# FOCUS DISCIPLINE GROWTH

First Quarter Report 2008

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.

# REPORT TO UNITHOLDERS

## FINANCIAL RESULTS

Total Energy's financial results for the three months ended March 31, 2008 reflect continuing challenging industry conditions in western Canada. While the first quarter was seasonally active, lower industry drilling activity levels, particularly in natural gas prone areas of Alberta, and excess service industry capacity resulted in lower industry utilization rates than the prior winter drilling season which in turn put pressure on pricing.

For the three months ended March 31, 2008 as compared to the same period in 2007, revenues decreased 19% to \$43.5 million (2007: \$53.5 million), EBITDA decreased 17% to \$16.7 million or \$0.57 per unit diluted (2007: \$20.1 million; \$0.67 per unit diluted), cashflow decreased 22% to \$13.8 million or \$0.47 per unit diluted (2007: \$17.7 million; \$0.59 per unit diluted) and net earnings decreased 31% to \$9.6 million or \$0.33 per unit diluted (2007: \$13.9 million; \$0.47 per unit diluted).

Total assets increased 4% to \$237.3 million as at March 31, 2008 from \$228.6 million at December 31, 2007. Long-term debt increased by 2% from December 31, 2007 to \$21.8 million as at March 31, 2008. Total Energy had no net debt as at March 31, 2008, with net debt being equal to long-term debt plus current liabilities minus current assets. Working capital increased to \$22.5 million at March 31, 2008 compared to \$13.4 million at December 31, 2007. Unitholders' equity increased 5% to \$141.5 million as at March 31, 2008 from \$134.8 million at December 31, 2007.

## OUTLOOK

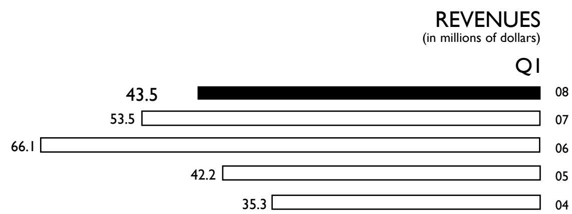
While industry conditions in Canada entering the first quarter of 2008 were challenging, particularly in natural gas prone areas of Alberta, record high oil prices and the recent strengthening of natural gas prices has improved the outlook for western Canadian industry activity levels. As well, movement of service equipment out of western Canada to more active international markets and the retirement of older equipment are expected to mitigate somewhat excess service industry capacity in western Canada. In response to specific growth opportunities in southeastern Saskatchewan and northeastern British Columbia, Total Energy has increased its 2008 capital expenditure budget by \$6.3 million to \$13.2 million.

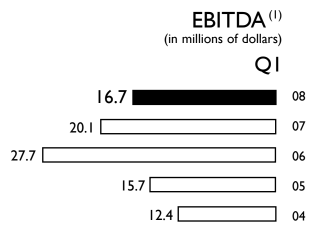
On behalf of the board of directors and management of Total Energy, I would like to thank all of our employees for their hard work, loyalty and commitment to safety during what has been a challenging environment for Canadian energy service companies. A special thank you and congratulations is extended to all employees who have achieved 10 years of service with the Total Energy group of companies.

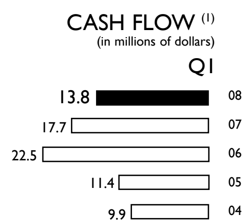
Unitholders are encouraged to attend Total Energy's annual meeting of Unitholders' scheduled for 10:00 a.m. (Calgary time) on May 22, 2008 at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

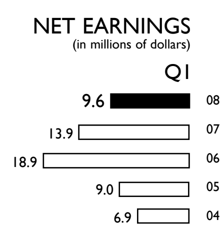
DANIEL K. HALYK
President and Chief Executive Officer
May 2008

# FIRST QUARTER GROWTH




(1) 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 flows from operations before changes in non-cash working capital items. EBITDA and cashflow are not recognized measures under Canadian generally accepted accounting principles (GAAP). Management believes in addition to net 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. Investors should be cautioned, however, that 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 EBITDA and cashflow may differ from other organizations and, accordingly, EBITDA and cashflow may not be comparable to measures used by other organizations.

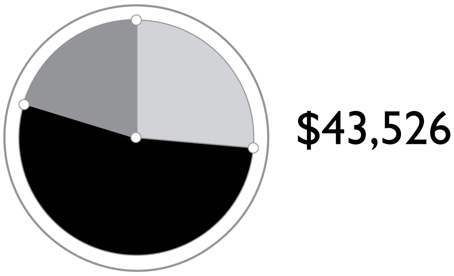
# SEGMENTED INFORMATION

FOR THE THREE MONTHS ENDED MARCH 31

(in thousands of Canadian dollars; Unaudited)

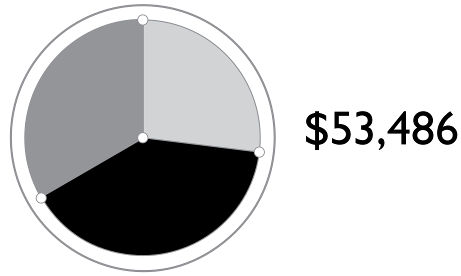
## REVENUE DIVERSIFICATION

2008




| | | |
|---|---|---|
| $11,604 | ● | Contract drilling |
| $23,118 | ● | Drilling and production rentals |
| $8,804 | ● | Gas compression |

