value. Total Energy has achieved its growth by maintaining a disciplined acquisition strategy and undertaking strategic internal growth. The Trust intends to achieve ongoing expansion through internal growth and accretive acquisitions.

Generally, the Trust's business strategy and marketing plans and strategy are as follows:

Contract Drilling Services: The Trust has targeted the sub-3000 meter market in western Canada. Currently the Trust operates a fleet of thirteen rigs all constructed in 1997 or later. Of these rigs, eleven are Rigmaster P-500 telescopic doubles rated to depths of up to 3,000 meters and two are Failing 3500 singles rated to 1,200 meters. The Trust is currently focused on establishing a rig fleet of 15-20 rigs to obtain the marketing and operational efficiencies enjoyed by a larger fleet. The Trust expects to pursue the growth of its fleet through organic growth and the acquisition of modern and efficient equipment that is complementary to its existing fleet in an effort to distinguish its equipment from the competition and attract quality operations personnel.

Drilling and Production Rentals: Northwestern Alberta and northeastern British Columbia is the primary market for the Trust's drilling and production rentals and oilfield transportation services. Total Energy recently expanded its operations into northeastern Alberta and southeastern Saskatchewan. The Trust operates out of sixteen locations throughout Alberta, northeastern British Columbia and southeastern Saskatchewan. The Trust currently owns and operates approximately 3,800 pieces of rental equipment as well as a modern fleet of 71 heavy trucks. The Trust intends to maintain a modern and high quality equipment base supported by an extensive branch network to maintain a significant presence in its target market. The Trust intends to pursue opportunities, both internal and acquisition, to increase its market share in its existing areas of operation and to further expand its geographic presence within the WCSB.

Gas Compression Services: The Trust has targeted the sub-2000 horsepower gas compression market in western Canada. Recently, the Trust has expanded its market to include international sales. The Trust has and will continue to compete with its larger competitors by providing quality equipment and maintaining an efficient business model. The Trust has also increased its in-house engineering capabilities in order to focus on developing proprietary equipment designs that provide solutions to its customers. During 2006 Total Energy applied for patent protection in Canada and the United States for its proprietary trailer-mounted compression package. Additional international patent protection is pending. The Trust intends to grow its natural gas compression rental business and, as such, expects to increase the amount of total horsepower in its rental fleet.

OVERALL PERFORMANCE

2007 proved to be a challenging year for the Trust. Activity levels in the energy services industry in western Canada declined in 2007 compared to 2006 due primarily to continued weakness in natural gas prices (notwithstanding oil prices remain high by historical levels), uncertainty with respect to Alberta's royalty reviews (which began in February of 2007), the strengthening of the Canadian dollar compared to its US counterpart and excess service capacity within the WCSB. According to industry analysts, the average AECO spot price for natural gas in 2007 was $6.11 per GJ, versus $6.22 per GJ for 2006, and oil prices averaged $72.23 USD WTI per barrel for 2007 versus $66.27 USD WTI per barrel for 2006. According to the Canadian Association of Oilwell Drilling Contractors (the "CAODC"), the number of wells completed in western Canada decreased by 13% to 19,144 in 2007 compared to 22,127 in 2006. Of the wells completed in 2007, approximately 66% were natural gas, 28% were oil and 6% were dry or service wells. This compares to 69% natural gas, 25% oil and 6% dry or service wells completed in 2006. Weaker industry activity levels resulted in decreases in revenues and operating earnings in all three operating divisions.

The Trust's financial condition remained strong during 2007, notwithstanding the decline in industry activity levels. As at December 31, 2007 long-term debt to equity was 0.16 to 1.0 and the Trust had $13.4 million of working capital, being current assets minus current liabilities. Capital asset additions of $22.8 million ($19.3 million net of disposals) were made during 2007 further expanding the Trust's equipment base.

KEY PERFORMANCE DRIVERS

Total Energy believes the following key performance drivers are critical to the success of its business.

- Oil and natural gas prices and the resulting cash flows, access to debt and equity financing and capital expenditures of its customers, the exploration and development companies that operate in the WCSB.
- The expectations of its customers as to future oil and natural gas prices.
- The expectations of its customers as to oil and natural gas exploration and development prospects in the WCSB.
- The prevailing competitive conditions in each of the business segments in which Total Energy competes.
- Interest rates and the Trust's access to debt and equity, which affect the cost of capital and economic rate of return on the Trust's assets.
- Weather, which impacts both the ability to operate in the WCSB, as well as the overall demand for natural gas and heating oil.
- Effect of non-market forces such as government royalty and taxation policy, government incentives for renewable energy and regulatory changes, which create market uncertainty and affect industry activity levels.
- Access to, and retention of, qualified personnel.

There are several key performance measures the Trust uses to monitor and assess its performance relative to the key performance drivers, the implementation of its strategy, and the achievement of its goals and vision. Such measures include:

- Return on invested capital.
- Safety and environmental stewardship. The Trust has a health, safety and environmental management policy in place within each of its operating divisions. Targets and objectives are set within those policies.

CAPABILITY TO DELIVER RESULTS

Non-Capital Resources

People are the most critical non-capital resource required in order for the Trust to achieve its goals set out in its strategic plan. The Trust is continually evaluating its human resources levels to ensure that it has adequate human resources to meet its business requirements. In addition, succession planning is ongoing in order to mitigate the impact of planned or unplanned departures of key personnel. The Trust believes that it presently has sufficient human resources to successfully operate its business and to execute its strategic plan.

Capital Resources

The Trust has the necessary working capital to meet its current obligations and commitments and has no off-balance sheet financing arrangements. In order to finance future growth, Total Energy anticipates utilizing a combination of working capital, cashflow, existing and new debt facilities and new equity issuances.

Systems and Processes

The Trust's operational systems and processes are continually reviewed by management. The Trust periodically evaluates existing systems and develops new ones as required. Total Energy believes that it presently has sufficient systems and processes in place to successfully operate its business and to execute its strategic plan.

In addition to certain risks, which are explained under the heading "Risk Factors" below and in the Trust's AIF, the following factors impact Total Energy's business:

Seasonality and Cyclicality

The Trust's business is cyclical due to the nature of its customers' cash flows and capital expenditures. Customers' cash flows and capital expenditures are in turn affected by, among other things, oil and gas prices, access to capital, the prospects for oil and gas exploration and development in the WCSB and economics of oil and gas exploration and production in the WCSB compared to the economics of international opportunities. The Trust currently has no material long-term contracts in place for the provision of its services.

Seasonality impacts the Trust's operations. The Trust's operations are carried on in the WCSB. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until such roads have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Trust's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen hard enough to support equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Trust's slowest period.

Trends and Outlook

The Trust believes that long-term fundamentals require continued exploration and production in the WCSB to meet continued North American and world-wide demand for oil and natural gas. The Trust has levered its operations towards the exploration and production of natural gas as the Trust sees this commodity to be a strong driver of exploration and production activity in the WCSB in the future. This is due to the fact that natural gas reserves in the basin are generally less developed than conventional oil reserves, that natural gas is the North American heating fuel of choice, and that the Trust believes that demand will continue to increase for natural gas in the United States and in Alberta as oil production levels at the Alberta oilsands continue to increase. Natural gas well completions accounted for approximately 66% of wells drilled in the WCSB in 2007, as compared to approximately 69% for 2006. According to certain industry analysts the percentage of natural gas well completions as a percentage of total wells drilled are expected to decline over the next two years, due to the relative strengthening of oil prices as compared to natural gas prices that began in 2006. The Trust has recently expanded its geographic presence in the WCSB to include areas prone to oil exploration and development. Many industry analysts are currently predicting that the total wells drilled in the WCSB during 2008 will be lower than in 2007 due in part to the continued weakness of natural gas prices and the impact of Alberta's recently announced royalty regime. In 2007 there were 19,144 total wells drilled in the WCSB, as compared to 22,127 over the same period in 2006. The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers to find and produce oil and natural gas. These companies base their capital expenditures on several factors, including but not limited to current and expected hydrocarbon prices, exploration and development prospects and access to capital. Activity levels are ultimately dependent on these above and other factors. Exploration and development companies have generally indicated that their 2008 WCSB capital budgets will decline compared to 2007 capital expenditure levels.

Governmental and Environmental Regulation and Risk Management

The Trust has a comprehensive insurance and risk management program in place to protect its assets, operations and employees. The Trust also has programs in place to ensure it meets or exceeds current safety and environmental standards. The Trust has safety and environmental personnel responsible for maintaining and developing the Trust's policies and monitoring the Trust's operations in each division to ensure they are in compliance with such policies and applicable legislation. The safety and environmental personnel report to the divisional General Managers and directly to the Vice President of Operations of the Trust.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements of the Trust for the three most recently completed financial years is set forth below and is prepared in accordance with GAAP.

