

# Petrowest Energy Services Trust

## Consolidated Balance Sheets

(Unaudited)

| (In thousands of dollars)                                    | As at<br>June 30, 2008 | As at<br>December 31, 2007 |
|--|------------------------|----------------------------|
| <b>Assets</b>  |                        |                            |
| <b>Current assets</b>  |                        |                            |
| Cash and cash equivalents                                    | -                      | 215                        |
| Accounts receivable  | 47,338                 | 44,281                     |
| Prepaid expenses and other                                   | 1,418                  | 1,906                      |
| Inventory  | 5,464                  | 5,800                      |
|  | <b>54,220</b>          | <b>52,202</b>              |
| Property and equipment                                       | 107,786                | 118,441                    |
| Intangible assets (note 6)                                   | 20,174                 | 24,502                     |
| Goodwill   | 49,371                 | 49,402                     |
| Future income taxes (note 10)                                | 913                    | 698                        |
|  | <b>232,464</b>         | <b>245,245</b>             |
| <b>Liabilities</b>   |                        |                            |
| <b>Current liabilities</b>                                   |                        |                            |
| Bank overdraft   | 988                    | -                          |
| Accounts payable and accrued liabilities                     | 22,062                 | 28,775                     |
| Distributions payable  | -                      | 953                        |
| Current portion of revolving bank term loan (note 7)         | 14,500                 | -                          |
| Current portion of obligations under capital leases (note 7) | 585                    | 489                        |
|  | <b>38,135</b>          | <b>30,217</b>              |
| Obligations under capital leases (note 7)                    | 951                    | 797                        |
| Revolving bank term loan (note 7)                            | 72,500                 | 82,000                     |
| Future income taxes (note 10)                                | 10,137                 | 10,739                     |
|  | <b>121,723</b>         | <b>123,753</b>             |
| <b>Unitholders' Equity</b>                                   |                        |                            |
| Units (note 8)   | 292,823                | 292,879                    |
| Warrants (note 8)  | -                      | 270                        |
| Contributed surplus (note 9)                                 | 413                    | -                          |
| Accumulated loss   | (144,532)              | (133,694)                  |
| Accumulated distributions to unitholders                     | (37,963)               | (37,963)                   |
|  | <b>110,741</b>         | <b>121,492</b>             |
|  | <b>232,464</b>         | <b>245,245</b>             |
| Commitments and contingency (note 5(b))                      |                        |                            |

See accompanying notes to the consolidated financial statements

**Petrowest Energy Services Trust**  
**Consolidated Statements of Loss, Comprehensive Loss and Accumulated**  
**Earnings (Loss)**

(unaudited)

|  | Three months ended<br>June 30 |          | Six months ended<br>June 30 |          |
|--|-------------------------------|----------|-----------------------------|----------|
| (In thousands of dollars, except per unit amounts)       | 2008                          | 2007     | 2008                        | 2007     |
| <b>Revenue</b>   | <b>35,128</b>                 | 27,134   | <b>94,167</b>               | 59,997   |
| <b>Expenses</b>  |                               |          |                             |          |
| Operating expenses                                       | <b>31,694</b>                 | 24,468   | <b>77,883</b>               | 49,814   |
| General and administrative                               | <b>1,698</b>                  | 1,638    | <b>3,752</b>                | 3,329    |
| Interest   | <b>1,510</b>                  | 1,102    | <b>3,446</b>                | 1,646    |
| Amortization of property and equipment                   | <b>7,134</b>                  | 6,620    | <b>14,203</b>               | 11,751   |
| Amortization of intangible assets                        | <b>1,227</b>                  | 2,517    | <b>2,454</b>                | 4,697    |
| Impairment of intangible asset (note 6)                  | <b>1,874</b>                  | -        | <b>1,874</b>                |          |
|  | <b>45,137</b>                 | 36,345   | <b>103,612</b>              | 71,237   |
|  | <b>(10,009)</b>               | (9,211)  | <b>(9,445)</b>              | (11,240) |
| <b>Other income (loss)</b>                               |                               |          |                             |          |
| Gain (loss) on disposal of property and equipment        | <b>(2,182)</b>                | 11       | <b>(2,220)</b>              | (235)    |
| Interest and other income                                | <b>34</b>                     | 98       | <b>10</b>                   | 148      |
| Net loss and comprehensive loss before taxes             | <b>(12,157)</b>               | (9,102)  | <b>(11,655)</b>             | (11,327) |
| Future income tax expense/(recovery) (note 10)           | <b>(934)</b>                  | 11,969   | <b>(817)</b>                | 11,969   |
| <b>Net loss and comprehensive loss for the period</b>    | <b>(11,223)</b>               | (21,071) | <b>(10,838)</b>             | (23,296) |
| <b>Accumulated (loss) earnings - beginning of period</b> | <b>(133,309)</b>              | 1,154    | <b>(133,694)</b>            | 3,379    |
| <b>Accumulated loss - end of period</b>                  | <b>(144,532)</b>              | (19,917) | <b>(144,532)</b>            | (19,917) |
| <b>Net loss per unit - basic and diluted (note 8)</b>    | <b>(0.34)</b>                 | (\$0.69) | <b>(0.33)</b>               | (\$0.79) |