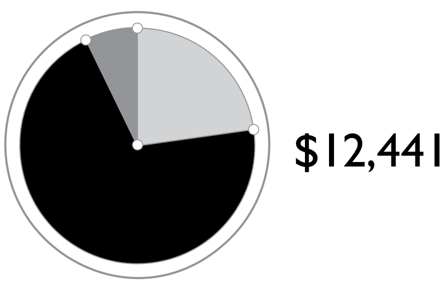
2007




| | | |
|---|---|---|
| $14,472 | ● | Contract drilling |
| $21,269 | ● | Drilling and production rentals |
| $17,745 | ● | Gas compression |

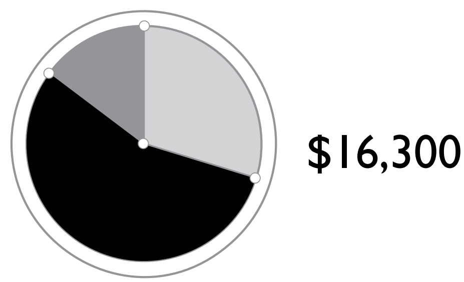
## OPERATING EARNINGS (1)

2008




| | | |
|---|---|---|
| $3,113 | ● | Contract drilling |
| $9,575 | ● | Drilling and production rentals |
| $974 | ● | Gas compression |
| $(1,221) | ○ | Other (2) |

2007




| | | |
|---|---|---|
| $5,222 | ● | Contract drilling |
| $9,719 | ● | Drilling and production rentals |
| $2,564 | ● | Gas compression |
| $(1,205) | ○ | Other (2) |

(1) Operating earnings (loss) are earnings before gain (loss) on disposal of equipment and income taxes.
(2) Other includes the Trust's corporate activities.



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

The following MD&A, dated May 8, 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 months ended March 31, 2008, should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2008 and related notes and material contained in other parts of this report. As well, this discussion and analysis of the financial condition and results of operations for the three months ended March 31, 2008, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2007 and related notes and material contained in other parts of the 2007 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 Energy, 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 prices 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.

## RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited interim consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Trust's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Trust, and has reviewed and approved this MD&A and the accompanying unaudited interim consolidated financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management (collectively, the "Officers"), have designed the Trust's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Trust and its consolidated divisions and subsidiaries would have been known to them and others within those entities.

Additionally, the Officers have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP. There has been no change in the design of the Trust's internal controls over financial reporting during the quarter ended March 31, 2008, that would materially affect, or is reasonably likely to materially affect, the Trust's internal controls over financial reporting.

While the Officers have designed the Trust's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures will not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## NON-GAAP MEASURES

Operating earnings are earnings before gain on disposal 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") although Total Energy investigates opportunities from time to time to expand its operations 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 are the primary markets 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 Western Canada. The Trust currently owns and operates approximately 3,900 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 through both internal growth 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

The Trust had a positive first quarter of 2008, as activity levels improved from the previous quarter into what is typically the Trust's busiest quarter. Although activity levels improved from the previous quarter, industry activity levels were lower than the comparable quarter in 2007. While industry activity levels continued to be negatively impacted by weak natural gas prices during the first quarter of 2008, record high oil prices and a recent strengthening of natural gas prices has improved the outlook for industry activity levels in the WCSB for the remainder of 2008.

The Trust's financial condition remains strong. The Trust realized a $9.1 million working capital increase during the first three months of 2008, from $13.4 million as at December 31, 2007 to $22.5 million as at March 31, 2008. As at March 31, 2008 long-term debt to equity was 0.15 to 1.0 and the Trust had no net debt (net debt being current assets less current liabilities less long-term debt).

## 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 and return on equity.
- 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 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, that natural gas is increasingly used in the generation of electricity 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 69% in 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. 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. While exploration and development companies had generally indicated that their 2008 WCSB capital budgets would decline compared to 2007 capital expenditure levels, record high oil prices, the recent strengthening of natural gas prices and indications that the Alberta government is working with industry to develop appropriate incentives for certain natural gas drilling has improved the outlook for industry activity levels in the WCSB for the remainder of 2008.

**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.

## RESULTS OF OPERATIONS

### Consolidated Revenue

Revenues decreased 19% to $43.5 million for the three months ended March 31, 2008 versus $53.5 million for the same period in 2007.

## DIVISIONAL REVENUE

Divisional revenues for the three months ended March 31, 2008 were $11.6 million for Contract Drilling Services, $23.1 million for Drilling and Production Rentals and $8.8 million for Gas Compression Services.

### Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division decreased by 20% to $11.6 million for the three months ended March 31, 2008 as compared to $14.5 million for the same period in 2007. Revenue decreased due to lower utilization rates and decreased pricing. For the first quarter of 2008 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 57%, as compared to 70% for the same period in 2007. Operating days (spud to release) for the three months ended March 31, 2008 totaled 680 days, as compared to 752 days for the same period in 2007. The utilization rate and operating days for the three months ended March 31, 2008 reflects 13 rigs while the utilization rate and operating days for the same period of 2007 reflects 12 rigs. Revenue per operating day received for contract drilling services for the three months ended March 31, 2008 decreased by approximately 11% as compared to the same period in 2007. The decrease was due primarily to lower pricing.