(in thousands of dollars except per unit amounts)	**Year Ended Dec. 31, 2007**	Year Ended Dec. 31, 2006	Year Ended Dec. 31, 2005
Revenue	**$ 135,584**	$ 202,666	$ 157,542
Cash provided by operations before changes in non-cash working capital items	**42,160**	66,544	41,336
Net earnings	**30,858**	54,577	31,770
Per unit (basic)	**1.04**	1.83	1.12
Per unit (diluted)	**1.04**	1.82	1.12
Total assets	**228,617**	213,648	205,674
Long term liabilities (excluding current portions of long-term debt, current obligations under capital leases and future income taxes)	**21,383**	13,947	16,875

During 2007 the Trust experienced relatively lower demand for its products and services than in 2006 and 2005. The results for the year ended December 31, 2007 reflect a decrease in equipment utilization and pricing levels as compared to the year ended December 31, 2006, that was partially offset by an increase in the Trust's capacity due to capital expenditures in each of the Trust's divisions during 2007 and 2006.

Revenue decreased by 33% in 2007 as compared to 2006 and was 14% lower than in 2005. This reflects decreased activity levels and lower pricing that was partly offset by capacity growth in all of the Trust's business divisions.

Cash provided by operations (before changes in non-cash working capital items) and net earnings decreased by 37% and 43% respectively in 2007 as compared to 2006 and was 2% higher and 3% lower respectively than 2005. The decreases in 2007 as compared to 2006 reflect decreased industry activity levels and lower pricing that was partially offset by capacity growth in all of the Trust's business divisions in 2007.

The Trust's total assets have increased by 11% since 2005. This reflects the growth in all of the Trust's divisions over that period.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues decreased 14% to $41.5 million for the three months ended December 31, 2007 versus $48.2 million for the same period in 2006 and decreased 33% to $135.6 million for the year ended December 31, 2007 versus $202.7 million for the same period in 2006.

DIVISIONAL REVENUE

Divisional revenues for the three months ended December 31, 2007 were $7.9 million for Contract Drilling Services, $12.7 million for Drilling and Production Rentals and $20.9 million for Gas Compression Services. Divisional revenues for the year ended December 31, 2007 were $29.1 million for Contract Drilling Services, $52.4 million for Drilling and Production Rentals and $54.1 million for Gas Compression Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division decreased by 9% to $7.9 million for the three months ended December 31, 2007 as compared to $8.7 million for the same period in 2006, and decreased by 31% to $29.1 million in 2007 as compared to $42.0 million in 2006. Revenue decreased due primarily to decreases in WCSB drilling activity levels which resulted in lower utilization rates and decreased pricing. For the fourth quarter of 2007 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 40% and a year to date utilization rate of 36%, as compared to 41% and 56% respectively, for the same periods in 2006. Operating days (spud to release) for the three and twelve months ended December 31, 2007 totaled 476 days and 1,660 days respectively, as compared to 440 days and 2,221 days respectively for the same period in 2006. The operating days for the three and twelve months ended December 31, 2007 reflect twelve rigs for the first half of 2007 with a thirteenth rig added at the beginning of the third quarter of 2007. The utilization rate and operating days for 2006 reflect 10 rigs for the entire year, one rig for the first half of the year (taken out of service for conversion) and the addition of Rigs 12 and 13 in August and October of 2006 respectively. Revenue per operating day received for contract drilling services for the three and twelve months ended December 31, 2007 decreased by approximately 16% and 7% respectively as compared to the same periods in 2006.

Drilling and Production Rentals

The revenue reported from Total Energy's Drilling and Production Rentals division decreased by 19% from $15.8 million in the fourth quarter of 2006 to $12.7 million in the fourth quarter of 2007 and decreased by 28% from $73.1 million in 2006 to $52.4 million in 2007. Revenue decreased during the fourth quarter and in 2007 compared to the prior year periods due to lower utilization and pricing that was partially offset by a larger rental and trucking fleet. Average utilization of the rental assets was 38% and 36% respectively for the three and twelve months ended December 31, 2007, as compared to 41% and 54% respectively during the corresponding periods in 2006. This division exited 2007 with approximately 3,800 pieces of rental equipment compared to approximately 3,500 pieces in 2006. This division also exited 2007 with the fleet of 71 heavy trucks, compared to 62 heavy trucks in 2006.

Gas Compression Services

The revenue reported from Total Energy's Gas Compression Services division decreased 12% to $20.9 million in the fourth quarter of 2007 as compared to $23.8 million for the same period in 2006, and decreased 38% to $54.1 million for the twelve months ended December 31, 2007 as compared to $87.5 million for the same period in 2006. The decrease in revenues in 2007 was attributable to weaker demand by this division's customers, although weakness in Canadian demand was offset somewhat by international sales. This division exited the fourth quarter of 2007 with a backlog of fabrication orders of approximately $3.1 million, as compared to a backlog of $12.4 million as at December 31, 2006. At December 31, 2007 the total horsepower of compressors on lease was approximately 12,500 as compared to approximately 8,800 as at December 31, 2006. The compression rental fleet experienced an average utilization of 92% for the twelve months of 2007 as compared to 95% for the same period in 2006.

Other

Total Energy's Other division consists of the Trust's corporate activities. The Other division does not generate any revenue but provides operating and other support services to Total Energy's other divisions and manages the corporate affairs of the Trust.

Operating Expenses

Operating expenses decreased 8% for the quarter ended December 31, 2007 to $26.6 million as compared to $28.9 million for the same period in 2006, and decreased 28% to $81.5 million for the twelve months ended December 31, 2007 as compared to $113.5 million for the same period in 2006. The decreases were due to lower activity in all of Total Energy's operating divisions in 2007 as compared to 2006. For the three months ended December 31, 2007 gross margin was 36%, as a percentage of revenue, as compared to 40% for the same period in 2006, and decreased to 40% for the twelve months ended December 31, 2007 as compared to 44% for the same period in 2006. The decrease in gross margin can be attributed to lower revenues partially offset by lower operating costs within all divisions. The relative revenue contribution from each operating division also impacts the gross margin. A more detailed margin analysis for each division is presented in the discussion of Operating Earnings. Operating expenses consist of salaries and benefits for operations personnel, repairs, maintenance, fuel, manufacturing costs and trucking costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 12% to $3.8 million in the fourth quarter of 2007 as compared to $4.3 million during the same period in 2006, and decreased by 16% for the twelve months ended December 31, 2007 to $15.0 million from $17.9 million during the same period in 2006. These decreases resulted from the decrease in activity levels for all divisions. Included in these costs are compensation for directors and officers pursuant to the Trust's cash based compensation plan. Selling, general and administrative expenses also include salaries and benefits for office staff, rent, utilities, and communications in the Trust's various divisional offices and its corporate head office. Selling, general and administrative expenses also include professional fees and other costs to maintain the Trust's public listing.

Depreciation Expense

Depreciation expense increased 17% and 5% during the three and twelve months ended December 31, 2007 to $3.0 million and $11.3 million respectively, as compared to $2.6 million and $10.7 million for the same periods in 2006. These increases were due primarily to a larger asset base as compared to the same periods in 2006. All of the Trust's property, plant and equipment are depreciated on a straight-line basis with the exception of contract drilling equipment which is depreciated on a utilization basis.

Other Interest Expense

Other interest expense was $0.4 million for the three months ended December 31, 2007 as compared to $0.1 million for the same period in 2006, and totaled $1.0 million for all of 2007 as compared to $0.3 million in 2006. Other interest expense is interest paid on advances under the Trust's operating line of credit. The increases in 2007 as compared to 2006 were due primarily to higher balances under the Trust's operating line of credit.

Interest on Long-term Debt

Interest on long-term debt increased 95% in the three months ended December 31, 2007 to $0.6 million as compared to $0.3 million for the same period in 2006 and increased 6% to $1.4 million for 2007 as compared to $1.3 million in 2006. The increases in 2007 as compared to 2006 were due primarily to increased interest rates in 2007 as compared to 2006 as well as a higher average long-term debt balance during 2007 as compared to 2006. Included in interest on long-term debt is interest on capital leases.

Operating Earnings

Operating earnings decreased 41% to $7.1 million for the three months ended December 31, 2007 as compared to $12.0 million for the same period in 2006, and decreased 57% to $25.4 million for 2007 as compared to $59.0 million in 2006. The decreases in operating earnings are due to decreased activity levels in all divisions.

The Contract Drilling Services division had operating earnings of $1.9 million and $6.7 million respectively for the three and twelve months ended December 31, 2007, as compared to operating earnings of $2.6 million and $13.7 million respectively for the comparable periods in 2006. The operating earnings margins in this division were 25% and 23% for the three and twelve months ended December 31, 2007 as compared to 30% and 33% for the same periods in 2006. The operating earnings margin decreases are primarily due to lower utilization rates and decreased pricing in 2007 as compared to the same periods in 2006.

The Drilling and Production Rentals division had operating earnings of $2.3 million and $15.1 million for the three and twelve months ended December 31, 2007, as compared to $6.3 million and $34.4 million for the comparable periods in 2006. The operating earnings margins were 18% and 29% for the three and twelve months ended December 31, 2007, as compared to 40% and 47% during the same periods in 2006. The decreases in operating earnings margin resulted primarily from lower equipment utilization and decreased pricing. Expenses in this division did not decrease in proportion to revenues due to the relatively high fixed cost structure of this business, including the fact that depreciation in this division is calculated on a straight line basis and does not fluctuate with activity levels.

