


FOCUS DISCIPLINE GROWTH

Annual 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.

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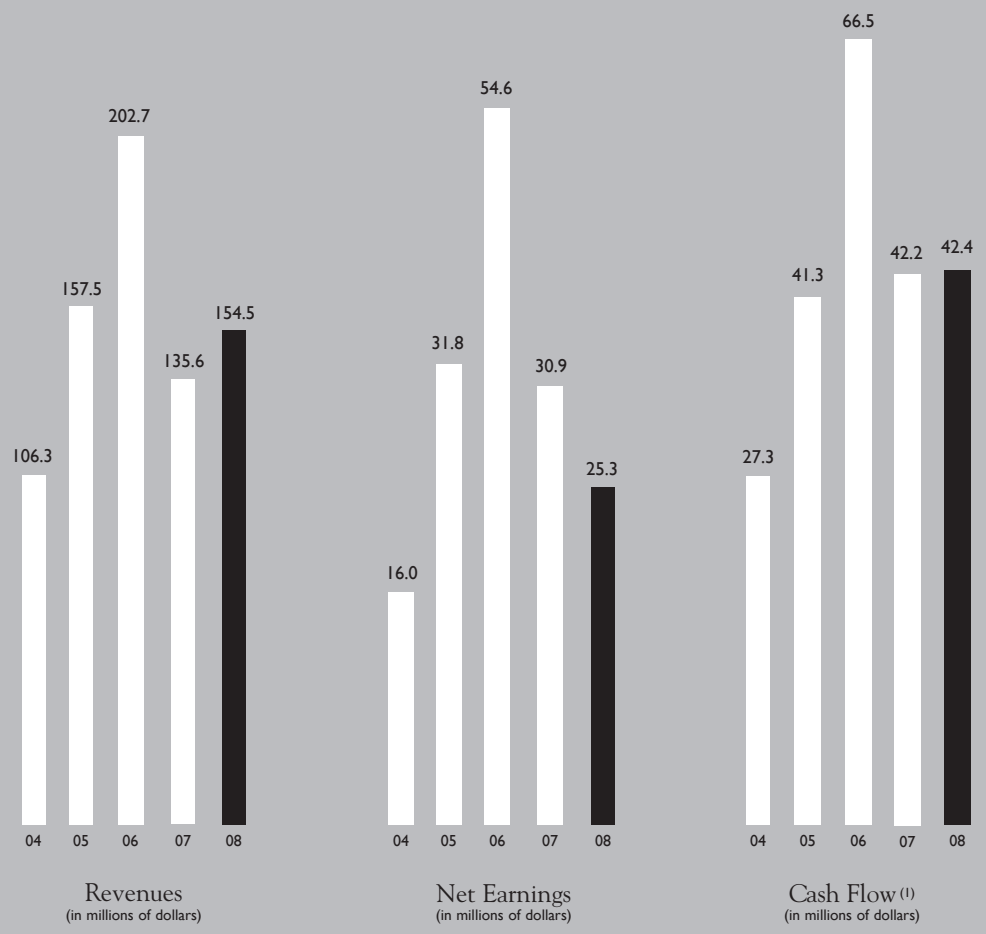


(1) Cash Flow means cash provided by operations before changes in non-cash working capital items.

REPORT TO UNITHOLDERS

2008 was a challenging year for energy services firms operating in Western Canada. A substantial rise in commodity prices during the first half of the year followed by increasing global financial and economic challenges and a substantial decline in commodity prices gave rise to significant industry volatility and uncertainty. The decision of the Alberta government to proceed with the implementation of substantial increases to oil and gas royalties in Alberta compounded the challenges and uncertainty facing the industry.

Total Energy's decision in 2007 to reduce its exposure to Alberta by the relocation of assets into Saskatchewan and British Columbia offset a continued deterioration of activity levels in Alberta during 2008. This geographic diversification combined with $28 million of net capital expenditures during the year to support growth outside of Alberta contributed to increased revenues in 2008 as compared to 2007.

Total Energy has maintained a steady, focused and disciplined approach to growing its business. During the robust industry conditions experienced during 2005 and the first half of 2006, Total Energy's focus was on internal growth and building its balance sheet strength through a disciplined approach to capital expenditures and distributions. In November 2007, Total Energy substantially reduced distributions to the current level in anticipation of difficult industry conditions and compelling investment opportunities. As such, Total Energy's balance sheet continued to strengthen during 2008. In the current economic and financial environment, a strong balance sheet is critical. At year-end, Total Energy had $6.3 million of net debt (being long term debt less working capital) and total assets

of almost $250 million. During 2008, unitholders' equity grew 9% even after the number of Trust Units outstanding was reduced by 2% during 2008 through purchases made under the Trust's normal course issuer bid.

LOOKING FORWARD

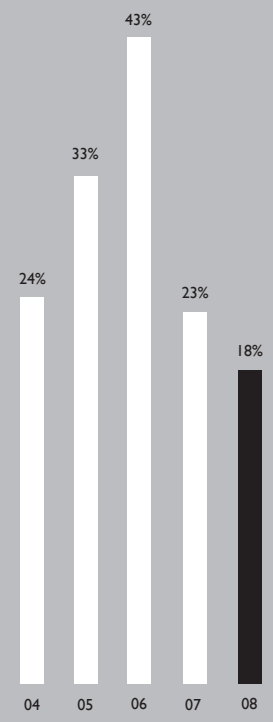
Western Canadian drilling activity levels during the first quarter of 2009 are weak by historical measures, particularly in Alberta. The business environment in which Total Energy operates has become increasingly challenging due to several factors including the global financial and economic crisis, a substantial decline in oil and natural gas prices and uncertainty regarding the timing of price recovery, the negative impact of increased Alberta royalties on producers' cash flow and continued uncertainty as to the possibility of further changes to such royalty regime and energy service industry overcapacity in Western Canada.

While current industry conditions present significant challenges, they also give rise to opportunities. During 2009 Total Energy will be focused on the prudent management of its existing operations as well as capitalizing on growth opportunities with a view to building long term value for our owners while at the same time not putting the Trust at material financial or operational risk. A priority for 2009 will be the focused marketing of Total Energy's proprietary large horsepower mobile compression package to North American unconventional natural gas producers as well as select international markets. Approximately 34,000 horsepower of this proprietary technology has been deployed in North America with 560,000 hours of runtime experience to date. The material operational efficiencies and associated cost savings realized are expected to make this technology well received by producers seeking to lower costs. Finally, with the pending taxation of income trusts, Total Energy is examining alternative legal structures with a view to ensuring that the Trust's corporate structure is appropriate having regard to business, legal and taxation matters.

DANIEL K. HALYK

President and Chief Executive Officer
March 2009

FINANCIAL HIGHLIGHTS



Return on Average Equity [1]

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

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

The following MD&A, dated March 5, 2009, 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 year ended December 31, 2008, should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2008 and related notes and material contained in other parts of the 2008 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 audited 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 audited 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.

Disclosure Controls and Procedures

The Trust's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Trust is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of Total Energy, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Trust's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2008. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer of Total Energy have concluded that the design and operation of the Trust's disclosure controls and procedures were effective as at December 31, 2008.

Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Total Energy are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP"). The Chief Executive Officer and Chief Financial Officer of Total Energy directed the assessment of the design and operating effectiveness of the Trust's internal control over financial reporting as at December 31, 2008 and based on that assessment determined that the Trust's internal control over financial reporting was, in all material respects, appropriately designed and operating effectively. However, during the assessment of the design and operating effectiveness of the Trust's internal control over financial reporting, it was noted that, due to the limited number of staff at some of the Trust's locations, it was not feasible to achieve complete segregation of duties with respect to all internal control functions and processes. This failure to achieve complete segregation of duties combined with the decentralized nature of the Trust's operations increases the risk of misstatement. While management of the Trust has put in place certain plans and procedures to mitigate the risk of a material misstatement in the Trust's financial reporting, a system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well conceived or operated. No changes were made to the Trust's internal control over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

NON-GAAP MEASURES

Operating earnings are earnings before gain on disposal of equipment and income taxes. EBITDA means earnings before interest, taxes, depreciation and amortization and is equal to earnings before income taxes plus interest on

long-term debt plus other interest expense plus depreciation. Cashflow means cash provided by operations before changes in non-cash working capital items. Operating earnings, EBITDA and cashflow are not recognized measures under 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"). Substantially all of the operations of the Trust are conducted within the Western Canadian Sedimentary Basin ("WCSB"), although Total Energy investigates opportunities from time to time to expand its operations outside of the WCSB. Bidell generates international sales from its Calgary based facility and in November 2008 announced the appointment of an Australian distributor.

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. In 2007, Total Energy began to expand its geographical presence in the WCSB to include areas prone to oil exploration and development and to increase its exposure to unconventional resource development. In particular, emphasis was placed on expanding Total Energy's presence in British Columbia and Saskatchewan. 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 measured and strategic organic growth. The Trust intends to achieve ongoing expansion through organic growth and selective acquisitions.

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

Contract Drilling Services: The Trust has targeted the sub-4000 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 currently to depths of up to 3,000 meters and two are Failing 3500 singles rated to 1,200 meters. The Trust is currently looking to increase the depth ratings on certain of its drilling rigs to increase the competitiveness of its fleet. The Trust is focused on establishing a minimum rig fleet size 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. The Trust is currently constructing Rig 14, a 3,400 meter heavy telescopic double drilling rig complete with top drive at a budgeted cost of $9.3 million (including $0.7 million of existing spare parts inventory to be utilized on this rig). Completion is scheduled for the third quarter of 2009.

Drilling and Production Rentals: Historically northern Alberta and northeastern British Columbia were the primary markets for the Trust's drilling and production rentals and oilfield transportation services. In the fourth quarter of 2007, this division expanded its operations into southeastern Saskatchewan. The Trust now operates out of seventeen locations throughout Western Canada. The Trust currently owns and operates approximately 4,500 pieces of rental equipment as well as a modern fleet of 72 heavy trucks. The Trust intends to maintain a modern and high quality equipment base supported by an extensive branch network to maintain a significant presence in its target market. The Trust intends to pursue opportunities, both internal and acquisition, to increase its market share in its existing areas of operation and to further expand its geographic presence within the WCSB.

Gas Compression Services: The Trust has targeted the sub-3000 horsepower gas compression market in western Canada. Recently, the Trust has expanded its market to include international sales, and in November 2008 announced the appointment of Champion Compressors Pty Ltd. as exclusive distributor of Bidell's natural gas compression equipment in Australia. 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. Total Energy has applied for patent protection in Canada, the United States and certain other international jurisdictions for its proprietary trailer-mounted compression package. 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. The Trust is also focused on expanding its parts and service business in the WCSB.

OVERALL PERFORMANCE

Despite global economic and financial market challenges and significant volatility in commodity markets, the Trust realized a 14% increase in revenues and a 21% increase in operating earnings in 2008 compared to 2007. Net income decreased 18% due to a significant income tax expense in 2008 as compared to an income tax recovery in 2007.

The Trust's financial condition remains strong. The Trust had positive working capital of $7.3 million as at December 31, 2008 and a long-term debt (including current portion) to long-term debt plus equity ratio of 0.13 to 1.0 (2007 – 0.18 to 1.0). During 2008 the Trust purchased $28.0 million (net of dispositions) of capital assets while reducing its long-term debt and bank indebtedness balances by $7.9 million and $3.5 million respectively.

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.
- The general state of global and national financial markets which impact the Trust's access to debt and equity, which in turn affects the Trust's 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, particularly during periods of robust industry conditions when competition for skilled labour is greatest. The Trust is continually evaluating its human resources levels to ensure that it has adequate human resources to meet its business requirements, including during extended periods of industry weakness when staffing levels need to be adjusted lower in the face of lower demand for the Trust's products and services. 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, although the Trust is currently investigating options to upgrade its enterprise resource planning system in Bidell to better position Bidell for continued growth.

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 is cautious regarding the near to medium term impact of the global financial crisis and ensuing economic challenges and expects the next several quarters to be challenging. However, the Trust believes that long-term fundamentals require continued exploration and development in the WCSB, particularly in respect of unconventional oil and gas reserves 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, particularly in large, relatively undeveloped unconventional resource areas. This is due to the fact that natural gas reserves in the basin are generally less developed than conventional oil reserves, natural gas is the North American heating fuel of choice, natural gas is increasingly used in the generation of electricity, and 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 60% of the wells drilled in the WCSB during 2008 as compared to 66% for the comparable period in 2007. Near term oversupply of natural gas is expected to put downward pressure on natural gas prices in North America. In 2007 the Trust expanded its geographic presence in the WCSB to include areas prone to oil exploration and development in order to achieve a more balanced and stable revenue base. The decision of the Alberta government to increase royalties on conventional oil and gas production effective January 1, 2009 and the resulting geographical shift away from Alberta by Total Energy's customers, was also a reason for the increased geographical diversification. The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers to find and produce oil and natural gas. These companies base their capital expenditures on several factors, including but not limited to current and expected hydrocarbon prices, exploration and development prospects and access to capital. Activity levels are ultimately dependent on these above and other factors. Exploration and development companies have generally indicated that their 2009 WCSB capital budgets will decline materially compared to 2008 capital expenditure levels and, as such, Total Energy expects 2009 will be a challenging year.

Governmental and Environmental Regulation and Risk Management

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

SELECTED FINANCIAL INFORMATION

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

(in thousands of dollars except per unit amounts)	**Year Ended Dec. 31, 2008**	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Revenue	**$ 154,482**	$ 135,584	$ 202,666
Cash provided by operations before changes in non-cash working capital items	**42,412**	42,160	66,544
Net earnings	**25,333**	30,858	54,577
Per unit (basic)	**0.86**	1.04	1.83
Per unit (diluted)	**0.86**	1.04	1.82
Total assets	**247,515**	228,617	213,648
Long term liabilities (excluding current portions of long-term debt, current obligations under capital leases and future income taxes)	**13,521**	21,383	13,947

In 2008 the Trust experienced higher demand for products and services in both its Contract Drilling Services division and its Drilling and Production Rentals division offset by lower demand within its Gas Compression Services division. Overall revenue for the Trust increased by 14% in 2008 versus 2007 and was 24% lower than in 2006.

Cash provided by operations (before changes in non-cash working capital items) was consistent for 2008 and 2007 but was 36% lower than in 2006. Net earnings in 2008 were 18% and 54% lower than 2007 and 2006 respectively. The decrease in net earnings in 2008 versus 2007 was due to income tax expense, which was $5.4 million in 2008 versus an income tax recovery of $4.8 million in 2007.

The Trust's total assets have increased by 16% since 2006. This increase reflects growth in all of the Trust's divisions.

RESULTS OF OPERATIONS

Consolidated Revenue

Revenues increased 20% to $49.7 million for the three months ended December 31, 2008 versus $41.5 million for the same period in 2008 and increased 14% to $154.5 million for the year ended December 31, 2008 versus $135.6 million for the same period in 2007.