### Drilling and Production Rentals

The revenue reported from Total Energy's Drilling and Production Rentals division increased by 9% from $21.3 million in the first quarter of 2007 to $23.1 million in the first quarter of 2008. Revenue increased during the first quarter of 2008 as compared to the prior year comparable period due to a larger equipment fleet that operated at a higher utilization rate that was partially offset by reduced pricing. Average utilization of the rental assets was 59% for the three months ended March 31, 2008, as compared to 50% during the corresponding period in 2007. This division exited the first quarter of 2008 with approximately 3,900 pieces of rental equipment as compared to approximately 3,500 pieces at the end of the first quarter of 2007. This division also exited the first quarter of 2008 with a fleet of 71 heavy trucks, as compared to 66 heavy trucks at the end of the first quarter of 2007.

### Gas Compression Services

The revenue reported from Total Energy's Gas Compression Services division decreased 50% to $8.8 million in the first quarter of 2008 as compared to $17.7 million for the same period in 2007. The decrease in revenues in the first quarter of 2008 was attributable to weaker demand from this division's domestic customers as compared to the same period in 2007. This division exited the first quarter of 2008 with a backlog of fabrication orders of approximately $3.7 million, as compared to a backlog of $3.5 million as at March 31, 2007. As at March 31, 2008 the total horsepower of compressors on lease was approximately 10,900 as compared to approximately 9,700 as at March 31, 2007 and 12,500 as at December 31, 2007. The compression rental fleet experienced an average utilization of 86% (based on fleet horsepower) for the first three months of 2008 as compared to 92% for the same period in 2007.

### 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 22% for the quarter ended March 31, 2008 to $22.4 million as compared to $28.7 million for the same period in 2007. The decrease was due primary to decreased activity in the Contract Drilling Services and Gas Compression Services divisions, which was partially offset by increased activity in the Drilling and Production Rentals division. For the three months ended March 31, 2008 gross margin was 49%, as a percentage of revenue, as compared to 46% for the same period in 2007. The increase in gross margin is due primarily to a decrease in the relative revenue contribution made by the Gas Compression Services division during the first quarter of 2008, which was partially offset by lower gross margins in the Contract Drilling Services and Drilling and Production Rentals divisions due to lower pricing. 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 8% to $4.4 million in the first quarter of 2008 as compared to $4.8 million during the same period in 2007. This decrease resulted from decreased activity in the Contract Drilling Services and Gas Compression Services divisions, which was partially offset by increased activity in the Drilling and Production Rentals division, in 2008 as compared to the same period in 2007. 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 6% during the three months ended March 31, 2008 to $3.5 million, as compared to $3.2 million for the same period in 2007. This increase was due primarily to a larger asset base in 2008 as compared to the same period in 2007. 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 March 31, 2008 as compared to $0.2 million for the same period in 2007. Other interest expense is interest paid on advances under the Trust's operating line of credit. The increase in 2008 as compared to 2007 is due primarily to a higher balance under the Trust's operating line of credit.

**Interest on Long-term Debt**

Interest on long-term debt was $0.4 million for the three months ended March 31, 2008 as compared to $0.3 million for the same period in 2007. The increase in 2008 as compared to 2007 is due primarily to a higher average long-term debt balance during the first quarter of 2008 as compared to 2007. Included in interest on long-term debt is interest on capital leases.

**Operating Earnings**

Operating earnings decreased 24% to $12.4 million for the three months ended March 31, 2008 as compared to $16.3 million for the same period in 2007. The decrease in operating earnings is due to decreased activity levels in the Contract Drilling Services and Gas Compression Services divisions.

The Contract Drilling Services division had operating earnings of $3.1 million for the three months ended March 31, 2008, as compared to operating earnings of $5.2 million for the comparable period in 2007. The operating earnings margin in this division was 27% for the three months ended March 31, 2008 as compared to 36% for the same period in 2007. The operating earnings margin decrease is due primarily to lower utilization rates and decreased pricing in 2008 as compared to the same period in 2007.

The Drilling and Production Rentals division had operating earnings of $9.6 million for the three months ended March 31, 2008, as compared to $9.7 million for the comparable period in 2007. The operating earnings margin was 41% for the three months ended March 31, 2008, as compared to 46% during the same period in 2007. The decrease in operating earnings margin resulted primarily from decreased pricing and increased expenses, including significantly higher fuel costs and the costs associated with the addition of four branch locations since the first quarter of 2007, which was partially offset by higher equipment utilization. Expenses in this division do not decrease in proportion to revenues due to the relatively high fixed cost structure of this business, including depreciation which is calculated on a straight line basis and does not fluctuate with activity levels.

The Gas Compression Services division contributed operating earnings of $1.0 million for the three months ended March 31, 2008 as compared to $2.6 million for the comparable period in 2007. The operating earnings margin in this division was 11% for the three month ended March 31, 2008 as compared to 14% for the same period in 2007. A reduction in revenues during the first quarter of 2008 as compared to the same period in 2007 primarily contributed to the lower operating earnings margin.