The Gas Compression Services division contributed operating earnings of $3.8 million and $7.7 million for the three and twelve months ended December 31, 2007 as compared to $3.9 million and $15.2 million for the comparable periods in 2006. The operating earnings margin in this division was 18% and 14% for the three and twelve months ended December 31, 2007 as compared to 16% and 17% for the same periods in 2006. A larger amount of compression horsepower on rent during the fourth quarter of 2007 compared to the fourth quarter of 2006 contributed to higher operating earnings margins for this period of 2007 as compared to 2006. The decrease in the operating earnings margin for the twelve months ended December 31, 2007 was due primarily to lower revenues which were partially offset by lower operating costs.

The Other division had operating losses of $0.9 million and $4.1 million for the three and twelve months ended December 31, 2007 as compared to operating losses of $0.8 million and $4.3 million for the same periods in 2006. The Other division does not include any operational activities relating to Total Energy's business and therefore does not generate any revenue.

Gain on Disposal of Equipment

The gain on disposal of equipment was $26,000 and $606,000 for the three and twelve months ended December 31, 2007 as compared to $223,000 and $918,000 respectively for the comparable periods in 2006. The gain on disposal of equipment resulted from the replacement and upgrade of older equipment in the Trust's fleet, as well as the exercise of purchase options on compression equipment previously on lease in the Gas Compression Services division.

Income Taxes and Net Earnings

The Trust recorded net earnings of $10.4 million ($0.35 per unit on a diluted basis) and $30.9 million ($1.04 per unit on a diluted basis) for the three and twelve months ended December 31, 2007 as compared to $11.3 million ($0.37 per unit on a diluted basis) and $54.6 million ($1.82 per unit on a diluted basis) for the comparable periods in 2006. Current income tax recovery was $1.7 million and $5.5 million for the three and twelve months ended December 31, 2007 as compared to current income tax recovery of $0.6 million and current income tax expense $3.2 million for the same periods in 2006. This resulted in negative effective tax rates for the three and twelve months ended December 31, 2007, as compared to positive effective tax rates of 7% and 9% respectively for the comparable periods in 2006. The decreases in the effective income tax rates for 2007 as compared to the same periods in 2006 are due primarily to decreases in net income before taxes.

Bill C-52 Budget Implementation Act, 2007 ("Bill C-52") was substantively enacted by the Canadian government in June of 2007. Bill C-52 imposes a tax on certain distributions from publicly traded specified income flow-through trusts ("SIFT") and will apply to distributions made by the Trust to its unitholders. Bill C-52 results in a tax structure for trusts similar to that of corporations, whereby distributions are subject to income tax at both the Trust level and the personal income tax level. The SIFT tax measures take effect on January 1, 2011, or earlier if the Trust exceeds certain permitted growth guidelines established by the Canadian Department of Finance. The Trust is currently assessing Bill C-52 and its potential implications to the Trust and its Unitholders.

As a result of Bill C-52, the Trust must now recognize (on a prospective basis) future income tax assets or liabilities on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) in the Trust, unless those temporary differences are expected to reverse before the SIFT tax comes into effect. Due to the Trust's legal entity structure, the enacted Bill C-52 had only a nominal impact on the Trust's future income tax liability provision.

One of the Trust's non-operating subsidiaries has recently been re-assessed by the Ontario Ministry of Finance on account of a corporate re-organization undertaken by Total Energy Services Ltd. prior to its trust conversion. The Trust has received both legal and tax advice indicating that the technical merits of its subsidiary's filing position is strong and, as such, no provision has been taken at this time. The Trust intends to vigorously defend such filing position. The total amount of the reassessment is approximately $5 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations, before changes in non-cash working capital items, decreased by 22% for the three months ended December 31, 2007 to $11.8 million as compared to $15.2 million for the same period in 2006 and decreased by 37% for the twelve months ended December 31, 2007 to $42.2 million as compared to $66.5 million for the same period in 2006. These decreases are primarily due to decreased operating earnings in all divisions in 2007 as compared to the same periods in 2006. The Trust reinvests the remaining cash provided by operations after distribution payments to unitholders into the internal growth of existing businesses, acquisitions, the repayment of long-term debt and obligations under capital leases, or the repurchase of trust units pursuant to the Trust's normal course issuer bid.

Investments

Net cash used in investment activities for the three and twelve months ended December 31, 2007 was $13.8 million and $19.3 million respectively, as compared to $8.7 million and $28.2 million respectively for the same periods in 2006. The majority of cash used in 2007 and 2006 for investment activities related to the purchase of property, plant and equipment. The Trust purchased $22.8 million of property, plant and equipment during 2007 as compared to $33.7 million in 2006. Purchases of property, plant and equipment during 2007 were allocated as follows: $1.7 million in the Contract Drilling Services division, $14.0 million in the Drilling and Production Rentals division and $7.0 million in the Gas Compression Services division and $0.1 million in Other division. The majority of the property, plant and equipment additions for the Contract Drilling Services division related to the conversion of the Pragma 7000 single rig into a Rigmaster P-500 telescopic double rig with the remainder relating to the purchase of spare rig equipment. The property, plant and equipment additions in the Drilling and Production Rentals division primarily related to the purchase of new rental equipment, heavy trucks and trailers and the $9.4 million Oilpatch Rentals operating asset acquisition that was completed effective December 1, 2007. $6.7 million of the capital expenditures in the Gas Compression Services division relate to additions to the compression rental fleet. During 2006, the property, plant and equipment additions were as follows: $10.6 million in the Contract Drilling Services division, $22.1 million in the Drilling and Production Rentals division and $1.0 million in the Gas Compression Services division. The purchase of property, plant and equipment in 2007 was offset by proceeds on disposal of property, plant and equipment of $3.5 million, as compared to $5.5 million in 2006. A significant portion of the disposal of equipment during 2007 resulted from the sale of compression equipment from the Gas Compression Services division's compression rental fleet with the remainder arising from the replacement and upgrade of older equipment in the Trust's Drilling and Production Rentals division.

Financing

Net cash generated in financing activities was $5.1 million for the three months ended December 31, 2007, and net cash used in financing activities of $5.5 million for the twelve months ended December 31, 2007. For the comparable periods in 2006, net cash used in financing activities was $9.9 million and $44.0 million respectively. During the three and twelve months ended December 31, 2007 the Trust had net advances under long-term debt of $0.7 million and $11.1 million respectively. These advances were made to finance capital expenditures and trust unit repurchases previously financed through working capital. For the comparable periods in 2006, the Trust had net repayments of long-term debt of $1.2 million and $7.0 million respectively. During the three and twelve months ended December 31, 2007 the Trust repurchased 231,200 and 395,802 of its issued and outstanding trust units at a total cost including commissions of $1.2 million and $2.9 million or $5.34 and $7.34 per unit respectively, under its normal course issuer bid. For the same periods in 2006 the Trust repurchased 20,000 and 40,000 units at a total cost of $0.3 million and $0.5 million or $12.75 and $13.71 per unit respectively, under its normal course issuer bid.

Liquidity

The Trust had a working capital surplus of $13.4 million at the end of 2007 as compared to $15.9 million at the end of 2006. This decrease in the Trust's working capital position is primarily due to increased bank indebtedness resulting from the acquisition of the operating assets of Oilpatch Rentals in December 2007. As at the date of this MD&A, the Trust is in material compliance with all debt covenants and is able to fully utilize all existing credit facilities. The Trust believes that it has sufficient liquidity to operate its business and execute its strategic plan for the foreseeable future.

Distributions

The Trust declared distributions to Unitholders of $4.6 million and $29.8 million during the three and twelve months ended December 31, 2007, as compared to $11.8 million and $35.4 million during the same periods in 2006. For the three and twelve month periods ending December 31, 2007, cash provided by operations, before changes in non-cash working capital items, exceeded distributions by $7.2 million and $12.3 million respectively, as compared to $3.4 million and $31.1 million for the comparable periods in 2006. For the three and twelve months periods ending December 31, 2007, cash provided by operations, after changes in non-cash working capital items, exceeded distributions by $4.1 million and was $5.0 million less than distributions, respectively, as compared to exceeding distributions by $6.8 million and $36.8 million for the comparable periods in 2006. For the three and twelve months ended December 31, 2007, net earnings exceeded distributions by $5.8 million and $1.0 million respectively, as compared to distributions exceeding net earnings by $0.5 million and net earnings exceeding distributions by $19.2 million for the comparable periods in 2006.

Management monitors the Trust's distributions with respect to forecasted cash provided by operations, income taxes, debt levels and capital expenditures. The Trust aims to finance its distributions through cash provided by operations. Where cash provided by operations is insufficient to finance distributions, cash on hand or the Trust's operating line of credit are utilized.

While cash provided by operations, after changes in non-cash working capital items, has been insufficient to finance distributions in 2007, maintenance of the Trust's distribution level resulted in the elimination of current income taxes and the recovery of substantially all prior period income taxes paid subsequent to Total Energy's trust conversion in April 2005. Such income tax recovery is expected to total $5.7 million and be realized in the second quarter of 2008. There are no additional income taxes paid in prior periods eligible for recovery beyond this amount.