DIVISIONAL REVENUE

Divisional revenues for the three months ended December 31, 2008 were $9.9 million for Contract Drilling Services, $20.7 million for Drilling and Production Rentals and $19.1 million for Gas Compression Services. Divisional revenues for the year ended December 31, 2008 were $37.1 million for Contract Drilling Services, $70.2 million for Drilling and Production Rentals and $47.1 million for Gas Compression Services.

Contract Drilling Services

The revenue reported from Total Energy's Contract Drilling Services division increased by 26% to $9.9 million for the three months ended December 31, 2008 as compared to $7.9 million for the same period in 2007, and increased by 28% to $37.1 million for the year ended December 31, 2008 as compared to $29.1 million for the same period in 2007. Revenue increased due to higher utilization. For the three months and year ended December 31, 2008 the Contract Drilling Services division achieved a utilization rate, on a spud to release basis, of 49%, as compared to 40% and 36% respectively for the same periods in 2007. Operating days (spud to release) for the three months and year ended December 31, 2008 totaled 590 and 2,328 days respectively, as compared to 476 days and 1,660 days respectively for the same periods in 2007. The utilization rates and operating days for the three months and year ended December 31, 2008 reflects 13 rigs, while the utilization rates for 2007 reflect 12 rigs until the beginning of the third quarter of 2007 when a thirteenth rig was added. Revenue per operating day received for contract drilling services for the three months and year ended December 31, 2008 increased by approximately 2% and decreased by 9% respectively as compared to the same periods in 2007.

Drilling and Production Rentals

The revenue reported from Total Energy's Drilling and Production Rentals division increased by 62% to $20.7 million for the three months ended December 31, 2008 as compared to $12.8 million for the same period in 2007, and increased by 34% to $70.2 million for the year ended December 31, 2008 as compared to $52.4 million for the same period in 2007. Revenue increased from the prior year comparable periods due to a larger equipment fleet and higher fleet utilization. Average utilization of the rental assets was 58% and 53% respectively for the three and twelve month period ended December 31, 2008, as compared to 38% and 36% respectively for the comparable periods in 2007. This division exited the fourth quarter of 2008 with approximately 4,500 pieces of rental equipment as compared to approximately 3,800 pieces at the end of 2007. This division also exited 2008 with a fleet of 72 heavy trucks compared to 71 heavy trucks at the end of 2007.

Gas Compression Services

The revenue reported from Total Energy's Gas Compression Services division decreased by 9% to $19.1 million for the three months ended December 31, 2008 as compared to $20.9 million for the same period in 2007, and decreased 13% to $47.1 million for the year ended December 31, 2008 as compared to $54.1 million for the same period in 2007. The revenue decreases were due to weaker demand from this division's customers. This division exited the fourth quarter of 2008 with a backlog of fabrication orders of approximately $19.3 million, as compared to a backlog of $3.1 million as at December 31, 2007. As at December 31, 2008 the total horsepower of compressors on lease was approximately 14,600 as compared to approximately 12,500 as at December 31, 2007. The compression rental fleet experienced an average utilization of 75% (based on fleet horsepower) for the year ended December 31, 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 increased 13% to $30.0 million for the three months ended December 31, 2008 as compared to $26.6 million for the same period in 2007, and increased 10% to $89.8 million for the twelve months ended December 31, 2008 as compared to $81.5 million for the same period in 2007. The increases in operating expenses for these periods were due primarily to increased activity levels in the Contract Drilling Services and Drilling and Production Rentals divisions. The gross margin percentages for the three and twelve month periods ended December 31, 2008 were 40% and 42% respectively, as a percentage of revenue, as compared to 36% and 40% respectively for the comparable periods in 2007. 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 increased by 20% to $4.6 million for the three months ended December 31, 2008 as compared to $3.8 million for the same period in 2007, and increased by 17% to $17.5 million for the year ended December 31, 2008 as compared to $15.0 million for the same period in 2007. These increases resulted primarily from increased costs associated with increased revenues and the addition of five branches in the Drilling and Production Rentals division since September 30, 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 25% to $3.7 million for the three months ended December 31, 2008 as compared to $3.0 million for the same period in 2007, and increased by 23% to $13.9 million for the year ended December 31, 2008 as compared to $11.3 million for the same period in 2007. These increases are due primarily to the Trust's expanded equipment base as well as higher equipment utilization in Contract Drilling Services. 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 $0.3 million for the three months ended December 31, 2008 as compared to $0.4 million for the same period in 2007, and was $1.3 million for the year ended December 31, 2008 as compared to $1.0 million for the same period in 2007. Other interest expense is interest paid on advances under the Trust's operating line of credit. The decrease in other interest expense in the fourth quarter of 2008 was due primarily to lower applicable interest rates. The increase in other interest expense for the year ended December 31, 2008 was due primarily to a higher loan balance under the Trust's operating line of credit.

Interest on Long-term Debt

Interest on long-term debt was $0.2 million for the three month period ended December 31, 2008 as compared to $0.6 million for the same period in 2007, and was $1.3 million for the year ended December 31, 2008 as compared to $1.4 million for the corresponding period in 2007. The decreases in interest on long-term debt in 2008 compared to 2007 are due primarily to lower applicable interest rates. Included in interest on long-term debt is interest on capital leases.

Operating Earnings

Operating earnings increased 54% to $10.9 million in the fourth quarter of 2008 as compared to $7.1 million for the comparable period in 2007, and increased 21% to $30.8 million for the twelve month period ended December 31, 2008 as compared to $25.4 million for the comparable period in 2007. The increases in operating earnings were due to increased activity levels in the Contract Drilling Services and Drilling and Production Rentals divisions offset by lower activity levels in the Gas Compression Services division.

The Contract Drilling Services division had operating earnings of $2.0 million and $6.6 million respectively for the three and twelve month periods ended December 31, 2008, as compared to operating earnings of $1.9 million and $6.7 million respectively for the comparable periods in 2007. The operating earnings margin in this division was 20% and 18% respectively for the three and twelve months ended December 31, 2008 as compared to a 25% and 23% for the comparable periods in 2007. The operating earnings margin decrease for the twelve months ended December 31, 2008 was due primarily to decreased overall average pricing.

The Drilling and Production Rentals division had operating earnings of $7.9 million and $22.8 million respectively for the three and twelve month periods ended December 31, 2008, as compared to operating earnings of $2.3 million and $15.1 million for the comparable periods in 2007. The operating earnings margin was 38% and 33% respectively for the three and twelve months ended December 31, 2008, as compared to 18% and 29% operating earnings margin during the corresponding periods in 2007. The increases in operating earnings margins resulted primarily from a larger equipment fleet and increased utilization as well as increased pricing in respect of transportation services that was implemented during the third quarter of 2008.

The Gas Compression Services division contributed operating earnings of $1.5 million and $4.6 million respectively for the three and twelve months ended December 31, 2008 as compared to $3.8 million and $7.7 million for the comparable periods in 2007. The operating earnings margin in this division was 8% and 10% for the three and twelve months ended December 31, 2008 as compared to 18% and 14% for the corresponding periods in 2007. The decreases in operating earnings margin resulted primarily from increased overhead and start-up costs associated with the expansion of its parts and service business that began during the second quarter of 2008, higher than budgeted costs on a $2.0 million package sold in the fourth quarter of 2008 which resulted in only nominal gross margin being realized on such package, and higher than budgeted U.S. sourced component costs on packages sold in the fourth quarter of 2008 due to the significant weakening of the Canadian dollar relative to its U.S. counterpart which occurred during this period.