See accompanying notes to the consolidated financial statements

# Petrowest Energy Services Trust

## Consolidated Statements of Cash Flows

(Unaudited)

|   | Three months ended<br>June 30 |          | Six months ended<br>June 30 |          |
|---|-------------------------------|----------|-----------------------------|----------|
| (In thousands of dollars)   | 2008                          | 2007     | 2008                        | 2007     |
| <b>Cash provided by (used in)</b>   |                               |          |                             |          |
| <b>Operating activities</b>   |                               |          |                             |          |
| Net loss for the period   | (11,223)                      | (21,071) | (10,838)                    | (23,296) |
| Items not affecting cash  |                               |          |                             |          |
| Amortization of property and equipment  | 7,134                         | 6,620    | 14,203                      | 11,751   |
| Amortization of intangible assets   | 1,227                         | 2,517    | 2,454                       | 4,697    |
| Impairment of intangible asset  | 1,874                         | -        | 1,874                       | -        |
| Unit-based compensation expense (note 9)  | 143                           | 342      | 143                         | 612      |
| Future income taxes   | (934)                         | 11,969   | (817)                       | 11,969   |
| (Gain) loss on disposal of property and equipment                                       | 2,182                         | (11)     | 2,220                       | 235      |
|   | 403                           | 366      | 9,239                       | 5,968    |
| Changes in non-cash working capital   |                               |          |                             |          |
| Accounts receivable   | 1,452                         | 606      | (3,057)                     | 2,508    |
| Prepaid expenses and other  | (282)                         | 338      | 488                         | (387)    |
| Inventory   | (346)                         | 475      | 336                         | 199      |
| Accounts payable and accrued liabilities  | (1,221)                       | 7        | (6,713)                     | (8,224)  |
|   | 6                             | 1,792    | 293                         | 64       |
| <b>Financing activities</b>   |                               |          |                             |          |
| Unitholder distributions  | -                             | (8,462)  | (953)                       | (16,382) |
| Repayment of capital lease obligations  | (150)                         | (253)    | (343)                       | (253)    |
| Proceeds from revolving term bank loan  | -                             | 65,000   | 5,000                       | 75,000   |
|   | (150)                         | 56,285   | 3,704                       | 58,365   |
| <b>Investing activities</b>   |                               |          |                             |          |
| Acquisition of acquired companies net of working capital adjustments and costs (note 5) | -                             | (51,799) | -                           | (51,799) |
| Business alliance (note 5)  | -                             | (2,000)  | -                           | (74)     |
| Purchase of property and equipment  | (3,266)                       | (7,685)  | (8,042)                     | (11,723) |
| Proceeds on property and equipment disposals  | 2,751                         | 2,767    | 2,867                       | 1,521    |
| Purchase price adjustment   | (34)                          | 2,000    | (25)                        | (4,422)  |
|   | (549)                         | (56,717) | (5,200)                     | (66,497) |
| Increase (decrease) in cash and cash equivalents  | (693)                         | 1,360    | (1,203)                     | (8,068)  |
| Cash and cash equivalents, beginning of period  | (295)                         | (116)    | 215                         | 9,312    |
| Cash and cash equivalents, end of period  | (988)                         | 1,244    | (988)                       | 1,244    |
| <b>Supplementary cash flow information</b>  |                               |          |                             |          |
| Interest paid   | 1,770                         | 1,102    | 3,499                       | 1,646    |
| <b>Non cash transactions</b>  |                               |          |                             |          |
| Property and equipment financed by capital leases                                       | 231                           | 565      | 593                         | 1,155    |
| Units issued on acquisition   | -                             | 32,316   | -                           | 32,316   |
| Warrants issued   | -                             | 270      | -                           | 270      |