Continued weakness in natural gas prices, uncertainty surrounding the impact of recently announced changes to the royalty regime in Alberta, and excess service industry capacity have resulted in continued challenging industry conditions in Western Canada in 2007, which has negatively impacted the Trust's ability to generate net earnings and cash provided by operations. In light of such environment, and the possibility that more compelling uses of cash provided by operations may arise, the Trust reduced its monthly distribution to $0.03/unit ($0.36/unit per annum) beginning for the month of November 2007. The reduced monthly distribution has been determined with the primary objective of retaining cash provided by operations to reinvest in future growth opportunities, and to ensure that future distributions to Unitholders can be financed through ongoing net earnings and cash provided by operations.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per unit amounts)

	Financial Quarter Ended (Unaudited)			
	Dec. 31, 2007	Sept. 30, 2007	Jun 30, 2007	Mar 31, 2007
Revenue	**$ 41,528**	$ 24,395	$ 16,175	$ 53,486
Cash provided by operations, before changes in non-cash working capital items	**11,822**	8,629	4,032	17,677
Net earnings	**10,415**	5,190	1,321	13,932
Per unit (basic and undiluted)	**0.35**	0.18	0.04	0.47

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2006	Sept 30, 2006	Jun 30, 2006	Mar 31, 2006
Revenue	**$ 48,219**	$ 49,937	$ 38,426	$ 66,084
Cash provided by operations, before changes in non-cash working capital items	**15,203**	17,337	11,474	22,530
Net earnings	**11,335**	13,778	10,571	18,893
Per unit (basic)	**0.38**	0.46	0.36	0.63
Per unit (diluted)	**0.37**	0.46	0.36	0.63

As discussed in 'Seasonality and Cyclicality' above, variations over the quarters are due in part to the cyclical nature of the energy service industry in the WCSB due to the occurrence of "breakup". The first quarter has generally been the strongest quarter for the Trust. This strength is due to the northern exposure that the Trust has in its Drilling Services operations. The northern areas are busiest in the winter as these areas are frozen and allow better access to operations locations. The second quarter has generally been the slowest quarter due to "breakup" as described above. Many of the areas that the Trust operates in are not accesible during this period when ground conditions do not permit the movement of heavy equipment. The third quarter has generally been the third busiest quarter, as some of the issues associated with "breakup" are no longer affecting access to areas of operations. The fourth quarter has usually been the second busiest quarter of the year as customers are generally able to start accessing northern areas with the onset of winter and the ground freezing.

CONTRACTUAL OBLIGATIONS

At December 31, 2007, the Trust had the following contractual obligations:

		Payments due by year				
(in thousands of dollars)	Total	2008	2009	2010	2011	2012
Long-term debt (1)	29,383	8,000	8,000	7,333	3,300	2,750
Obligations under capital leases	408	408	–	–	–	–
Commitments (2)	6,282	2,257	1,797	987	756	485
Purchase obligations (3)	731	731	–	–	–	–
Total contractual obligations	36,804	11,396	9,797	8,320	4,056	3,235

(1) Long-term debt obligations are described in Note 7 to the 2007 Audited Consolidated Financial Statements.

(2) Commitments are described in Note 11 to the 2007 Audited Consolidated Financial Statements.

(3) Purchase obligations relate to Total Energy's commitment to acquire $0.7 million of inventory for the Gas Compression Services division.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2007 and 2006, the Trust had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

During 2007 and 2006 the Trust had no material transactions with related parties.

PROPOSED TRANSACTIONS

The Trust currently has no material proposed asset or business acquisition or disposition transactions other than the purchase obligations disclosed under the above section Contractual Obligations and $5.1 million budgeted for expansion of the Gas Compression Services division's compression rental fleet during 2008 pursuant to the Trust's preliminary 2008 capital expenditure budget. The Trust is currently evaluating additional acquisition opportunities but as at the date hereof no other binding agreements have been entered into and there can be no assurance that any particular transactions can or will be completed.

CRITICAL ACCOUNTING ESTIMATES

Management is responsible for applying judgment in preparing accounting estimates. Certain estimates and related disclosures included within the financial statements are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments. An accounting estimate is considered critical only if it requires the Trust to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates the Trust could have used would have a material impact on Total Energy's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of financial statements in accordance with GAAP, the following critical accounting estimates have been identified by management:

Revenue Recognition

The Trust recognizes revenue in its divisions as follows; Contract Drilling Services revenue is recognized when services are provided; Drilling and Production Rentals revenue is recognized when services are provided; and Gas Compression Services revenue is recognized as services are provided or products are sold. The Trust's services and products are sold based upon orders or contracts with customers that include fixed or determinable prices based upon daily, hourly, or job rates. Revenue is recognized when services and equipment rentals are provided and when collectibility is assured.

Estimates of Collectibility of Accounts Receivable

The Trust has to make an estimate for the collectibility of its accounts receivable. The Trust continually reviews its accounts receivable balances and makes an allowance once it considers an accounts receivable balance uncollectible. The actual collectibility of accounts receivable could differ materially from the estimate although management does not consider the risk of a significant loss to be material at this time.

Estimates of Depreciation

Total Energy has significant estimates relating to the depreciation policies for property, plant and equipment. Factors that are included in the estimation include but are not limited to the economic life of the asset and the salvage value of the asset at the end of its economic life. The Trust makes an estimate based on the best information on these factors that it has at that the time these estimates are performed. Actual results could differ materially if any of these factors are different in the future than the current estimates. See Note 1(b) in the notes to the 2007 Audited Consolidated Financial Statements of the Trust for Total Energy's depreciation policy.

Estimates of Tax Pools and Their Recoverability

Total Energy has estimated its tax pools for the income tax provision. The actual tax pools that the Trust may be able to use could be materially different in the future. See Note 9 in the notes to the 2007 Audited Consolidated Financial Statements of the Trust for further information.

ACCOUNTING DEVELOPMENTS

Changes in accounting policies

Effective January 1, 2007, the Trust prospectively adopted new accounting recommendations from the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865 – Hedges.

(a) Section 1530 – Comprehensive Income

This section established standards for reporting and presenting a comprehensive income statement.

(b) Sections 3855 – Financial Instruments Recognition and Measurement

This standard requires all financial assets and liabilities to be classified as one of four categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost.

Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the consolidated statement of earnings. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of earnings. During 2007, the Trust did not have any financial assets or liabilities other than cash which would be designated as either held for trading or available for sale.

(c) Section 3865 – Hedges

This standard specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations.

There was no impact to opening retained earnings on adoption of these new accounting recommendations, and the adoption of these new accounting recommendations did not have a material impact on Trust's consolidated financial statements.

Recent Canadian Accounting Pronouncements not yet Adopted

The CICA issued the following new accounting standards that apply to the Trust for fiscal periods beginning on or after October 1, 2007, CICA Handbook Section 1535, Capital Disclosures; CICA Handbook Sections 3862 and 3863, Financial Instruments - Presentation and Disclosure; and CICA Handbook Section 3031, Inventories. The standards will be adopted prospectively.

(a) Section 1535 - Capital Disclosures

This standard requires that an entity disclose information that enables users of its financial statement to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Trust. The Trust has determined that the adoption of the new standards will not have a material effect on the Company's financial statements.

(b) Sections 3862 and 3863 - Financial Instruments Presentation and Disclosure

These standards, which replace Section 3861, Financial Instruments Presentation and Disclosure, require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Trust. The Trust has determined that the adoption of the new standards will not have a material effect on the Trust's financial statements.

(c) Section 3031 - Inventories

This standard was issued to harmonize accounting standards for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Trust. The Trust has determined that the adoption of the new standard will not have a material effect on the Trust's financial statements.

FINANCIAL INSTRUMENTS

Risk Management Activities

The Trust does not have a significant exposure to any individual customer or counter party other than two customers, one engineering consulting firm and one major independent oil and gas company, which accounted for 11% and 10% of revenue respectively. No other customer accounted for more than 10% of revenue. Concentration of credit risk on the Trust's trade accounts receivable exists in the oil and gas industry.

Fair Values

The carrying values of bank indebtedness, accounts receivable, inventory, income taxes receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, distributions payable and income taxes payable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of long-term debt is determined at the present value of contractual future payments of principal, discounted at the current market rates for interest available to the Trust for the same or similar debt instruments with fixed interest rates. All long-term debt with variable interest rates is assumed to already be at fair value and therefore is not revalued.

Interest Rate Risk

The Trust manages its interest rate risk on borrowings by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. At December 31, 2007 virtually all debt was at a short-term fixed Banker's Acceptance rate maturing on February 1, 2008.

Foreign Currency Risk

The Trust mitigates its foreign currency risk by purchasing foreign currencies to the extent it deems necessary to offset foreign currency obligations at any given time. The Trust also includes an exchange rate fluctuation provision in purchase orders contracts where a significant portion of the inputs from such orders are sourced through international suppliers.

OUTSTANDING TRUST UNIT DATA

	As at December 31, 2007 (in thousand of units) (unaudited)
Trust Units	29,500
Exchangeable Shares	–
Additional Trust Units to be issued	–
Fully diluted Trust Units	29,500

There has been no material change in the trust unit data from December 31, 2007 to the date of this report. On June 6, 2007 all outstanding Exchangeable Shares were redeemed.