The Other division had operating losses of $0.6 million and $3.2 million respectively for the three and twelve months ended December 31, 2008, as compared to $0.9 million and $4.1 million for the corresponding periods in 2007. These decreases are due primarily to interest expense under the Trust's operating line of credit, which interest expense is disclosed as "Other interest" in the Trust's financial statements, being allocated to each of the Trust's divisions in 2008 based on the relative amount of capital each division employs. The Other division does not include any operational activities relating to Total Energy's business and therefore does not generate any revenue.

Gain (Loss) on Disposal of Equipment

Loss on disposal of equipment was $341,000 and $108,000 for the three and twelve months ended December 31, 2008 as compared to gains of $26,000 and $606,000 for the comparable periods in 2007. Disposals of equipment result 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 $8.9 million ($0.30 per unit on a diluted basis) and $25.3 million ($0.86 per unit on a diluted basis) for the three and twelve months ended December 31, 2008 as compared to $10.4 million ($0.35 per unit on a diluted basis) and $30.9 million ($1.04 per unit on a diluted basis) for the corresponding periods in 2007. The Trust recorded current income tax expense of $1.0 million and $2.3 million respectively for the three and twelve months ended December 31, 2008 as compared to income tax recoveries of $1.7 million and $5.5 million respectively for the corresponding periods in 2007. The Trust recorded future income tax expense of $0.7 million and $3.1 million respectively for the three and twelve months ended December 31, 2008 as compared to a future income tax recovery of $1.6 million and future income tax expense of $0.7 million respectively for the corresponding periods in 2007. This resulted in an effective tax rate of 16% and 17% for the three and twelve months ended December 31, 2008, as compared to negative effective tax rates for the comparable periods in 2007. The increase in the effective income tax rate for 2008 as compared to 2007 is due primarily to the decrease in the monthly distribution paid by the Trust to unitholders that was implemented in November 2007, which results in higher taxable income as a percentage of net earnings for the Trust.

Bill C-52 Budget Implementation Act, 2007 ("Bill C-52"), which was substantively enacted by the Canadian government in June of 2007, 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.

Total Energy Services Ltd. and one of its non-operating subsidiaries have been re-assessed by the Ontario Ministry of Finance and Alberta Finance and Enterprise ("Alberta Finance") on account of a corporate re-organization undertaken prior to Total Energy's trust conversion. The Trust has received both legal and tax advice indicating that the technical merits of the filings positions taken are strong and, as such, no provisions have been taken with respect to the reassessments. The total amount of the reassessments, including interest, is approximately $5.8 million and $7.5 million respectively. The reassessments represent competing claims on the same underlying taxable income, such that the reassessments cannot be successfully applied in both jurisdictions. In addition, the Alberta Finance reassessments include duplicate reassessments on the same underlying taxable income, which duplicate reassessments cannot both be successfully applied. Further, it is the Trust's position that the applicable limitation period has expired with respect to a significant portion of the Alberta reassessments making such reassessments invalid. The Trust is vigorously defending the filing position taken in both jurisdictions and has filed notices of objection to the reassessments with provincial taxation authorities. These various reassessments relate to approximately $2.6 million of alleged underlying income taxes owing for the period from 2002 to the conversion of Total Energy to a trust in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Cash Provided by Operations

Cash provided by operations, before changes in non-cash working capital items, increased by 16% and 1% for the three and twelve months ended December 31, 2008 to $13.7 million and $42.4 million respectively, as compared to $11.8 million and $42.2 million for the same periods in 2007. Cash provided by operations, after changes in non-cash working capital items, increased to $13.1 million and $52.6 million respectively for the three and twelve months ended December 31, 2008, as compared to $8.7 million and $24.8 million for the same periods in 2007. The increases in cash provided by operations were due primarily to increased operating earnings for the Trust for the three and twelve months ended December 31, 2008 as well as changes in certain non-cash working capital items, including the recovery of an income tax receivable in the amount of $5.7 million during 2008. The Trust reinvests the remaining cash provided by operations after distribution payments to unitholders into the internal growth of existing businesses, acquisitions, the repayment of long-term debt and obligations under capital leases, or the repurchase of trust units pursuant to the Trust's normal course issuer bid.

Investments

Net cash used in investment activities for the three and twelve months ended December 31, 2008 was $8.7 million and $28.0 million respectively, as compared to $13.8 million and $19.3 million for the corresponding periods in 2007. The 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 2008 were allocated as follows: $6.9 million in the Contract Drilling Services division, $17.0 million in the Drilling and Production Rentals division and $6.3 million in the Gas Compression Services division. The majority of the property, plant and equipment additions for the Contract Drilling Services division relate to the construction of a new Rigmaster P-750 telescopic double rig that is scheduled for completion by the third quarter of 2009 with the remainder related to purchases of rig equipment. The property, plant and equipment additions in the Drilling and Production Rentals division primarily related to the purchase of new rental and trucking equipment. The majority of the capital expenditures in the Gas Compression Services division related to additions to the compression rental fleet. During 2007, the property, plant and equipment additions were as follows: $1.7 million in the Contract Drilling Services division, $14.0 million in the Drilling and Production Rentals division, $7.0 million in the Gas Compression Services division and $0.1 million in the Other division. The purchases of property, plant and equipment in the three and twelve months ended December 31, 2008 were offset by proceeds on disposal of property, plant and equipment of $0.8 million and $2.3 million respectively, as compared to $0.1 million and $3.5 million in the corresponding periods of 2007. The disposal of equipment resulted primarily 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 $4.4 million and $24.6 million respectively for the three and twelve months ended December 31, 2008, as compared to net cash generated of $5.1 million and net cash used of $5.5 million for the corresponding periods of 2007. During the three and twelve months ended December 31, 2008 the Trust had net repayments of long-term debt of $2.0 million and $7.9 million respectively, as compared to net advances from long-term debt of $0.7 million and $11.1 million respectively during corresponding periods of 2007. The increase in net long-term debt repayments in 2008 compared to the prior year periods is due primarily to increased cash flow available

for debt repayment resulting from the decrease in the Trust's monthly distribution to Unitholders that became effective in November 2007. The Trust had net increases in bank indebtedness of $1.3 million and $12.4 million respectively for the three month periods ending December 31, 2008 and 2007. These increases were due primarily to higher activity levels for the Trust's quarter over quarter which resulted in increased working capital requirements. During the twelve month period ended December 31, 2008 the Trust had a net decrease in bank indebtedness of $3.5 million, versus a net increase in bank indebtedness of $22.1 million for the corresponding period in 2007. The reduction in bank indebtedness in 2008 was also due primarily to increased cash flow available for debt repayment resulting from the decrease in the Trust's monthly distribution to Unitholders that became effective in November 2007. During 2008 the Trust repurchased 443,100 of its issued and outstanding trust units at a total cost including commissions of $2.2 million or $4.88 per unit, under its normal course issuer bid, and these units were cancelled. For the same period in 2007 the Trust repurchased 395,802 units at a total cost of $2.9 million or $7.34 per unit, under its normal course issuer bid, and these units were cancelled.