The Other division had an operating loss of $1.2 million for the three months ended March 31, 2008 and 2007. 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 $6,000 for the three month ended March 31, 2008 as compared to $87,000 for the comparable period in 2007. 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 $9.6 million ($0.33 per unit on a diluted basis) for the three months ended March 31, 2008 as compared to $13.9 million ($0.47 per unit on a diluted basis) for the comparable period in 2007. Income tax expense was $2.9 million for the three months ended March 31, 2008 as compared to $2.5 million for the same period in 2007. This resulted in an effective tax rate of 23% for the three months ended March 31, 2008, as compared to an effective tax rate of 15% for the comparable period in 2007. The increase in the effective income tax rate for the first quarter of 2008 as compared to the same period in 2007 is due primarily to a decrease in distributions paid by the Trust to unitholders, resulting in higher taxable income as a percentage of net earnings for the Trust.

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 continues to assess Bill C-52 and its potential implications to the Trust and its Unitholders.

One of the Trust's non-operating subsidiaries has 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 are 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 March 31, 2008 to $13.8 million as compared to $17.7 million for the same period in 2007. Cash provided by operations, after changes in non-cash working capital items, decreased by 20% for the three months ended March 31, 2008 to $7.3 million as compared to $9.2 million for the same period in 2007. These decreases are primarily due to decreased operating earnings in all divisions in the first quarter of 2008 as compared to the same period in 2007. 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 months ended March 31, 2008 was $2.3 million, as compared to $4.4 million for the same period in 2007. The majority of cash used in 2008 and 2007 for investment activities related to the purchase of property, plant and equipment. Purchases of property, plant and equipment during the first quarter of 2008 were allocated as follows: $0.7 million in the Contract Drilling Services division, $0.8 million in the

Drilling and Production Rentals division and $1.0 million in the Gas Compression Services division. The majority of the property, plant and equipment additions for the Contract Drilling Services division related to the purchase of rig equipment. The property, plant and equipment additions in the Drilling and Production Rentals division primarily related to the purchase of new rental equipment. Most of the $1.0 million of capital expenditures in the Gas Compression Services division related to additions to the compression rental fleet. During the first quarter 2007, the property, plant and equipment additions were as follows: $0.5 million in the Contract Drilling Services division, $2.9 million in the Drilling and Production Rentals division and $1.2 million in the Gas Compression Services division. The purchase of property, plant and equipment in the first quarter of 2008 was offset by proceeds on disposal of property, plant and equipment of $0.2 million, as compared to $0.3 million in the first quarter of 2007. The disposal of equipment during the first quarter of 2008 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 used in financing activities was $5.0 million for the three months ended March 31, 2008, as compared to $4.8 million for the comparable period of 2007. During the three months ended March 31, 2008 the Trust had net advances under long-term debt of $1.0 million, as compared to net repayments of long-term debt of $1.2 million during the first quarter of 2007. During the three months ended March 31, 2008 the Trust repurchased 50,000 of its issued and outstanding trust units at a total cost including commissions of $251,000 or $5.02 per unit, under its normal course issuer bid. For the same period in 2007 the Trust repurchased 30,000 units at a total cost of $336,100 or $11.20 per unit, under its normal course issuer bid.

**Liquidity**

The Trust had a working capital surplus of $22.5 million at the end of March 31, 2008 as compared to $19.3 million at the end of the first quarter of 2007. This increase in the Trust's working capital position is primarily due to increased inventory in the Gas Compression Services division and an income tax receivable of $5.7 million relating to the fiscal year ended December 31, 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 $2.7 million during the three months ended March 31, 2008, as compared to $8.3 million during the same period in 2007. For the three month period ending March 31, 2008, cash provided by operations, before changes in non-cash working capital items, exceeded distributions by $11.2 million, as compared to $9.3 million for the comparable period in 2007. For the three months period ending March 31, 2008, cash provided by operations, after changes in non-cash working capital items, exceeded distributions by $4.7 million, as compared to $0.8 million for the comparable period in 2007. For the three months ended March 31, 2008, net earnings exceeded distributions by $6.9 million, as compared to $5.6 million for the comparable period in 2007.

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, was $5 million less than distributions for the fiscal year ended December 31, 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 received 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 changes to the royalty regime in Alberta, and excess service industry capacity resulted in challenging industry conditions in Western Canada during 2007, which 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 would arise, the Trust reduced its monthly distribution from $0.095/unit ($1.14/unit per annum) to $0.03/unit ($0.36/unit per annum) beginning with the month of November 2007. The reduced monthly distribution was 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) | | | |
|---|---|---|---|---|
| | **Mar 31, 2008** | Dec 31, 2007 | Sept 30, 2007 | June 30, 2007 |
| Revenue | $ 43,526 | $ 41,528 | $ 24,395 | $ 16,175 |
| Cash provided by operations, before changes in non-cash working capital items | 13,827 | 11,822 | 8,629 | 4,032 |
| Cash provided by operations, after changes in non-cash working capital items | 7,342 | 8,700 | (8,677) | 15,651 |
| Net earnings | 9,594 | 10,415 | 5,190 | 1,321 |
| Per unit (basic and diluted) | 0.33 | 0.35 | 0.18 | 0.04 |

| | Financial Quarter Ended (Unaudited) | | | |
|---|---|---|---|---|
| | **Mar 31, 2007** | Dec 31, 2006 | Sept 30, 2006 | June 30, 2006 |
| Revenue | $ 53,486 | $ 48,219 | $ 49,937 | $ 38,426 |
| Cash provided by operations, before changes in non-cash working capital items | 17,677 | 15,203 | 17,337 | 11,474 |
| Cash provided by operations, after changes in non-cash working capital items | 9,175 | 18,667 | 7,900 | 25,646 |
| Net earnings | 13,932 | 11,335 | 13,778 | 10,571 |
| Per unit (basic) | 0.47 | 0.38 | 0.46 | 0.36 |
| Per unit (diluted) | 0.47 | 0.37 | 0.46 | 0.36 |