RISK FACTORS

The following is a summary of certain risk factors relating to the activities of the Trust and its subsidiaries and the ownership of Trust Units.

Risks Relating to the Energy Services Business

General

Certain activities of the Trust are affected by factors that are beyond its control or influence. The business and activities of the Trust are directly affected by fluctuations in the levels of oil and natural gas exploration, development and production activity carried on by its customers, which, in turn, is dictated by numerous factors, including world energy prices and government policies. Any addition to or elimination or curtailment of government incentives or other material changes to government regulation of the energy industry in Canada could have a significant impact on the oilfield service industry in Canada.

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 various factors, including but not limited to hydrocarbon prices, exploration and development prospects in various jurisdictions, production levels of their reserves and access to capital. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital expenditure plans. Risk factors associated with the Trust's operations include business factors and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated. In recent years, commodity prices, and therefore, the levels 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 the Trust's products and services. A significant prolonged decline in commodity prices would have a material adverse effect on the Trust's business, results of operations and financial condition, including the Trust's ability to maintain its current level of distributions to Unitholders.

Government Regulation

Total Energy's business and the business of its customers are subject to significant and evolving laws and government regulations, including in the areas of environment, health and safety. Changes to such laws and regulations may impose additional costs on Total Energy and may affect its business in other ways, including the requirement to comply with various operating procedures and guidelines that my impact Total Energy's operations. Total Energy has in place, in each of its divisions, programs for monitoring compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other liabilities.

Material changes to the regulations and taxation of the energy industry may have an impact on the energy services industry. In late 2007, the Alberta government announced certain changes to the royalty regime in Alberta. While the precise impact of such changes on Total Energy has not yet been determined, significant uncertainty regarding this issue may result in a material decrease in industry drilling and production activity in Alberta, which in turn would lead to corresponding declines in the demand for the goods and services provided by the Trust.

Any initiatives by Canada or the provinces in which the Trust operates to set legally binding targets to reduce emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases" (including the recent announcement by the Province of British Columbia to implement a "carbon tax") could have direct or indirect compliance costs. Such initiatives and costs may adversely affect the oil and gas business in Canada, which in turn may adversely affect the oil and gas services industry in which the Trust participates. The impact of such effects and/or costs is not yet certain.

Credit Risk

A substantial portion of the Trust's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. The Trust does not have significant exposure to any individual customer or counter-party, other than one major independent oil and gas company and one engineering consulting firm, which accounted for 10% and 11%, respectively, of consolidated revenues in 2007. No other customer accounted for 10% or more of the Trust's consolidated revenues in 2007. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time.

Currency Fluctuations

The Gas Compression Services division, Bidell, obtains critical components and parts from U.S. suppliers and is therefore subject to foreign exchange rate fluctuations in the procurement of those materials. Where Bidell is contracted to undertake custom work, an exchange rate fluctuation provision is included in the relevant purchase order to reduce Bidell's exposure to such fluctuations. The Trust's Contract Drilling Services division and the Drilling and Production Rentals division purchase certain capital equipment from U.S. suppliers and are also subject to foreign exchange rate fluctuations in the procurement of those items. Total Energy has taken measures that it considers reasonable to mitigate its exposure to exchange rate fluctuations, including the purchase of foreign currencies in an amount approximately equal to such foreign currency obligations at any given time. However, there can be no assurance that such measures will reduce Total Energy's exposure to currency fluctuations to a level that is not material.

Competition

The various business segments in which the Trust participates are highly competitive. The Trust competes with several large national and multinational organizations in the contract drilling services, drilling and production equipment rentals and gas compression services businesses. Many of those national and multinational organizations have greater financial and other resources than the Trust. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Trust or that new competitors will not enter the various markets in which the Trust is active. In certain aspects of its business, the Trust also competes with a number of small and medium-sized companies, which, like the Trust, have certain competitive advantages such as low overhead costs and specialized regional strengths.

Access to Parts, Development of New Technology and Relationships with Key Suppliers

The ability of Bidell to compete and expand is dependent on Bidell having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies. Although Bidell has secured individual distribution agreements with various key suppliers, there can be no assurance that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these sources and relationships are not maintained, Bidell's ability to compete may be impaired. Bidell is able to access certain distributors and secure discounts on parts and components that would not be available if it were not for its relationship with certain key suppliers. Should the relationships with key suppliers come to an end, the availability and cost of securing certain equipment and parts may be adversely affected. The ability of Chinook to compete and expand is dependent upon Chinook having access, at a reasonable cost, to drilling equipment and supplies that are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies as industry conditions require. There can be no assurance that existing sources for equipment will be maintained or that new technologically advanced equipment will be acquired. If such equipment is not available, Chinook's ability to compete may be impaired.

Employees

The success of the Trust is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Trust. The ability of the Trust to expand its services will be dependent upon its ability to attract additional qualified employees in all of its divisions. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Environmental Liability Risks

Total Energy routinely deals with natural gas, oil and other petroleum products. The Company has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. The Company also generally performs "phase 1" environmental studies on all of its properties prior to acquisition to minimize the risk of acquisition of a contaminated property. However, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Trust or that such damage has not already occurred. As a result of its fabrication and refurbishing operations, Bidell also generates or manages hazardous wastes, such as solvents, thinners, waste paint, waste oil, washdown wastes and sandblast material.

Although the Trust attempts to identify and address contamination issues before acquiring properties, and attempts to utilize generally accepted operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under properties owned, leased, operated or worked on by the Trust or on or under other locations where such wastes have been taken for disposal. These properties and the wastes disposed thereon may be subject to environmental laws that could require the Trust to remove the wastes or remediate sites where they have been released.

Potential Operating Risks and Insurance

Total Energy has an insurance and risk management program in place which has been implemented in an effort to protect its assets, operations and employees. Total Energy also has programs in place to address compliance with current safety and regulatory standards. Total Energy has a health and safety coordinator in each division who is responsible for maintaining and developing policies and monitoring operations vis-à-vis those policies. Third party consultants are also retained as required to assist the divisional health and safety coordinators. Each health and safety coordinator is required to report incidents directly to the Vice President of Operations of Total Energy. However, the Trust's operations are subject to risks inherent in the oil and gas drilling and production services industry, such as equipment defects, malfunction and failures and natural disasters with resultant uncontrollable flows of oil, gas or well fluids, fires, spills and explosions.

These risks could expose Total Energy or the Trust to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Trust has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Trust's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Trust were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Trust were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Access to Additional Financing

Total Energy may find it necessary in the future to obtain additional debt or equity 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 Total Energy when needed or on terms acceptable to Total Energy. Total Energy's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Trust's growth and may have a material adverse effect upon the Trust.

Seasonality

In general, the level of activity in the Canadian oilfield service industry is influenced by seasonal weather patterns. Wet weather and the spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months, because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Trust.

RISKS RELATED TO AN INVESTMENT IN THE TRUST

Nature of Trust Units

The Trust Units do not represent a traditional investment in the energy services sector and should not be viewed by investors as shares in the Company. The Trust Units represent a fractional interest in the Trust. As holders of Trust Units, Unitholders have substantially all of the same protections, rights and remedies as a shareholder would have under the Canada Business Corporations Act except that a Unitholder will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. A Unitholder is also not entitled to "dissent rights".

The Trust's sole assets are its holding of common shares in Total Energy, the unsecured subordinated notes issued by the Company to the Trust ("Notes") and other investments in securities of its subsidiaries.

The Trust Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Debt Service

Total Energy may finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred may impair Total Energy's ability to satisfy its obligations under the Notes. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Total Energy of its obligations under the Notes. Ultimately, this may result in lower distributions from the Trust.

Lenders will be provided with security over all of the assets of Total Energy. If Total Energy becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may foreclose on or sell the assets of Total Energy.

Redemption Right

Unitholders have a limited right to require the Trust to repurchase their Trust Units which is referred to as a redemption right. It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Cash redemptions are subject to limitations.

Distributions

Distribution payments of the Trust are subject to review by the Board of Directors taking into account the prevailing financial circumstances of Total Energy and Bidell LP at the relevant time. The actual amount distributed, if any, is at the discretion of the Board of Directors. The actual cash flow available for distribution to Unitholders is a function of a number of factors inlcuding the Trust's and its subsidiaries' financial performance, debt covenants and obligations, working captial requirements, future productive capacity maintenance expenditures and future expansion capital expenditure requirements for the purchase of property, plant and equipment, tax obligations, the impact of interest rates, the growth of the general economy, the price of crude oil and natural gas, weather and the number of Trust Units outstanding. Distributions by the Trust to Unitholders are not guaranteed and may be reduced or suspended entirely without notice. The market value of the Trust Units may deteriorate materially if the Tust is unable to meet distribution expectations in the future.

Investment Eligibility and Mutual Fund Trust Status

It is intended that the Trust qualify at all times as a mutual fund trust for the purposes of the Tax Act. The Trust may not, however, always be able to satisfy current or future requirements of the maintenance of mutual fund trust status. Should the status of the Trust as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for the Trust and Unitholders. For a detailed discussion of such consequences refer to the Trust's AIF.