Liquidity

The Trust had a working capital surplus of $7.3 million as at December 31, 2008 as compared to $13.4 million at the end of 2007. This decrease in the Trust's working capital position is primarily due to higher accounts payable and accrued liabilities balances as at December 31, 2008 due to significant capital asset additions that were made by the Trust in the last quarter of 2008. 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 annual review of the Trust's credit facilities was completed by its primary lender in November 2008 and renewed with no material changes to such 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 $2.6 million and $10.6 million respectively during the three and twelve months ended December 31, 2008, as compared to $4.6 million and $29.8 million respectively during the same periods in 2007. For the three and twelve month periods ended December 31, 2008, cash provided by operations, before changes in non-cash working capital items, exceeded distributions by $11.0 million and $31.8 million respectively, as compared to $7.2 million and $12.3 million for the same periods in 2007. For the three and twelve months periods ending December 31, 2008, cash provided by operations, after changes in non-cash working capital items, exceeded distributions by $10.5 million and $42.0 million respectively, as compared to cash provided from operations after change in non-cash working capital items exceeding distributions by $4.1 million for the three months ended December 31, 2007 and being $5.0 million less than distributions for the twelve month period ended December 31, 2007. For the three and twelve month periods ended December 31, 2008, net earnings exceeded distributions by $6.2 million and $14.7 million respectively, as compared to $5.8 million and $1.0 million for the comparable periods in 2007.

Distributions exceeded cash provided by operations, after changes in non-cash working capital items, for the twelve month period ended December 31, 2007. Weakness in natural gas prices, uncertainty surrounding the impact of announced changes to the royalty regime in Alberta, and excess service industry capacity negatively impacted the Trust's ability to generate cash provided by operations in 2007. 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 the month of November 2007. The reduced monthly distribution was determined with the primary objectives of preserving a solid financial position, retaining cash provided by operations to reinvest in future growth opportunities and ensuring that future distributions to Unitholders

would be financed through ongoing net earnings and cash provided by operations. Management monitors the Trust's distribution levels with respect to forecasted net earnings, cash provided by operations, income taxes, debt levels and capital expenditures and aims to finance its distributions through cash provided by operations. Should cash provided by operations be insufficient to finance distributions, cash on hand or the Trust's operating line of credit may be utilized.

SUMMARY OF QUARTERLY RESULTS

(in thousands of dollars except per unit amounts)

	Financial Quarter Ended (Unaudited)			
	Dec. 31, 2008	Sept. 30, 2008	Jun 30, 2008	Mar 31, 2008
Revenue	**$ 49,712**	$ 37,266	$ 23,978	$ 43,526
Cash provided by operations, before changes in non-cash working capital items	**13,675**	10,567	4,343	13,827
Cash provided by operations, after changes in non-cash working capital items	**13,122**	15,612	16,490	7,342
Net earnings	**8,862**	6,080	797	9,594
Per unit (basic and undiluted)	**0.30**	0.21	0.02	0.33

	Financial Quarter Ended (Unaudited)			
	Dec 31, 2007	Sept 30, 2007	Jun 30, 2007	Mar 31, 2007
Revenue	**$ 41,528**	$ 24,395	$ 16,175	$ 53,486
Cash provided by operations, before changes in non-cash working capital items	**11,822**	8,629	4,032	17,677
Cash provided by operations, after changes in non-cash working capital items	**8,700**	(8,677)	15,651	9,175
Net earnings	**10,415**	5,190	1,321	13,932
Per unit (basic and diluted)	**0.35**	0.18	0.04	0.47

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 December 31, 2008, the Trust had the following contractual obligations:

		Payments due by year				
(in thousands of dollars)	Total	2009	2010	2011	2012	2013
Long-term debt [1]	21,521	8,000	7,471	3,300	2,750	–
Commitments [2]	7,436	3,010	1,915	1,286	977	248
Purchase obligations [3]	6,661	6,661	–	–	–	–
Total contractual obligations	35,618	17,671	9,386	4,586	3,727	248

[1] Long-term debt obligations are described in Note 7 to the 2008 Audited Consolidated Financial Statements.

[2] Commitments are described in Note 11 to the 2008 Audited Consolidated Financial Statements.

[3] Purchase obligations relate primarily to Total Energy's commitment to purchase rig equipment relating to the construction of Rig 14 and inventory for the Gas Compression Services division.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

During the three and twelve months ended December 31, 2008 and 2007 the Trust had no material transactions with related parties.

PROPOSED TRANSACTIONS

The Trust has not publicly announced any asset or business acquisition or disposition transactions other than the purchase obligations disclosed under the above section Contractual Obligations and $8.9 million budgeted for expansion of the Gas Compression Services division's compression rental fleet pursuant to the Trust's preliminary 2009 capital expenditure budget. The Trust is in the process of pursuing additional investment opportunities and appropriate public announcements will be made in the event the Trust is successful in securing or completing any of such opportunities.

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 reasonably 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 2008 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 2008 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 Disclosures and Presentation.

(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 13 to the Audited 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 Disclosures and Presentation

These standards, which replace Section 3861, Financial Instruments Disclosures and Presentation, 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 14 to the Audited Consolidated Financial Statements. These standards had no impact on the classification or measurement of the Trust's consolidated financial statements.

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 has determined that the adoption of the new standard will not have a material effect on the Trust's financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2008 the CICA Accounting Standards Board confirmed its decision requiring all publicly accountable entities to report under IFRS with the aim of consistency in the global marketplace. The standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Trust expects the transition will impact accounting, financial reporting, internal controls over financial reporting, taxes, and IT systems and processes. The Trust has established an IFRS implementation team and has developed an implementation plan as outlined below.

The key elements of Trust's changeover plan include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal control requirements; and
- educate and train internal and external stakeholders.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures. The Trust has completed an initial impact assessment which involves performing a high level review to identify key areas that may be impacted by the transition to IFRS and the major areas where there are significant complexities or key decision required by management prior to the conversion. Although the Trust has not yet determined the full effects of adopting IFRS, the Trust has determined that a key area where the change to IFRS may be significant is with respect to property, plant and equipment.

Consistent with Canadian GAAP, under IFRS, property, plant and equipment ("PP&E") are recognized initially at cost. Under International Accounting Standard ("IAS") 16, *Property, Plant and Equipment*, an entity is required to choose, for each class of PP&E, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of PP&E is carried at its revalued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity while decreases in fair value serve to reduce the revaluation surplus account, related to the asset, with any excess recognized in income.

IAS 16, *Property Plant and Equipment* also requires maintaining the book value of property, plant and equipment separately for each significant item even if the combination of those separate items represents one asset for business purposes. These assets will be analyzed and, if needed, componentized based on the significance of its identifiable components, including their respective useful lives, and amortized separately.

IFRS disclosure and presentation requirements are much more extensive than requirements of Canadian GAAP. Currently the Trust is assessing additional requirements.

The Trust's high level review did not include differences that are expected to be eliminated by January 1, 2010 via a Canadian GAAP/IFRS harmonization project the CICA has undertaken. Also, the International Accounting Standards Board is working on an improvements project under which a number of International Reporting Standards are expected to change between now and the transition date. Although the potential impact of any changes is not expected to be significant, the Trust will assess potential further differences when any revised Standards are published.

First Time Adoption of IFRS

Adoption of IFRS requires the application of First-Time Adoption of International Financial Reporting Standards ("IFRS 1") which provides guidance for an entity's initial adoption of IFRS. IFRS 1 lists specific exemptions the Trust may use when first adopting IFRS. The most significant exemptions to the Trust are as follows:

- Business Combinations

  For business combinations that occurred before the transition date, the Trust has the choice to restate all of these business combinations to IFRS standards, restate all business combinations after a particular date, or not to restate any of these business combinations. Assets and liabilities acquired in an un-restated business combination that were recognized under Canadian GAAP and do not qualify for recognition under IFRS are then de-recognized.