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 accessible 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 March 31, 2008, 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)] | $ 30,377 | $ 6,450 | $ 8,600 | $ 8,077 | $ 3,900 | $ 3,350 |
| Obligations under capital leases | 293 | 293 | — | — | — | — |
| Commitments [(2)] | 6,360 | 1,856 | 2,016 | 1,114 | 842 | 532 |
| Purchase obligations [(3)] | 476 | 476 | — | — | — | — |
| Total contractual obligations | 37,506 | 9,075 | 10,616 | 9,191 | 4,742 | 3,882 |

(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 $0.5 million of inventory for the Gas Compression Services division.

## OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2008 and December 31, 2007, the Trust had no off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

During the first quarter of 2008 and 2007 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, $5.1 million budgeted for expansion of the Gas Compression Services division's compression rental fleet pursuant to the Trust's preliminary 2008 capital expenditure budget announced on January 21, 2008 and an approximate $6.3 million increase to the 2008 capital expenditures budget announced on May 8, 2008. The $6.3 million capital expenditure budget increase for 2008 includes $4.3 million of equipment additions to the Drilling and Production Rentals division, $1.2 million of equipment additions to the Contract Drilling Services division and $0.8 million for service infrastructure expansion. The Trust is currently evaluating additional acquisition opportunities but as at the date hereof no 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.

## CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Trust prospectively adopted new accounting recommendations from the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 1535, Capital Disclosures, Section 3031, Inventories, and Sections 3862 & 3863, Financial Instruments Presentation and Disclosure.

(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, as discussed further in Note 2 to the unaudited interim consolidated financial statements. This standard had no impact on the classification or measurement of the Trust's consolidated financial statements.

(b) Section 3031 - Inventories
This standard was issued to harmonize accounting standards for inventories under Canadian GAAP with International Financial Reporting Standards ("IFRS"). 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 standard had no impact on the Trust's valuation of inventory as at January 1, 2008 or on net income for current or prior periods.

(c) 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, as discussed further in Note 2 to the unaudited interim consolidated financial statements. These standards had no impact on the classification or measurement of the Trust's consolidated financial statements.

## RECENT CANADIAN ACCOUNTING PRONOUCEMENTS NOT YET ADOPTED

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. This new standard will be applicable to the Trust on January 1, 2009. The Trust is currently evaluating the impact of this new standard on its consolidated financial statements.

The CICA Accounting Standards Board ("AcSB") has confirmed accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") in 2011. The Trust is currently assessing IFRS and developing a plan to manage the convergence.

## FINANCIAL INSTRUMENTS

**Risk management activities**

The Trust does not have a significant exposure to any individual customer or counter party other than one major independent oil and gas company, which accounted for 10% of revenue during the first three months of 2008. No other customer accounted for more than 10% of revenue during this period. Concentration of credit risk on the Trust's trade accounts receivable exists in the oil and gas industry.

**Fair values**

The carrying values of accounts receivable, income taxes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, income taxes payable and obligations under capital leases 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 March 31, 2008, virtually all debt was at a short-term fixed Banker's Acceptance rate maturing on April 3, 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 March 31, 2008 (in thousands of units) (unaudited) |
|---|---|
| Trust Units | 29,450 |
| Additional Trust Units to be issued | — |
| Fully diluted Trust Units | 29,450 |

There has been no material change in the trust unit data from March 31, 2008 to the date of this report.

## 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 cash flow may be significantly impacted by many factors including commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. The Trust does not have significant exposure to any individual customer or counter-party, other than one major independent oil and gas company which accounted for 10% of consolidated revenues in the first quarter of 2008. No other customer accounted for 10% or more of the Trust’s consolidated revenues in the first quarter of 2008. 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 business and 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 including the Trust's and its subsidiaries' financial performance, debt covenants and obligations, working capital 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 Trust 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.

TOTAL ENERGY SERVICES TRUST

## Consolidated Balance Sheets

(in thousands of Canadian dollars)

| | March 31, 2008 (unaudited) | December 31, 2007 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Accounts receivable | $ 37,862 | $ 28,284 |
| Inventory | 31,986 | 31,909 |
| Income taxes receivable (note 5) | 5,742 | 5,742 |
| Prepaid expenses and deposits | 1,721 | 1,580 |
| | 77,311 | 67,515 |
| Property, plant and equipment | 155,904 | 157,049 |
| Goodwill | 4,053 | 4,053 |
| | $ $237,268 | $ 228,617 |
| LIABILITIES & UNITHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Bank indebtedness | $ 25,361 | $ 28,379 |
| Accounts payable and accrued liabilities | 17,540 | 16,405 |
| Distributions payable (note 4) | 884 | 885 |
| Income taxes payable (note 5) | 2,176 | — |
| Current portion of long-term debt | 8,600 | 8,000 |
| Obligations under capital leases | 293 | 408 |
| | 54,854 | 54,077 |
| Long-term debt | 21,777 | 21,383 |
| Future income taxes (note 5) | 19,148 | 18,361 |
| Unitholders' equity: | | |
| Trust Unit capital (note 6) | 60,876 | 60,984 |
| Retained earnings | 80,613 | 73,812 |
| | 141,489 | 134,796 |
| Contingency (note 10) | | |
| | $ 237,268 | $ 228,617 |
| Supplemental Information: | | |
| Number of trust units outstanding (000's) - Basic and diluted | 29,450 | 29,500 |

See accompanying notes to the consolidated financial statements.