See accompanying notes to the consolidated financial statements.

# **Petrowest Energy Services Trust**

## **Notes to Consolidated Financial Statements**

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(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### **1 Basis of Presentation**

The unaudited interim consolidated financial statements for the Trust have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) for interim consolidated financial statements. The accounting policies and methods of application followed in the preparation of the interim consolidated financial statements, other than described below, are the same as those followed in the preparation of the Trust’s most recent audited annual consolidated financial statements dated December 31, 2007. The unaudited interim consolidated financial statements should be read in conjunction with the Trust’s December 31, 2007 audited consolidated financial statements.

### **2 Changes in Accounting Policies and Practices**

On January 1, 2008 the Trust adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

“Inventories”, Section 3031. This new standard replaces the previous standard in Section 3030 and establishes standards for the measurement and disclosure of inventories. The adoption of this standard has had no material effect on the Trust’s unaudited interim consolidated financial statements.

“Capital Disclosures”, Section 1535. This new standard requires the Trust to disclose its objectives, policies and processes for managing capital. See Note 13.

“Financial Instruments – Presentation”, Section 3863 and “Financial Instruments – Disclosures”, Section 3862, which replaced Section 3861. See Note 12.

### **3 Recent Accounting Pronouncements**

In January 2006 the Accounting Standards Board (“AcSB”) adopted a strategic plan for accounting standards in Canada. In February 2008 the AcSB confirmed that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP effective January 1, 2011. The Trust is assessing the potential impacts of this transition and developing a plan accordingly.

In February 2008 the CICA issued Section 3064, “Goodwill and Intangible Assets” which will replace Section 3062 and be effective January 1, 2009. This new standard revises the criteria for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Trust is currently assessing the impact of this new recommendation.

### **4 Seasonality**

Petrowest’s operations are conducted primarily in northern Alberta and northeast British Columbia and are susceptible to the impacts of the seasons. The first quarter is subject to frozen conditions and periods of extreme cold and snow. This is typically one of the most active quarters for Petrowest, as oil and gas drilling activity focuses on areas located in muskeg and swamp type conditions not normally accessible in a non-frozen state. The second quarter is generally the slowest quarter for Petrowest’s operations, as the milder spring conditions result in soft, wet ground generally requiring the implementation of road bans which prevent heavy load transportation on roadways. The third quarter should reflect increased activity levels and typically generates revenues that fall somewhere in the range between quarters one and two with work relating to oil and gas projects in areas that do not entail access through muskeg. Quarter four starts out similar to the summer activity and ramps up as the ground freezes and access is permitted.

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### 5 Acquisitions

#### a) May 18, 2007 Acquisitions

On May 18, 2007, Petrowest acquired all of the outstanding shares and shareholder loans of Cutbank Trucking Ltd. and Cutbank Transport Ltd. (collectively, "Cutbank"), Jim Moffatt Construction Ltd. and 921639 Alberta Ltd., (collectively, "Jim Moffatt Construction"), Quigley Contracting Ltd., 529805 B.C. Ltd. and LMQ Enterprises Ltd., (collectively, "Quigley Contracting Ltd."), Rick's Mechanical Services Ltd. and Tri-Dave Gravel Sales Ltd. (collectively, the "2007 Acquired Companies").