Non-Resident Ownership of Trust Units

Currently, in order for the Trust to maintain its status as a mutual fund trust under the Tax Act, the Trust must not, subject to some exceptions, be established or maintained primarily for the benefit of Non-Residents. The Deed of Trust provides that if at any time the Trustee or Total Energy becomes aware that the beneficial owners of 49% or more of the Trust Units then outstanding are or may be Non-Residents or that such a situation is imminent, the Trustee, by or through Total Energy on the Trustee's behalf, shall take such action as may be necessary to carry out the foregoing intention.

These measures could be adverse to certain Unitholders and may not be effective to avoid the Trust losing its status as a mutual fund trust for the purposes of the Tax Act.

Changes in Legislation and Administrative Practices

There can be no assurances that income tax laws and government incentive programs relating to mutual fund trusts and to the oil and gas industry will not be changed in a manner which materially adversely affects the Trust and the Unitholders. There can be no assurance that the Canada Revenue Agency ("CRA") will agree with how the Trust calculates its income for tax purposes or that the CRA will not change its administrative practices to the detriment of the Trust or the Unitholders.

MANAGEMENT'S RESPONSIBILITY FOR 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 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 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 Total Energy's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2006 to December 31, 2007.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of unitholders at Total Energy's most recent annual general meeting, to audit the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors of Total Energy Services Ltd., administrator of the Trust, which is comprised of three independent directors, has discussed the consolidated financial statements, including the notes thereto, with management and external auditors. The consolidated financial statements have been approved by the Board of Directors on the recommendations of the Audit Committee.

DANIEL K. HALYK
President and
Chief Executive Officer

MARK A. KEARL, CA
Vice President and
Chief Finanical Officer

March 6, 2008

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Total Energy Services Trust ("Total Energy" or the "Trust") as at December 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings 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 the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS
Calgary, Canada

March 6, 2008

TOTAL ENERGY SERVICES TRUST

Consolidated Balance Sheets

December 31, 2007 and 2006
(in thousands of Canadian dollars)

	2007	2006
ASSETS		
Current assets:		
Accounts receivable	$ 28,284	$ 34,257
Inventory (note 4)	31,909	25,924
Income taxes receivable	5,742	–
Prepaid expenses and deposits	1,580	1,033
	67,515	61,214
Property, plant and equipment (note 5)	157,049	148,381
Goodwill	4,053	4,053
	$ 228,617	$ 213,648
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 6)	$ 28,379	$ 6,244
Accounts payable and accrued liabilities	16,405	24,836
Distributions payable	885	6,264
Income taxes payable	–	2,579
Current portion of long-term debt (note 7)	8,000	4,703
Current portion of obligations under capital leases (note 8)	408	681
	54,077	45,307
Long-term debt (note 7)	21,383	13,545
Obligations under capital leases	–	402
Future income taxes (note 9)	18,361	17,708
Unitholders' equity:		
Trust Unit capital (note 10)	60,984	60,984
Exchangeable Share capital (note 10)	–	855
Retained earnings	73,812	74,847
	134,796	136,686
Commitments and contingency (notes 11 & 12)		
	$ 228,617	$ 213,648

See accompanying notes to consolidated financial statements.

Approved by the Board of Total Energy Services Ltd., Administrator of Total Energy Services Trust:

Director
Andrew Wiswell

Director
Bruce L. Pachkowski

TOTAL ENERGY SERVICES TRUST

Consolidated Statements of Earnings

Years ended December 31, 2007 and 2006
(in thousands of Canadian dollars except per unit amounts)

	2007	2006
REVENUE	$ 135,584	$ 202,666
Expenses:		
Operating	81,507	113,456
Selling, general and administrative	15,001	17,855
Depreciation	11,255	10,731
Other interest	1,017	309
Interest on long-term debt	1,367	1,295
	110,147	143,646
Operating earnings	25,437	59,020
Gain on disposal of equipment	606	918
Earnings before income taxes	26,043	59,938
Income tax expense (recovery) (note 9):		
Current	(5,468)	3,207
Future	653	2,154
	(4,815)	5,361
Net earnings	$ 30,858	$ 54,577
Earnings per Trust Unit (note 10):		
Basic	$ 1.04	$ 1.83
Diluted	$ 1.04	$ 1.82

See accompanying notes to consolidated financial statements.

TOTAL ENERGY SERVICES TRUST

Consolidated Statements of Retained Earnings

Years ended December 31, 2007 and 2006
(in thousands of Canadian dollars)

	2007	2006
Retained earnings, beginning of year	$ 74,847	$ 56,130
Net earnings	30,858	54,577
Trust distributions	(29,842)	(35,398)
Repurchase and cancellation of trust units in excess of stated trust unit capital (note 10)	(2,051)	(462)
Retained earnings, end of year	$ 73,812	$ 74,847

See accompanying notes to consolidated financial statements.

TOTAL ENERGY SERVICES TRUST

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006
(in thousands of Canadian dollars)

	2007	2006
Cash provided by (used in):		
Operations:		
Net earnings	$ 30,858	$ 54,577
Add (deduct) items not affecting cash:		
Depreciation	11,255	10,731
Future income taxes	653	2,154
Gain on disposal of equipment	(606)	(918)
	42,160	66,544
Changes in non-cash working capital items (note 14)	(17,311)	5,657
	24,849	72,201
Investing:		
Purchase of property, plant and equipment	(22,803)	(33,660)
Proceeds on disposal of equipment	3,486	5,460
	(19,317)	(28,200)
Financing:		
Advances under long-term debt	16,500	–
Advances of obligations under capital leases	–	912
Repayment of long-term debt	(5,365)	(6,971)
Repayment of obligations under capital leases	(675)	(831)
Repurchase of trust units	(2,906)	(549)
Distributions to Unitholders	(29,842)	(35,398)
Increase (decrease) in bank indebtedness	22,135	(5,111)
Change in non-cash working capital items (note 14)	(5,379)	3,947
	(5,532)	(44,001)
Change in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –
Supplemental cash flow information:		
Interest paid	$ 2,232	$ 1,699
Income taxes paid	$ 2,853	$ 2,851

See accompanying notes to consolidated financial statements.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INVERT

GENERAL:

Total Energy Services Trust ("Total Energy" or the "Trust") is an open-end, unincorporated mutual fund trust governed by the laws of the province of Alberta. The business of the Trust is conducted through Total Energy Services Ltd. (the "Company") and Bidell Equipment LP ("Bidell LP"). The Trust owns, directly and indirectly, 100% of the common shares, (excluding exchangeable shares – see note 10) of the Company and 100% of the partnership units of Bidell LP. The activities of the Company and Bidell LP are financed through interest bearing notes from the Trust, cash flow from operations and third party debt as described in the notes to the financial statements.

Pursuant to the terms of a debenture, the Trust is entitled to interest payments from the Company each month on the outstanding debenture as well as the Trust's interest in Bidell LP. The Trust may declare payable to the Trust Unitholders all or any part of the net income of the Trust earned from interest income on the notes and from the income generated, and from any dividend paid on the common shares of the Company, less any expenses of the Trust.

The Company's and Bidell LP's business is the provision of contract drilling services, the rental and transportation of surface equipment used in drilling and production processes and the manufacturing, sale, rental and servicing of natural gas compression equipment to oil and gas exploration and production companies located primarily in western Canada.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Trust, its subsidiaries and its partnership.

(b) Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets for all assets except contract drilling equipment, which is depreciated using the utilization method. Depreciation rates are as follows:

Assets depreciated under straight-line method	Estimated useful life in years
Buildings	20
Furniture and fixtures	5
Shop machinery and equipment	5
Rental equipment	5 to 15
Automotive equipment	3 to 10
Computer equipment	3

Assets depreciated under the utilization method	Estimated useful life
Contract drilling equipment	3,000 days

(c) Inventory and work-in-progress:

Parts and raw materials inventory, work-in-progress and finished goods are valued at the lower of cost and net realizable value. Cost for raw materials is determined on a specific item basis, with overhead and labour being determined on a weighted average basis.

(d) Per unit amounts:

Basic and diluted earnings per unit calculations were based on the weighted average number of trust units outstanding. Basic per unit amounts have been calculated on the basis that Exchangeable Shares outstanding as at December 31, 2007 and 2006, if any, have been converted at the average exchange ratio during the period.

(e) Revenue recognition:

The Trust recognizes revenue in its segments as follows; Contract Drilling Services revenue is recognized when services are provided; Drilling and Production Rentals revenue is recognized when services are provided; and Gas Compression Services revenue is recognized as services are provided or products are sold. The Trust's services and products are sold based upon orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates. Revenue is recognized when services and equipment rentals are provided and when collectibility is assured.

(f) Measurement of uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

(g) Income taxes:

The Trust is a mutual fund trust for purposes of the Income Tax Act (Canada), and is only subject to statutory income taxes on taxable income not distributed to unitholders. *Bill C-52 Budget Implementation Act, 2007* ("Bill C-52") was substantively enacted by the Canadian government in June of 2007 and imposes a tax on certain distributions from publicly traded specified income flow-through trusts ("SIFT") and will apply to distributions made by the Trust to its unitholders. The SIFT tax measures take effect January 1, 2011, or earlier if the Trust exceeds certain permitted growth guidelines established by the Canadian Department of Finance.