Approved by the Board:

Director, Andrew Wiswell

Director, Bruce L. Pachkowski

TOTAL ENERGY SERVICES TRUST

## Consolidated Statements of Earnings and Retained Earnings

(in thousands of Canadian dollars except per unit amounts)

| | Three months ended March 31 2008 (unaudited) | | Three months ended March 31 2007 (unaudited) | |
|---|---|---|---|---|
| REVENUE | $ | 43,526 | $ | 53,486 |
| Expenses: | | | | |
| Operating (note 7) | | 22,399 | | 28,712 |
| Selling, general and administration | | 4,412 | | 4,805 |
| Depreciation | | 3,452 | | 3,243 |
| Other interest | | 395 | | 159 |
| Interest on long-term debt | | 427 | | 267 |
| | | 31,085 | | 37,186 |
| Operating earnings | | 12,441 | | 16,300 |
| Gain on disposal of equipment | | 6 | | 87 |
| Earnings before income taxes | | 12,447 | | 16,387 |
| Income tax expense (note 5) | | | | |
| Current | | 2,066 | | 1,866 |
| Future | | 787 | | 589 |
| | | 2,853 | | 2,455 |
| Net earnings | | 9,594 | | 13,932 |
| Retained earnings, beginning of period | | 73,812 | | 74,847 |
| Trust distributions (note 4) | | (2,650) | | (8,339) |
| Repurchase and cancellation of trust units in excess of stated trust unit capital | | (143) | | (271) |
| Retained earnings, end of period | $ | 80,613 | $ | 80,169 |
| Earnings per unit: | | | | |
| Basic and diluted (note 8) | $ | 0.33 | $ | 0.47 |

See accompanying notes to the consolidated financial statements.

# TOTAL ENERGY SERVICES TRUST
## Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

| | Three months ended March 31 2008 (unaudited) | Three months ended March 31 2007 (unaudited) |
|---|---|---|
| CASH PROVIDED BY (USED IN): | | |
| Operations: | | |
| Net earnings | $ 9,594 | $ 13,932 |
| Add (deduct) items not effecting cash: | | |
| Depreciation | 3,452 | 3,243 |
| Gain on disposal of equipment | (6) | (87) |
| Future income taxes (note 5) | 787 | 589 |
| | 13,827 | 17,677 |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (9,578) | (5,458) |
| Inventory | (77) | 1,070 |
| Prepaid expenses and deposits | (141) | (24) |
| Accounts payable and accrued liabilities | 1,135 | (3,023) |
| Income taxes payable | 2,176 | (1,067) |
| | 7,342 | 9,175 |
| Investments: | | |
| Purchase of property, plant and equipment | (2,501) | (4,603) |
| Proceeds on disposal of property, plant and equipment | 200 | 250 |
| | (2,301) | (4,353) |
| Financing: | | |
| Advances (repayment) of long-term debt | 994 | (1,175) |
| Repayment of obligations under capital leases | (115) | (196) |
| Repurchase of trust units (note 6) | (251) | (336) |
| Distributions to Unitholders (note 4) | (2,650) | (8,339) |
| Distributions payable (note 4) | (1) | (3,471) |
| Increase (decrease) in bank indebtedness | (3,018) | 8,695 |
| | (5,041) | (4,822) |
| Change in cash | — | — |
| Cash, beginning of period | — | — |
| Cash, end of period | $ — | $ — |
| Supplemental information: | | |
| Interest paid | $ 969 | $ 426 |
| Income taxes paid (received) | $ (110) | $ 2,933 |

See accompanying notes to the consolidated financial statements.

Unaudited (tabular amounts in thousands of Canadian dollars)

## 1. Basis of Presentation

The interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The interim consolidated financial statements should be read in conjunction with the Trust's audited consolidated financial statements and the notes thereto contained in the Trust's Annual Report for the year ended December 31, 2007.

## 2. Change in Accounting Policies

Effective January 1, 2008, the Trust prospectively adopted new accounting recommendations from the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 1535, Capital Disclosures, Section 3031, Inventories, and Sections 3862 & 3863, Financial Instruments Presentation and Disclosure.

(a) Section 1535 - Capital Disclosures

The Trust's capital management strategy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain the future development of the Trust's business.