The 2007 Acquired Companies have been accounted for using the purchase method with the assets acquired and liabilities assumed, recorded at their estimated fair values. An allocation of the consideration is as follows:

#### Net assets acquired

|  |               |
|--|---------------|
| Cash acquired on acquisition             | 8,993         |
| Accounts receivable                      | 12,258        |
| Prepaid expenses and other               | 2,444         |
| Inventories                              | 474           |
| Accounts payable and accrued liabilities | (9,039)       |
| Income taxes payable                     | (1,053)       |
| Property and equipment                   | 42,134        |
| Intangibles                              | 15,186        |
| Goodwill                                 | 21,939        |
|  | <u>93,336</u> |

#### Consideration paid

|  |               |
|--|---------------|
| Net cash to vendors  | 50,869        |
| Acquisition costs  | 760           |
| Retirement of long-term debt and capital lease obligations | 9,391         |
|  | <u>61,020</u> |
| Trust Units (4,351,622 units issued) <sup>(1)</sup>        | 32,316        |
|  | <u>93,336</u> |

<sup>(1)</sup> For the purposes of calculation of the aggregate consideration, the trust units have been attributed a value of \$7.4261 each, being the five day volume weighted average price before the closing date.

#### b) Business Alliance June 18, 2007

On June 18, 2007, Petrowest executed agreements documenting a memorandum of understanding, effective May 1, 2007, with the Woodland Cree First Nations ("WCFN"). Petrowest agreed to provide a combination of services on a revenue sharing basis within the WCFN on their traditional lands for a period of 5 years. This agreement provided Petrowest with the exclusive right to provide road and lease construction services to all stakeholders within the WCFN traditional territory. In conjunction with the agreements, Petrowest purchased the road construction equipment assets of the WCFN. The total cash consideration paid or payable for the assets and the contractual rights was \$4,000,000. Petrowest paid \$2,000,000 in cash on closing, retired \$1,424,623 of equipment debt and paid the remaining \$575,377 post closing amount in the fourth quarter of 2007.

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

Petrowest has accounted for the transaction as follows:

| <b>Net assets acquired</b>  |       |
|---|-------|
| Value of business alliance  | 2,344 |
| Less non-cash consideration paid – value of warrant consideration<br>(note 8) | (270) |
|   | 2,074 |
| Fair value of equipment   | 1,926 |
|   | 4,000 |
| <b>Cash consideration paid</b>  |       |
| Initial cash consideration  | 2,000 |
| Post closing cash consideration   | 575   |
| Settlement of equipment debt  | 1,425 |
|   | 4,000 |

In addition, the Trust agreed to provide services in kind valued at market rates to assist in the potential construction and development of a community centre subject to certain conditions being fulfilled and capped to a maximum of \$1,000,000. To date the conditions required for these services to be provided have not been met.

## 6 Intangible Assets

Intangible assets are tested for impairment when events or changes in circumstances indicate the carrying amount of the intangible is not recoverable and exceeds its fair value. Note 5(b) outlines the business alliance that Petrowest entered into with the WCFN which was effective on May 1, 2007. The value of the contract of \$2.3 million was being amortized over 5 years with the unamortized balance as at March 31, 2008 being \$1.9 million. During the second quarter of 2008 management determined that the relationship with WCFN had changed to the degree where the intangible asset remaining was determined to have no remaining value. The Trust recorded an impairment of this intangible asset of \$1.9 million which equaled the remaining unamortized balance.