- Fair-value or revaluation as deemed cost

  IFRS required PP&E to be measured at a cost in accordance with IFRS (breaking down material items into components and amortizing each one separately). However, upon transition, IFRS permits an asset to be recognized at deemed cost which is the fair value at the date of transition or an event-driven valuation. The exemption noted above may be applied to individual items of PP&E. Any write-up of the asset to a fair value above cost will be recorded in retained earnings as a revaluation reserve.

The Trust is now engaged in the detailed assessment phase. A working group has been formed and is now focused on identifying accounting differences between Canadian GAAP and IFRS on a detailed basis and quantification of those. The detailed assessment and the design phase, which includes designing business process changes and providing training to employees is expected to be completed in 2009. The testing and implementation phase will take place during the latter part of 2009 and during 2010. The roll out of IFRS and a parallel run of Canadian GAAP and IFRS will take place beginning January 1, 2010.

Assessment of the impact of the IFRS transition on other areas of the Trust's activities

- Information technologies ("IT") and data systems

  Changes in reporting and certain accounting requirements as discussed above will potentially require changes to IT systems or may require the implementation of new ones. The Trust is currently engaged in identifying areas that would require change.

- Internal Controls Over Financial Reporting

  In accordance with Total's approach to the certification of internal controls required under National Instrument 52-109, all entity level, information technology, disclosure and business process controls will need to be updated and tested to reflect changes which arise as a result of Total's convergence to IFRS. Where material changes identified, these changes will be mapped and tested to ensure that no material deficiencies exist as a result of Trust's transition to these new accounting standards.

- Disclosure controls and procedures, including investor relations and external communication plans

  The final qualitative assessment of the impact of the IFRS transition will be communicated in the Trust's MD&A for the year ended December 31, 2009.

  The final quantitative assessment of the impact of the IFRS transition will be communicated in the Trust's MD&A for the year ended December 31, 2010. As at this date the Trust must present a detailed reconciliation between IFRS and GAAP of balance sheet and income statement figures as at and for the year ended December 31, 2010, and selected accounting policies in its Financial Statements and MD&A.

- Financial reporting expertise, including training requirements

  The Trust believes that it has the necessary IFRS expertise as its IFRS team members have received the training necessary for current and future stages of implementation of IFRS. It is expected that the IFRS Team members will receive additional training provided by the CICA and participate in industry implementation groups. As part of the next stage of IFRS transition, divisional controllers will receive formal IFRS training to ensure the necessary expertise is present in all levels of financial reporting within the Trust.

- Impact on debt covenants and capital requirements

  As described above, it is expected that several transitional adjustments and changes in accounting policies will be made on the transition to IFRS. At this point the Trust has not made a final decision on the selection of accounting policies and has not quantified the impact of changes in accounting requirements under IFRS on

the selected items described above. However, the transitional adjustments and subsequent accounting for the items described above may result in changes to the covenant calculations and will change capital requirements disclosure. The Trust is currently determining the direction of changes and quantifying the adjustments.

FINANCIAL INSTRUMENTS

Risk Management Activities

The Trust did not have significant exposure to any individual customer or counter party during the twelve month period ended December 31, 2008. No 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. 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 its carrying value.

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. As at December 31, 2008 virtually all debt was at floating rates.

Foreign Currency Risk

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

OUTSTANDING TRUST UNIT DATA

	As at December 31, 2008 (in thousand of units) (unaudited)
Trust Units	29,057
Additional Trust Units to be issued	–
Fully diluted Trust Units	29,057

There has been no material change in the trust unit data from December 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. While management believes the impact of the global financial crisis and deteriorating economic conditions will give rise to a challenging business environment for the Trust during 2009, management believes that the Trust is reasonably well positioned to withstand such difficult industry conditions and to take advantage of opportunities that may arise during such period.

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 reasonably be expected to have an impact on the energy services industry. In late 2007, the Alberta government announced certain changes to the royalty regime in Alberta which became effective January 1, 2009 although subsequent transitional programs have been announced. While the precise impact of such changes has not yet been determined, a significant increase in royalties or continued uncertainty regarding this issue is expected to 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. To date it would appear that amendments to and uncertainty regarding the royalty regime in Alberta have had a negative impact on the amount of business that Total Energy conducts in Alberta. Conversely, reductions in royalties and other government incentives to increase drilling and production activities, such as those recently announced in British Columbia in respect of deeper gas wells, may reasonably be expected to have a positive impact on Total Energy's business.

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 did not have significant exposure to any individual customer or counter-party during the twelve month period ended December 31, 2008. No customer accounted for more than 10% of the Trust's consolidated revenues during this period. 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. Management is sensitive to and is continuously monitoring the impact of the global banking crisis on credit risk to the Trust.

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. Total Energy expects that the difficult general economic outlook and slower industry environment will alleviate labour pressures during 2009.

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, particularly during the current global financial crisis. Total Energy's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Trust's growth and may have a material adverse effect upon the Trust.

Seasonality

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

RISKS RELATED TO AN INVESTMENT IN THE TRUST

Nature of Trust Units

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

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

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

Debt Service

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

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

Redemption Right

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

Distributions

Distribution payments of the Trust are subject to review by the Board of Directors taking into account the prevailing financial circumstances of Total Energy and Bidell LP at the relevant time. The actual amount distributed, if any, is at the discretion of the Board of Directors. The actual cash flow available for distribution to Unitholders is a function of a number of factors 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.

Change in Legal Structure

The Trust is currently evaluating various legal structures having regard to pending changes in the taxation of income trusts in Canada. As such, there can be no assurance that Total Energy will continue to exist in its current legal structure and, consequently, the amount distributed to unitholders may be materially reduced or eliminated entirely.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Management has prepared Management's Discussion and Analysis (MD&A). The MD&A is based upon Total Energy's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended December 31, 2007 to December 31, 2008.

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

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

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

DANIEL K. HALYK
President and
Chief Executive Officer

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

March 5, 2009

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Total Energy Services Trust ("Total Energy" or the "Trust") as at December 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Calgary, Canada

March 5, 2009

TOTAL ENERGY SERVICES TRUST

Consolidated Balance Sheets

December 31, 2008 and 2007
(in thousands of Canadian dollars)

	2008	2007
ASSETS		
Current assets:		
Accounts receivable	$ 37,274	$ 28,284
Inventory (note 4)	33,836	31,909
Income taxes receivable	–	5,742
Prepaid expenses and deposits	1,319	1,580
	72,429	67,515
Property, plant and equipment (note 5)	171,033	157,049
Goodwill	4,053	4,053
	$ 247,515	$ 228,617
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 6)	$ 24,830	$ 28,379
Accounts payable and accrued liabilities	29,137	16,405
Distributions payable	872	885
Income taxes payable	2,336	–
Current portion of long-term debt (note 7)	8,000	8,000
Obligations under capital leases	–	408
	65,175	54,077
Long-term debt (note 7)	13,521	21,383
Future income taxes (note 9)	21,443	18,361
Unitholders' equity:		
Trust Unit capital (note 10)	60,027	60,984
Retained earnings	87,349	73,812
	147,376	134,796
Commitments and contingencies (notes 11 & 12)		
	$ 247,515	$ 228,617

See accompanying notes to consolidated financial statements.