As a result of Bill C-52, the Trust must now recognize (on a prospective basis) future income tax assets or liabilities on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) in the Trust, unless those temporary differences are expected to reverse before the SIFT tax comes into effect. Due to the Trust's legal entity structure, the enacted Bill C-52 had only a nominal impact on the Trust's future income tax liability provision.

The Company is subject to certain provincial capital taxes and corporate income taxes and follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences", and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Trust's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

(h) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on the fair values. Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared to its fair value. When the fair value of the reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting segment's goodwill exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill in a business combination described above, using the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(i) Long lived assets:

On a periodic basis, management assesses the carrying value of long lived assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

2. Accounting policy changes:

Effective January 1, 2007, the Trust prospectively adopted new accounting recommendations from the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement and Section 3865 – Hedges.

(a) Section 1530 – Comprehensive Income

This section established standards for reporting and presenting a comprehensive income statement.

(b) Section 3855 – Financial Instruments

This section requires all financial assets and liabilities to be classified as one of four categories. Financial assets are to be classified as either held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are to be classified as either held for trading or other financial liabilities. All financial assets and financial liabilities are to be carried at fair value in the consolidated balance sheet, except held to maturity, loans and receivables and other financial liabilities which are carried at amortized cost.

Subsequent accounting for changes in fair value will depend on initial classification. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the consolidated statement of earnings. Unrealized gains and losses on financial assets that are held as available for sale are to be recorded in other comprehensive income until realized, at which time they will be recorded in the consolidated statement of earnings. During 2007, the Trust did not have any financial assets or liabilities other than cash which would be designated as either held for trading or available for sale.

(c) Section 3865 – Hedges

This section specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of foreign currency exposures of net investments in self sustaining foreign operations.

There was no impact to opening retained earnings on adoption of these new accounting recommendations, and the adoption of these new accounting recommendations did not have a material impact on these consolidated financial statements.

3. Recent Canadian Accounting Pronouncements not yet adopted:

The CICA issued the following new accounting standards that apply to the Trust for fiscal periods beginning on or after October 1, 2007, CICA Handbook Section 1535, Capital Disclosures; CICA Handbook Sections 3862 and 3863, Financial Instruments - Presentation and Disclosure; and CICA Handbook Section 3031, Inventories. The standards will be adopted prospectively.

(a) Section 1535 - Capital Disclosures

This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal periods beginning on or after October 1, 2007, specifically January 1, 2008 for the Trust. The Trust has determined that the adoption of the new standard will not have a material effect on the Trust's financial statements.

(b) Sections 3862 and 3863 - Financial Instruments Presentation and Disclosure

These standards, which replace Section 3861 - Financial Instruments Presentation and Disclosure, require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal periods beginning on or after October 1, 2007, specifically January 1, 2008 for the Trust. The Trust has determined that the adoption of the new standards will not have a material effect on the Trust's financial statements.

(Tabular amounts in thousands of Canadian dollars)

(c) Section 3031 - Inventories

This standard was issued to harmonize accounting standards for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Trust. The Trust has determined that the adoption of the new standard will not have a material effect on the Trust's financial statements.

(d) International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Trust continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

4. Inventory:

	2007	2006
Finished goods	$ 3,933	$ –
Work-in-progress	2,946	6,151
Parts and raw materials	25,030	19,773
	$ 31,909	$ 25,924

5. Property, plant and equipment:

December 31, 2007	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 8,515	$ 1,912	$ 6,603
Office and computer equipment	2,478	2,052	426
Shop machinery and equipment	1,942	1,301	641
Rental equipment	86,042	20,782	65,260
Rental equipment under capital lease	3,130	1,109	2,021
Automotive equipment	31,045	8,070	22,975
Contract drilling equipment	72,844	13,984	58,860
Other	400	137	263
	$ 206,396	$ 49,347	$ 157,049

(Tabular amounts in thousands of Canadian dollars)

December 31, 2006	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 8,368	$ 1,535	$ 6,833
Office and computer equipment	2,290	1,809	481
Shop machinery and equipment	1,779	1,055	724
Rental equipment	70,568	16,551	54,017
Rental equipment under capital lease	3,130	640	2,490
Automotive equipment	28,947	5,609	23,338
Contract drilling equipment	71,573	11,300	60,273
Other	300	75	225
	$ 186,955	$ 38,574	$ 148,381

6. Bank indebtedness:

Bank indebtedness consists of advances made on an operating line of credit that is payable on demand. The maximum available under the operating line of credit is $30 million which was increased from $20 million in November 2007. The facility is secured by a first fixed and floating charge on all assets of the Trust, the Company, Bidell LP and certain other collateral security. The facility bears interest at the bank's prime rate plus 0.25%.

7. Long-term debt:

	2007	2006
Loan payable, requiring monthly payments of $666,667 (2006 - $391,667)	$ 29,383	$ 18,248
Less current portion	8,000	4,703
	$ 21,383	$ 13,545

Interest is calculated at the lesser of the current short-term Bankers Acceptance rate plus a 1.50% stamping fee, or the bank's prime rate plus 0.50%. The loan is a revolving evergreen facility with each drawdown repaid over sixty months and is available to a maximum of $35 million. The facility is secured by a first fixed and floating charge on all assets of the Trust, the Company, Bidell LP and certain other collateral security.

(Tabular amounts in thousands of Canadian dollars)

Principal payments due over the next five years are as follows:	
2008	$ 8,000
2009	8,000
2010	7,333
2011	3,300
2012	2,750
Total	$ 29,383

8. Obligations under capital leases:

The Company has entered into various capital lease agreements with third parties for the purpose of financing certain rental equipment. The leases bear interest at rates ranging from 0.0% to 2.85% and mature on various dates up to 2008.

For 2007, interest of $11,798 (2006 - $13,181) relating to capital lease obligations has been included in interest on long-term debt.

Principal payments of $408,000 are remaining on the leases, which payments are due in 2008.

9. Income taxes:

Bill C-28 Budget Implementation Act, 2007 ("Bill C-28") was substantively enacted by the Canadian government in December of 2007. Included in Bill C-28 was a federal income tax rate reduction of 3.5%, to be implemented from 2008 – 2012. This resulted in a $2.7 million future income tax recovery in the fourth quarter of 2007.

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates. The reasons for the differences are as follows:

	2007	2006
Income tax rate	32.12%	32.49%
Expected tax expense	$ 8,365	$ 19,474
Decrease in taxes resulting from:		
Future income tax rate adjustment	(3,426)	(2,558)
Amounts included in Trust income	(9,672)	(11,501)
Other	(82)	(54)
Provision for income taxes	$ (4,815)	$ 5,361

(Tabular amounts in thousands of Canadian dollars)

The components of the net future income tax liability at December 31 are as follows:

	2007	2006
Future income tax assets:		
Non capital loss carryforward	$ 372	$ –
Other	17	59
	389	59
Future income tax liabilities:		
Property, plant and equipment	18,731	17,744
Other	19	23
	18,750	17,767
Net future income tax liabilities	$ 18,361	$ 17,708

The business and operations of the Trust are complex and the Trust has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Trust's interpretation of relevant tax legislation and regulations. The Trust's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Trust's interpretation of the applicable tax legislation and regulations.

10. Trust Unit Capital and Exchangeable Share Capital:

(a) Authorized:

Total Energy Services Trust

The authorized Trust Unit capital of the Trust consists of an unlimited number of Trust Units.

Redemption Clause

Each Unitholder is entitled to require the Trust to redeem its units at a price per Trust Unit equal to the lesser of: (i) 95% of the "market price" of the Trust Units on the principal exchange or market on which the Trust Units are quoted for trading during the 10 consecutive trading day period ending on the trading day immediately prior to the date on which the Trust Units are tendered for redemption; and (ii) 100% of the "closing market price" on the principal exchange or market on which the Trust Units are quoted for trading on the date that the Trust Units are so tendered for redemption.

(b) Trust Unit capital issued:

Trust Units of Total Energy Services Trust	Number of units (in thousands)	Amount
Balance, December 31, 2005	28,959	$ 60,802
Issued on conversion of Exchangeable Shares	217	269
Repurchased and cancelled	(40)	(87)
Balance, December 31, 2006	29,136	60,984
Issued on conversion of Exchangeable Shares	760	855
Repurchased and cancelled	(396)	(855)
Balance, December 31, 2007	29,500	$ 60,984

(c) Exchangeable Share capital issued:

All outstanding Exchangeable Shares of the Company were redeemed on June 6, 2007. Prior to the redemption, the Exchangeable Shares were convertible into Trust Units based on the exchange ratio, which was adjusted monthly to reflect the distributions paid on the Trust Units. Cash distributions were not paid on the Exchangeable Shares. During 2007 a total of 654,106 Exchangeable Shares were converted into 759,960 Trust Units. During 2006 a total of 205,333 Exchangeable Shares were converted into 216,682 Trust Units.