The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Trust's underlying businesses. The Trust seeks to maintain an appropriate balance between the level of long-term debt and unitholders' equity to ensure access to the capital markets to fund growth and working capital having regard to the cyclical nature of the oilfield services industry. Historically the Trust has maintained a conservative ratio of long-term debt to long-term debt plus equity. As at March 31, 2008 and December 31, 2007 these ratios were as follows:

| | March 31, 2008 | Dec 31, 2007 |
|---|---|---|
| Long-term debt (including current portion) | $ 30,377 | $ 29,383 |
| Unitholders' equity | 141,489 | 134,796 |
| Total capitalization | $ 171,866 | $ 164,179 |
| Long-term debt to long-term debt plus equity ratio | 0.18 | 0.18 |

The Trust is subject to externally imposed minimum capital requirements relating to its credit facilities. The Trust monitors these requirements to ensure compliance with them. As at March 31, 2008, the Trust was in compliance with all external minimum capital requirements.

There were no changes in the Trust's approach to capital management during the year.

(b) Section 3031 - Inventories

This standard was issued to harmonize accounting standards for inventories under Canadian GAAP with International Financial Reporting Standards ("IFRS"). 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 standard had no impact on the Trust's valuation of inventory as at January 1, 2008 or on net income for current or prior periods.

(c) Sections 3862 & 3863 - Financial Instruments Presentation and Disclosure

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Trust has designated its financial instruments into the following categories applying the indicated measurement methods:

Unaudited (tabular amounts in thousands of Canadian dollars)

| Financial Instrument | Category | Measurement Method |
|---|---|---|
| Accounts receivable | Loans and receivables | Amortized cost |
| Income taxes receivable | Loans and receivables | Amortized cost |
| Bank indebtedness | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Distributions payable | Other liabilities | Amortized cost |
| Income taxes payable | Other liabilities | Amortized cost |
| Capital leases | Other liabilities | Amortized cost |
| Long-term debt | Other liabilities | Amortized cost |

- Fair value of financial instruments

The Trust's financial instruments as at March 31, 2008 and 2007 include accounts receivable, income taxes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, income taxes payable, capital leases and long-term debt. The fair value of accounts receivable, income taxes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, income taxes payable and capital leases approximate their carrying amounts due to their short-terms to maturity. Long-term debt utilizes a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates and accordingly its fair market value approximates the carrying value.

The Trust has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Trust's exposure to each of the above risks and the Trust's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

**Credit risk**

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Trust's trade accounts receivable.

The vast majority of the Trust's trade accounts receivable are customers involved in the oil and gas industry, and the ultimate collection of the accounts receivable is dependent on both industry related factors and customer specific factors. Industry related factors that may effect collection include commodity prices and access to capital. Customer specific factors that may effect collection include commodity prices, the success of drilling programs, well reservoir decline rates and access to capital. As at March 31, 2008, $1.7 million, or 4.3% of accounts receivable were more than 90 days overdue, which is consistent with historical aging profiles. The movement in the Trust's allowance for doubtful accounts for the first quarter of 2008 was as follows:

| Allowance for doubtful accounts | |
|---|---|
| Balance at January 1, 2008 | $ 400 |
| Provisions and revisions | 100 |
| Balance at March 31, 2008 | $ 500 |

**Liquidity risk**

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they are due. The Trust's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable costs or losses or risking harm to the Trust's reputation. The Trust maintains an operating line of credit and long-term debt facility which are available to a maximum of $65 million to ensure the Trust has sufficient working capital to operate its business. As at March 31, 2008 approximately $9.3 million of these facilities remained unutilized.

The repayment terms of the Trust's credit facilities were presented in the Trust's audited consolidated financial statements for the year ended December 31, 2007.

The Trust expects that cash flow from operations in 2008, together with existing and available credit facilities, will be sufficient to fund its requirements for investments in working capital, capital assets, distribution payments, and trust unit repurchases.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Trust's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

- Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Currently all of the Trust's sales are denominated in Canadian dollars, which is the Trust's functional currency, and as such the trust does not have any foreign currency exchange rate risk with respect to revenues. The Trust estimates that less than 10% of its operating expenses are denominated in a foreign currency. Where foreign currency denominated purchases are made, it is the Trust's practice to purchase sufficient funds in the foreign currency to which the order is denominated to protect against foreign exchange rate changes from the date of order to when payment is made. In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Trust had no forward exchange rate contracts in place as at or during the quarter ended March 31, 2008.

- Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Trust is exposed to interest rate fluctuations on its borrowings which utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates. For the three month period ending March 31, 2008, if interest rates had been 1% lower with all other variables held constant, after tax net earnings for the period would have been approximately $100,000 higher (first quarter of 2007 - $48,000), due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher. The sensitivity is higher in the first quarter of 2008 as compared to the same period in 2007 because of an increase in outstanding bank debt.

The Trust had no interest rate swap or financial contracts in place as at or during the quarter ended March 31, 2008.

## 3. Recent Canadian Accounting Pronouncements not yet adopted

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. This new standard will be applicable to the Trust on January 1, 2009. The Trust is currently evaluating the impact of this new standard on its consolidated financial statements.

The CICA Accounting Standards Board ("AcSB") has confirmed accounting standards in Canada for public companies will converge with IFRS in 2011. The Trust is currently assessing IFRS and developing a plan to manage the convergence.

## 4. Distributions Payable

The Trust declared distributions of $0.09 per unit for the three months ended March 31, 2008. Total distributions were $2.7 million for the three months ended March 31, 2008, of which $0.9 million was paid on April 15, 2008 in respect of earnings for the month of March 2008.