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

Director
Andrew Wiswell

Director
Bruce L. Pachkowski

TOTAL ENERGY SERVICES TRUST

Consolidated Statements of Earnings

Years ended December 31, 2008 and 2007
(in thousands of Canadian dollars except per unit amounts)

	2008	2007
REVENUE	$ 154,482	$ 135,584
Expenses:		
Operating (note 8)	89,786	81,507
Selling, general and administrative	17,491	15,001
Depreciation	13,889	11,255
Other interest	1,257	1,017
Interest on long-term debt	1,253	1,367
	123,676	110,147
Operating earnings	30,806	25,437
Gain (loss) on disposal of equipment	(108)	606
Earnings before income taxes	30,698	26,043
Income tax expense (recovery) (note 9):		
Current	2,283	(5,468)
Future	3,082	653
	5,365	(4,815)
Net earnings	$ 25,333	$ 30,858
Earnings per Trust Unit (note 10):		
Basic and Diluted	$ 0.86	$ 1.04

See accompanying notes to consolidated financial statements.

TOTAL ENERGY SERVICES TRUST

Consolidated Statements of Retained Earnings

Years ended December 31, 2008 and 2007
(in thousands of Canadian dollars)

	2008	2007
Retained earnings, beginning of year	$ 73,812	$ 74,847
Net earnings	25,333	30,858
Trust distributions	(10,591)	(29,842)
Repurchase and cancellation of trust units in excess of stated trust unit capital (note 10)	(1,205)	(2,051)
Retained earnings, end of year	$ 87,349	$ 73,812

See accompanying notes to consolidated financial statements.

TOTAL ENERGY SERVICES TRUST

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007
(in thousands of Canadian dollars)

	2008	2007
Cash provided by (used in):		
Operations:		
Net earnings	$ 25,333	$ 30,858
Add (deduct) items not affecting cash:		
Depreciation	13,889	11,255
Future income taxes	3,082	653
Loss (gain) on disposal of equipment	108	(606)
	42,412	42,160
Changes in non-cash working capital items (note 15)	10,154	(17,311)
	52,566	24,849
Investing:		
Purchase of property, plant and equipment	(30,240)	(22,803)
Proceeds on disposal of equipment	2,259	3,486
	(27,981)	(19,317)
Financing:		
Advances under long-term debt	3,000	16,500
Repayment of long-term debt	(10,862)	(5,365)
Repayment of obligations under capital leases	(408)	(675)
Repurchase of trust units	(2,162)	(2,906)
Distributions to Unitholders	(10,591)	(29,842)
Increase (decrease) in bank indebtedness	(3,549)	22,135
Change in non-cash working capital items (note 15)	(13)	(5,379)
	(24,585)	(5,532)
Change in cash	–	–
Cash, beginning of year	–	–
Cash, end of year	$ –	$ –
Supplemental cash flow information:		
Interest paid	$ 2,595	$ 2,232
Income taxes paid (received)	$ (5,795)	$ 2,853

See accompanying notes to consolidated financial statements.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GENERAL:

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

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

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

1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Property, plant and equipment:

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

	Expected life	Residual value	Basis of depreciation
Buildings	20 years	–	straight-line
Furniture and fixtures	5 years	–	straight-line
Shop machinery and equipment	5 years	–	straight-line
Rental equipment	5 to 15 years	25% - 33%	straight-line
Light duty vehicles	3 years	–	straight-line
Heavy duty vehicles	10 years	25%	straight-line
Computer equipment	3 years	–	straight-line
Contract drilling equipment	3,000 operating days	10%	utilization

(c) Inventory and work-in-progress:

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

(d) Per unit amounts:

Basic and diluted earnings per unit calculations were based on the weighted average number of trust units outstanding.

(e) Revenue recognition:

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

(f) Measurement of uncertainty:

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

(g) Income taxes:

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

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

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

(h) Goodwill:

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

(i) Long lived assets:

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

2. Accounting policy changes:

Effective January 1, 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 Disclosures and Presentation.

(a) Section 1535 – Capital Disclosures

Section 1535 Capital Disclosures establishes standards for disclosing information that enables users of financial statements to evaluate an entity's objectives, policies and processes for managing capital. These new disclosures are included in note 13.

(b) Section 3031 – Inventories

This standard was issued to harmonize accounting standards for inventories under Canadian GAPP 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 Disclosures and Presentation

Sections 3862 and 3863 Financial Instruments – Disclosures and Presentation replaced existing Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosures are included in note 14.

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 has determined that the adoption of the new standard will not have a material effect on the Trust's financial Statements.

In 2008 the CICA Accounting Standards Board ("AcSB") confirmed its decision requiring all publicly accountable entities to report under IFRS with the aim of consistency in the global marketplace. These standards are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Trust has completed an initial impact assessment which involves performing a high-level review to identify key areas that may be impacted by the transition to IFRS and the major areas where significant complexities or key decisions are required by management prior to the conversion. A detailed assessment of the significant differences is provided in the Trust's 2008 annual Management's Discussion and Analysis.

4. Inventory:

		2008		2007
Finished goods	$	7,484	$	3,933
Work-in-progress		5,136		2,946
Parts and raw materials		21,216		25,030
	$	33,836	$	31,909

5. Property, plant and equipment:

December 31, 2008	Cost	Accumulated depreciation	Net book value
Land and buildings	$ 9,164	$ 2,338	$ 6,826
Office and computer equipment	2,713	2,290	423
Shop machinery and equipment	2,131	1,557	574
Rental equipment	104,349	27,668	76,681
Automotive equipment	34,310	9,699	24,611
Contract drilling equipment	79,750	18,015	61,735
Other	400	217	183
	$ 232,817	$ 61,784	$ 171,033

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

6. Bank indebtedness:

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

7. Long-term debt:

	2008	2007
Loan payable, requiring monthly payments of $666,667 (2007 - $666,667)	$ 21,521	$ 29,383
Less current portion	8,000	8,000
	$ 13,521	$ 21,383

Interest is calculated at the lesser of the current short-term Bankers Acceptance rate plus a 2% stamping fee, or the bank's prime rate plus 0.50%. The loan is a revolving evergreen facility with each drawdown repaid over sixty months and is available to a maximum of $35 million. The facility is secured by a first fixed and floating charge on all assets of the Trust, the Company, Bidell LP and certain other collateral security.

Principal payments due over the next five years are as follows:

2009	$ 8,000
2010	7,471
2011	3,300
2012	2,750
2013	–
Total	$ 21,521

8. Operating expenses:

The amount of inventory recognized as an expense and included in operating expenses during the year ended December 31, 2008 was $32.0 million (2007 - $ 37.8 million) in respect of the Gas Compression Services Division.

9. Income taxes:

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

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

	2008	2007
Income tax rate	29.50%	32.12%
Expected tax expense	$ 9,056	$ 8,365
Decrease in taxes resulting from:		
Future income tax rate adjustment	(541)	(3,426)
Amounts included in Trust income	(3,199)	(9,672)
Other	49	(82)
Provision for income taxes (recovery)	$ 5,365	$ (4,815)

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

	2008	2007
Future income tax assets:		
Non capital loss carryforward	$ –	$ 372
Other	11	17
	11	389
Future income tax liabilities:		
Property, plant and equipment	21,384	18,731
Other	70	19
	21,454	18,750
Net future income tax liabilities	$ 21,443	$ 18,361

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

10. Trust Unit Capital and Exchangeable Share Capital:

(a) Authorized:

Total Energy Services Trust

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

Redemption Clause

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

(b) Trust Unit capital issued:

Trust Units of Total Energy Services Trust	Number of units (in thousands)		Amount
Balance, December 31, 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	(443)		(957)
Balance, December 31, 2008	29,057	$	60,027

(c) Exchangeable Share capital issued:

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

Exchangeable Shares of TESL	Number of shares (in thousands)		Amount
Balance, December 31, 2006	655	$	855
Exchanged for Trust Units	(655)		(855)
Balance December 31, 2007 & 2008	–	$	–

(d) Per Unit amounts:

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

	Year ended December 31, 2008	Year ended December 31, 2007
Weighted average number of Trust Units, diluted Trust Units and Exchangeable Shares outstanding	29,409	29,772

(e) Units purchased:

Under the provisions of the normal course issuer bid which terminates on March 27, 2009, the Trust purchased 443,100 Trust Units during 2008 (2007 – 395,802) at an average price of $4.88 (2007 - $7.34), including commissions, and such Trust Units were cancelled. The excess of price paid over the average price per Trust Unit is charged to retained earnings.