Exchangeable Shares of TESL	Number of shares (in thousands)	Amount
Balance, December 31, 2005	860	$ 1,124
Exchanged for Trust Units	(205)	(269)
Balance, December 31, 2006	655	855
Exchanged for Trust Units	(655)	(855)
Balance, December 31, 2007	–	$ –

(Tabular amounts in thousands of Canadian dollars)

(d) Per Unit amounts:

Earnings per unit is calculated using earnings and the weighted average number of Trust Units outstanding. Diluted earnings per unit is calculated using earnings and the weighted-average number of diluted units outstanding.

	Year ended December 31, 07	Year ended December 31, 07
Weighted average number of Trust Units and Exchangeable Shares outstanding	29,771,591	29,818,307
Trust Units issuable pursuant to Exchangeable Shares outstanding	–	87,663
Weighted average number of diluted Trust Units and Exchangeable Shares outstanding	29,771,591	29,905,970

(e) Units purchased:

Under the provisions of the normal course issuer bid which terminates on March 26, 2008, the Trust purchased 395,802 Trust Units (2006 – 40,000) at an average price of $7.34 (2006 - $13.71), including commissions, and such Trust Units were cancelled. The excess of price paid over the average price per Trust Unit is charged to retained earnings.

11. Commitments:

The Trust has operating lease commitments for vehicles and buildings for the next five years as follows:

2008	$	2,257
2009		1,797
2010		987
2011		756
2012		485

The Trust also has purchase obligations of $0.7 million in 2008 relating to commitments to acquire inventory.

12. Contingency

One of the Trust's non-operating subsidiaries has recently been re-assessed by the Ontario Ministry of Finance for income taxes relating to a corporate re-organization undertaken by the Company prior to its trust conversion. The Trust has received both legal and tax advice indicating that the technical merits of its subsidiary's filing position is strong. The Trust intends to vigorously defend such filing position. The total amount of the reassessment is approximately $5 million.

13. Financial instruments:

(a) Risk management activities:

The Trust does not have a significant exposure to any individual customer or counter party other than two customers, one engineering consulting firm and one major independent oil and gas company, which accounted for 11% and 10% of revenue respectively. No other customer accounted for more than 10% of revenue. Concentration of credit risk on the Trust's trade accounts receivable exists in the oil and gas industry.

(b) Fair values:

The carrying values of bank indebtedness, accounts receivable, inventory, income taxes receivable, accounts payable and accrued liabilities, distributions payable and income taxes payable approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of long-term debt is determined at the present value of contractual future payments of principal, discounted at the current market rates for interest available to the Trust for the same or similar debt instruments with fixed interest rates. All long-term debt with variable interest rates are assumed to already be at fair value and therefore are not revalued.

(c) Interest rate risk:

The Trust manages its interest rate risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. At December 31, 2007 virtually all long-term debt was at a short term fixed Banker's Acceptance rate maturing on February 1, 2008.

(d) Foreign currency risk:

The Trust mitigates its foreign currency risk by purchasing foreign currencies to the extent it deems necessary to offset foreign currency obligations at any given time. The Trust also includes an exchange rate fluctuation provision in purchase order contracts where a significant portion of the inputs from such orders are sourced through international suppliers.

(Tabular amounts in thousands of Canadian dollars)

14. Changes in non-cash working capital items:

	2007	2006
Accounts receivable	$ 5,973	$ 10,708
Inventory	(5,985)	(153)
Income taxes receivable	(5,742)	–
Prepaid expenses and deposits	(547)	(142)
Accounts payable and accrued liabilities	(8,431)	(5,112)
Distributions payable	(5,379)	3,947
Income taxes payable	(2,579)	356
	$ (22,690)	$ 9,604
Less: Financing non-cash working capital items	(5,379)	3,947
Operating non-cash working capital items	$ (17,311)	$ 5,657

Financing non-cash working capital items consists of Distributions payable.

(Tabular amounts in thousands of Canadian dollars)

15. Segmented information:

The Trust operates in three main industry segments which are substantially in one geographic segment. These segments are Contract Drilling Services, which includes the contracting of drilling equipment and the provision of labour required to operate the equipment, Drilling and Production Rentals, which includes the rental and transportation of surface equipment used in drilling and production processes and Gas Compression Services, which includes the manufacturing, sale, rental and servicing of natural gas compression equipment.

The segmented amounts are as follows:

December 31, 2007	Contract drilling services	Drilling and production rentals	Gas compression services	Other[1]	Total
Revenue	$ 29,062	$ 52,396	$ 54,126	$ –	$ 135,584
Operating earnings	6,696	15,138	7,684	(4,081)	25,437
Depreciation	2,753	7,430	1,033	39	11,255
Assets	68,029	100,335	53,158	7,095	228,617
Goodwill	–	2,514	1,539	–	4,053
Capital expenditures[2]	1,665	14,015	7,014	109	22,803

December 31, 2006	Contract drilling services	Drilling and production rentals	Gas compression services	Other[1]	Total
Revenue	$ 42,024	$ 73,098	$ 87,544	$ –	$ 202,666
Operating earnings	13,661	34,439	15,244	(4,324)	59,020
Depreciation	3,258	6,466	986	21	10,731
Assets	69,634	99,387	43,503	1,124	213,648
Goodwill	–	2,514	1,539	–	4,053
Capital expenditures	10,576	22,122	942	20	33,660

(1) Other includes the Trust's corporate activities and in 2007 "Assets" includes income taxes receivable of $5.7 million.

(2) Included in capital expenditures in the Drilling and Production Rentals division for 2007 is the $9.4 million purchase of the operating assets of a private company.

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per unit data)	2007	2006	2005	2004	2003
Revenue	135,584	202,666	157,542	106,291	79,933
EBITDA (1)	39,682	72,273	50,502	30,116	22,740
Operating earnings (1)	25,437	59,020	39,913	22,755	15,701
Cash flow from operations, before changes in non-cash working capital (1)	42,160	66,544	41,336	27,258	20,038
Net earnings	30,858	54,577	31,770	15,973	11,505
Interest expense (2)	2,384	1,604	1,491	1,060	1,456
Depreciation	11,255	10,731	9,067	6,233	5,255
Capital expenditures, net	19,317	28,200	49,981	23,665	17,410
Earnings per unit - diluted	1.04	1.82	1.12	0.57	0.44
EBITDA per unit - diluted (1)	1.33	2.42	1.78	1.08	0.88
Cash flow from operations, before changes in non cash working capital per unit - diluted (1)	1.42	2.23	1.46	0.97	0.77
FINANCIAL POSITION					
Working capital (3)	13,438	15,907	16,438	13,070	10,005
Total assets	228,617	213,648	205,674	135,491	109,489
Long-term debt	21,383	13,545	16,654	15,219	14,929
Unitholder's equity	134,796	136,686	118,056	74,807	58,692

(1) Operating earnings are earnings before gain (loss) on sale of equipment and income taxes. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to earnings before income taxes plus interest on long-term debt plus other interest expense plus depreciation. Cashflow means cash provided by operations before changes in non-cash working capital items. Operating earnings, EBITDA and cashflow are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Management believes in addition to net earnings, operating earnings, EBITDA and cashflow are useful supplemental measures as they provide an indication of the results generated by the Trust's primary business activities prior to consideration of how those activities are financed, amortized or how the results are taxed in various jurisdictions as well as the cash generated by the Trust's primary business activities without consideration of the timing of the monetization of non-cash working capital items. Investors should be cautioned, however, that operating earnings, EBITDA and cashflow should not be construed as an alternative to net earnings determined in accordance with GAAP as an indicator of Total Energy's performance. Total Energy's method of calculating operating earnings, EBITDA and cashflow may differ from other organizations and, accordingly, operating earnings, EBITDA and cash flow may not be comparable to measures used by other organizations.

(2) Interest expense is other interest expense plus interest on long term debt.

(3) Working capital equals current assets minus current liabilities.

BOARD OF DIRECTORS

Bruce Pachkowski [1 2]
Chairman of the Board

Daniel Halyk [3]
President and Chief Executive Officer

Gregory Fletcher [1 3]

Randy Kwasnicia [1]

Thomas Stan [2 3]

Andrew Wiswell [2]

1 Member of the Compensation Committee
2 Member of the Audit Committee
3 Member of the Corporate Governance and Nominating Committee

MANAGEMENT TEAM

TOTAL ENERGY SERVICES LTD.

Daniel Halyk
President and Chief Executive Officer

Brad Macson
Vice President, Operations

Mark Kearl
Vice President Finance and Chief Financial Officer

Terence Bell
General Counsel and Corporate Secretary

CHINOOK DRILLING, a division of Total Energy Services Ltd.

Rod Rundell - General Manager

TOTAL OILFIELD RENTALS, a division of Total Energy Services Ltd.

Gerry Crawford - General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Warren Craddock - General Manager

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STOCK EXCHANGE LISTING
Toronto Stock Exchange
Symbol: TOT.UN

DESIGN AND PRODUCTION DESCHENES REGNIER PRINTED IN CANADA

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Lac La Biche • Manning • Medicine Hat • Peace River • Red Deer • Red Earth • Rocky Mountain House

Valleyview • Weyburn/Midale • Whitecourt

CHINOOK Drilling
a division of Total Energy Services Ltd.

TOTAL OILFIELD RENTALS
(A Division of Total Energy Services Ltd.)

BIDELL EQUIPMENT LP
GAS COMPRESSION