Unaudited (tabular amounts in thousands of Canadian dollars)

### 5. Income Taxes

The income taxes receivable of $5.7 million relates to the fiscal year-ended December 31, 2007, where as the income taxes payable of $2.2 million relates to the three month period ending March 31, 2008.

Income tax expense for the three months ended March 31 differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates. The reconciliation of the differences are as follows:

| | 2008 | 2007 |
|---|---|---|
| Income tax rate | 29.50% | 32.12% |
| Expected tax expense | $ 3,672 | $ 5,263 |
| Decrease in taxes resulting from: | | |
| Amounts included in Trust income | (582) | (2,539) |
| Other | (237) | (269) |
| Provision for income taxes | $ 2,853 | $ 2,455 |

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.

### 6. Unitholders' Capital

| **Trust Units** | Number of Units | Amount |
|---|---|---|
| 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 |
| Repurchased and cancelled | (50) | (108) |
| Balance, March 31, 2008 | 29,450 | $ 60,876 |

Under the provisions of the Trust's normal course issuer bid, during the first three months of 2008 the Trust purchased 50,000 Units at an average price of $5.02 per unit, including commissions, and these Units were cancelled.

### 7. Operating Expenses

The amount of inventory recognized as an expense and included in operating expenses during the first quarter of 2008 was $5.8 million which is in respect of the Gas Compression Services Division.

### 8. Earnings per unit

Earnings per unit has been calculated on the basis of the weighted average number of Trust Units outstanding for the three month period ending March 31, 2008 which amounted to 29,467,033 Units (first quarter of 2007 - 29,771,132 Units). Diluted earnings per unit has been calculated, assuming the issuance of Trust Units pursuant to the redemption of Exchangeable Shares outstanding, resulting in an average number of Trust Units of 29,467,033 (first quarter of 2007 - 29,836,149 Units). All outstanding Exchangeable Shares were redeemed on June 6, 2007.

Unaudited (tabular amounts in thousands of Canadian dollars)

**9. Seasonality of Operations**

The Trust's operations are carried on in Canada. 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 they 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 period when the Trust experiences the lowest levels of activity.

**10. Contingency**

One of the Trust's non-operating subsidiaries has been re-assessed by the Ontario Ministry of Finance for income taxes relating to 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 are strong. The Trust intends to vigorously defend such filing position. The total amount of the reassessment is approximately $5 million.

**11. 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 operations and Gas Compression Services, which includes the fabrication, sale, rental and servicing of natural gas compression equipment.

| As at and for the three months ended March 31, 2008 (unaudited) | Contract Drilling Services | Drilling and Production Rentals | Gas Compression Services | Other (2) | Total |
|---|---|---|---|---|---|
| Revenue | $ 11,604 | $ 23,118 | $ 8,804 | $ – | $ 43,526 |
| Operating earnings (loss) (1) | 3,113 | 9,575 | 974 | (1,221) | 12,441 |
| Depreciation | 1,104 | 2,034 | 305 | 9 | 3,452 |
| Assets | 69,372 | 110,735 | 49,805 | 7,356 | 237,268 |
| Goodwill | – | 2,514 | 1,539 | – | 4,053 |
| Capital expenditures | 689 | 787 | 1,025 | – | 2,501 |

| As at and for the three months ended March 31, 2007 (unaudited) | Contract Drilling Services | Drilling and Production Rentals | Gas Compression Services | Other (2) | Total |
|---|---|---|---|---|---|
| Revenue | $ 14,472 | $ 21,269 | $ 17,745 | $ – | $ 53,486 |
| Operating earnings (loss) (1) | 5,222 | 9,719 | 2,564 | (1,205) | 16,300 |
| Depreciation | 1,160 | 1,840 | 236 | 7 | 3,243 |
| Assets | 72,833 | 105,720 | 39,649 | 1,056 | 219,258 |
| Goodwill | – | 2,514 | 1,539 | – | 4,053 |
| Capital expenditures | 454 | 2,863 | 1,219 | 67 | 4,603 |

(1) Operating earnings (loss) are earnings before gain (loss) on disposal of equipment and income taxes.
(2) Other includes the Trust's corporate activities and for March 31, 2008 "Assets" includes an income tax receivable of $5.7 million.

## BOARD OF DIRECTORS

Bruce Pachkowski [2] [3]
Chairman of the Board

Daniel Halyk
President and Chief Executive Officer

Gregory Fletcher [1] [2]

Randy Kwasnicia [1] [3]

Thomas Stan [1] [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

Larry Coston
Executive Sales

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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Calgary, Alberta

### TRUSTEE, REGISTRAR AND TRANSFER AGENT
Olympia Trust Company
Calgary, Alberta

### LEGAL COUNSEL
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Calgary, Alberta

### BANKER
HSBC
Calgary, Alberta

### STOCK EXCHANGE LISTING
Toronto Stock Exchange
Symbol: TOT.UN

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## LOCATIONS

Calgary • Dawson Creek • Drumheller • Edmonton • Edson • Fort Nelson • Fox Creek • Grande Prairie • High Level • Lac La Biche

Manning • Medicine Hat • Peace River • Red Deer • Red Earth • Rocky Mountain House • Valleyview • Weyburn/Midale • Whitecourt