11. Commitments:

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

2009	$	3,010
2010		1,915
2011		1,286
2012		977
2013		248

The Trust also has purchase obligations of $6.7 million as at December 31, 2008 relating to commitments to acquire equipment and inventory.

12. Contingencies:

Total Energy Services Ltd. and one of its non-operating subsidiaries have been re-assessed by the Ontario Ministry of Finance and Alberta Finance and Enterprise ("Alberta Finance") on account of a corporate re-organization undertaken prior to Total Energy's trust conversion. The Trust has received both legal and tax advice indicating that the technical merits of the filings positions taken are strong and, as such, no provisions have been taken with respect to the reassessments. The total amount of the reassessments, including interest, is approximately $5.8 million and $7.5 million respectively. The reassessments represent competing claims on the same underlying taxable income, such that the reassessments cannot be successfully applied in both jurisdictions. In addition, the Alberta Finance reassessments include duplicate reassessments on the same underlying taxable income, which duplicate reassessments cannot both be successfully applied. Further, it is the Trust's position that the applicable limitation period has expired with respect to a significant portion of the Alberta reassessments making such reassessments invalid. The Trust is vigorously defending the filing position taken in both jurisdictions and has filed notices of objection to the reassessments with provincial taxation authorities. These various reassessments relate to approximately $2.6 million of alleged underlying income taxes owing for the period from 2002 to the conversion of Total Energy to a trust in 2005.

The Trust, in the normal course of operations, will become subject to a variety of legal and other claims against the Trust. Management and the Trust's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Trust will not be material to the Trust.

13. Capital management:

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 December 31, 2008 and December 31, 2007 these ratios were as follows:

	2008	2007
Long-term debt (including current portion)	$ 21,521	$ 29,383
Unitholders' equity	147,376	134,796
Total capitalization	$ 168,897	$ 164,179
Long-term debt to long-term debt plus equity ratio	0.13	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 December 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.

14. Financial instruments:

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:

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

The Trust's financial instruments as at December 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 December 31, 2008, $2.1 million, or 5% of accounts receivable were more than 90 days overdue, which is in the range of historical aging profiles. The movement in the Trust's allowance for doubtful accounts for 2008 was as follows:

	Allowance for doubtful accounts
Balance at January 1, 2008	$ 400
Provisions and revisions	545
Balance at December 31, 2008	$ 945

The Trust does not have a significant exposure to any individual customer or counter party. No individual customer accounted for more than 10% of revenue in 2008. Concentration of credit risk on the Trust's trade accounts receivable exists in the oil and gas industry.

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, to the extent reasonably 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 December 31, 2008 approximately $18.6 million of these facilities remained unutilized.

The Trust expects that cash flow from operations, 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 of 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 15% of its operating expenses were denominated in a foreign currency during 2008. 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 invoicing 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 year ended December 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. At December 31, 2008 virtually all long-term debt was at floating rates. For the year ended December 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 $367,000 higher. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher.

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

15. Changes in non-cash working capital items:

	2008	2007
Accounts receivable	$ (8,990)	$ 5,973
Inventory	(1,927)	(5,985)
Income taxes receivable	5,742	(5,742)
Prepaid expenses and deposits	261	(547)
Accounts payable and accrued liabilities	12,732	(8,431)
Distributions payable	(13)	(5,379)
Income taxes payable	2,336	(2,579)
	$ 10,141	$ (22,690)
Less: Financing non-cash working capital items	(13)	(5,379)
Operating non-cash working capital items	$ 10,154	$ (17,311)

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

16. Segmented information

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

The segmented amounts are as follows:

December 31, 2008	Contract drilling services	Drilling and production rentals	Gas compression services	Other [2]	Total
Revenue	$ 37,148	$ 70,208	$ 47,126	$ –	$ 154,482
Operating earnings (loss) [1] [3]	6,636	22,845	4,556	(3,231)	30,806
Depreciation	4,059	8,533	1,266	31	13,889
Assets	70,243	116,218	59,812	1,242	247,515
Goodwill	–	2,514	1,539	–	4,053
Capital expenditures	6,936	17,017	6,287	–	30,240

December 31, 2007	Contract drilling services	Drilling and production rentals	Gas compression services	Other [2]	Total
Revenue	$ 29,062	$ 52,396	$ 54,126	$ –	$ 135,584
Operating earnings (loss) [1] [3]	6,696	15,138	7,684	(4,081)	25,437
Depreciation	2,753	7,430	1,033	39	11,255
Assets	68,029	100,335	53,158	7,095	228,617
Goodwill	–	2,514	1,539	–	4,053
Capital expenditures [4]	1,665	14,015	7,014	109	22,803

(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 in 2007 "Assets" includes income taxes receivable of $5.7 million.

(3) Included in operating earnings (loss) for each reportable segment in 2008 is interest expense paid on the Trust's operating line of credit, which interest expense is disclosed as "Other interest" in the Trust's financial statements. This interest is allocated to each reportable segment based on the relative amount of capital each segment employs.

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

FIVE YEAR COMPARISON

RESULTS (thousands of dollars, except per unit data)	2008	2007	2006	2005	2004
Revenue	154,482	135,584	202,666	157,542	106,291
EBITDA (1)	47,097	39,682	72,273	50,502	30,116
Operating earnings (1)	30,806	25,437	59,020	39,913	22,755
Cash flow from operations, before changes in non-cash working capital (1)	42,412	42,160	66,544	41,336	27,258
Net earnings	25,333	30,858	54,577	31,770	15,973
Interest expense (2)	2,510	2,384	1,604	1,491	1,060
Depreciation	13,889	11,255	10,731	9,067	6,233
Capital expenditures, net	27,981	19,317	28,200	49,981	23,665
Earnings per unit - diluted	0.86	1.04	1.82	1.12	0.57
EBITDA per unit - diluted (1)	1.60	1.33	2.42	1.78	1.08
Cash flow from operations, before changes in non cash working capital per unit - diluted (1)	1.44	1.42	2.23	1.46	0.97
FINANCIAL POSITION					
Working capital (3)	7,254	13,438	15,907	16,438	13,070
Total assets	247,515	228,617	213,648	205,674	135,491
Long-term debt	13,521	21,383	13,545	16,654	15,219
Unitholder's equity	147,376	134,796	136,686	118,056	74,807

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

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

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

CORPORATE INFORMATION

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
Vice President Sales and Marketing

Terence Bell
General Counsel and Corporate Secretary

CHINOOK DRILLING, a division of
Total Energy Services Ltd.

Rod Rundell - General Manager

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

Gerry Crawford - General Manager

BIDELL EQUIPMENT LIMITED PARTNERSHIP

Warren Craddock - General Manager

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STOCK EXCHANGE LISTING
Toronto Stock Exchange
Symbol: TOT.UN

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