## 7 Long Term Debt

Long term debt is comprised of the revolving bank term loan and obligations under capital leases. On March 31, 2008, the Trust amended its credit facility to amend two financial covenants and reduce the credit facility from \$120.0 million to \$100.0 million. The funded debt to four quarter's trailing proforma EBITDA ratio was increased to 3.25 to 1 for the period ended March 31, 2008 and the periods ending June 30, 2008 and September 30, 2008. This ratio is reduced to 2.75 to 1 for the period ending December 31, 2008 and 2.50 to 1 for the periods ending March 31, 2009 and thereafter. The funded debt to capitalization covenant was increased to 0.55 to 1 from 0.50 to 1. The Trust is also prohibited from reinstating distributions to unitholders until the funded debt to four quarter's trailing proforma EBITDA is less than 2.50 to 1, calculated both before and after the payment of the distribution. The credit facility bears interest at floating rates based on the bank prime rate plus 1% and has a one year revolving term due on November 6, 2008 which may be extended for an additional 364 days at the discretion of the lender on application by the Trust. If the credit facility is not renewed or extended, principal is then repayable by way of seven equal quarterly payments in an amount equal to one-twelfth of the balance outstanding at the end of the term, with the remaining balance due on November 8, 2010.

Obligations under capital leases are repayable in monthly payments ranging from \$867 to \$14,391 per month including interest rates ranging from nil to 6.7% and maturing on various dates to 2013. Included in the payments of obligations under capital leases is imputed interest of \$82,047.

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### 8 Unitholders' Equity

#### Authorized

The Trust is authorized to issue an unlimited number of Trust units. Holders of Trust units are entitled to receive monthly distributions to the extent declared by the Trust's Board of Trustees in priority to any distribution payments on the Subordinated Units.

|   | As at<br>June 30, 2008 |                | As at<br>December 31, 2007 |                |
|---|------------------------|----------------|----------------------------|----------------|
|   | Units                  | Amount         | Units                      | Amount         |
| Balance, beginning of period                                  | 33,266,308             | 292,879        | 26,765,094                 | 255,769        |
| Acquired shares in purchase of 2007<br>Acquired Companies     | -                      | (56)           | -                          | -              |
| Units issued on acquisitions (note 5)                         | -                      | -              | 4,351,622                  | 32,316         |
| Issued for services rendered                                  | -                      | -              | 10,000                     | 72             |
| Units issued under distribution<br>reinvestment plan          | -                      | -              | 629,592                    | 2,987          |
|   | <b>33,266,308</b>      | <b>292,823</b> | <b>31,756,308</b>          | <b>291,144</b> |
| Subordinated units issued for cash                            | -                      | -              | 1,510,000                  | 1,510          |
| Subordinated units issued for<br>promissory notes             | -                      | -              | -                          | 3,020          |
| Less amount issued for promissory<br>notes (net of repayment) | -                      | -              | -                          | (2,795)        |
|   | -                      | -              | 1,510,000                  | 1,735          |
| Balance, end of period  | <b>33,266,308</b>      | <b>292,823</b> | <b>33,266,308</b>          | <b>292,879</b> |
| Weighted average units for period –<br>basic and diluted      | <b>33,266,308</b>      |                | <b>31,202,093</b>          |                |

Prior to the initial public offering, the Trust issued to various insiders an aggregate of 1,510,000 subordinated units at a price of \$3.00 per Subordinated unit, \$4,530,000 in the aggregate, which was satisfied by payment of \$1.00 in cash and \$2.00 by way of a three-year promissory note that may be forgiven at the option of the Trust over three years if the subscriber remains as a director, officer or employee of Petrowest. No amounts have been forgiven to date. Holders of Subordinated units have the right to convert into Trust units on a one-for-one basis at any time after the end of the first fiscal year ending on or after December 31, 2008 if the Trust has earned EBITDA of at least \$47.0 million and paid distributions of at least \$1.20 per Trust unit for such fiscal year.

On June 27, 2007 the Trust issued 300,000 warrants at a strike price of \$7.47 per unit which expired May 1, 2008 as partial consideration for entering into the business alliance with WCFN (note 5 (b)). The Trust valued the warrants at \$270,000.

Units issued for the acquisition of the companies acquired in 2006 and the 2007 Acquired Companies were placed in escrow subject to time release provisions. Escrowed units are released as to 25% on the first anniversary date of the acquisition and the remaining 75% on the second anniversary date. During 2007 3,880,305 escrowed units were released with an additional 1,087,904 released in the second quarter of 2008. There are 8,884,789 to be released in the third quarter of 2008 and 3,263,718 to be released in 2009.

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### 9 Unit Based Compensation

Petrowest implemented a unit option plan granting options to acquire Trust units to directors, officers, employees and consultants. On September 7, 2006, 2,605,000 options were granted at a \$10.00 per unit strike price. On July 27, 2007, the Trust cancelled this option plan.

Effective April 15, 2008 the Trust adopted a Deferred Trust Unit ("DTU") plan. Under this DTU plan, DTU's are granted to employees, directors and consultants which entitles participants, at the Trust's option, to either receive a trust unit or cash equivalent in exchange for a vested unit. The Trust granted 908,000 DTU's, which vest one third per year over the three year period from the date of grant. Unit based compensation expense related to the units granted is recognized over the vesting period, on a graded basis, based on the fair value of the units at the date of the grant and is recorded to unit based compensation expense and contributed surplus. The contributed surplus balance is reduced as vested units are settled. The fair value of the DTU's granted in 2008 was \$1.1 million with \$142,896 recorded as unit based compensation expense, included in general and administrative expense and operating expenses, for the three month period ended June 30, 2008.

### 10 Income taxes

On June 12, 2007, the legislation implementing the new tax on publicly traded income trusts and limited partnerships (the "SIFT tax"), referred to as (Bill C-52), received third reading in the House of Commons and on June 22, 2007 the Bill received Royal Assent. As a result, the tax was considered to be enacted for accounting purposes in June 2007. SIFTs are certain publicly traded income and royalty trusts and limited partnerships, which includes Petrowest.

The majority of the temporary differences at the Trust level relate to the timing differences associated with property plant and equipment and intangibles acquired by the Trust on September 7, 2006 and May 18, 2007 as follows:

|                                      | As at<br>June 30, 2008 | As at<br>December 31, 2007 |
|--------------------------------------|------------------------|----------------------------|
| <b>Future income tax assets</b>      |                        |                            |
| Trust unit issue costs               | 698                    | 698                        |
| Unit based compensation              | 215                    |                            |
|                                      | <b>913</b>             | 698                        |
| <b>Future income tax liabilities</b> |                        |                            |
| Property and equipment               | 8,007                  | 8,387                      |
| Intangible assets                    | 2,130                  | 2,352                      |
|                                      | <b>10,137</b>          | 10,739                     |

### 11 Related Party Transactions

Petrowest paid rent for the three and six month periods ended June 30, 2008 for office and shop space under leases entered into with certain former owners of businesses acquired in the amount of \$660,583 (2007 - \$481,278) and \$1,150,885 (2007 - \$903,535) respectively. Transactions were recorded at the exchange amount which is estimated to approximate fair market value and are included in operating expenses. The Trust has certain amounts payable and receivable as well as contingently payable and receivable owing to/from certain former owners of the 2007 Acquired Companies and the companies acquired in 2006 which relate to certain purchase and sale agreement post closing matters. These amounts owing and receivable are not considered material to the Trust in the aggregate.

# **Petrowest Energy Services Trust**

## **Notes to Consolidated Financial Statements**

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### **12 Financial Instruments and Risk Management**

#### **Fair Value of Financial Assets and Liabilities**

The Trust's cash and cash equivalents are designated as held-for-trading. Accounts receivable are designated as loans and receivables and recorded at amortized cost, which approximates fair value due to the short term nature of the instrument. Accounts payable and accrued liabilities, distributions payable, obligations under capital leases and the revolving bank term loan are designated as other liabilities and are recorded at cost. The fair value of accounts payable and accrued liabilities approximate their carrying values due to the short term nature of these instruments. The fair value of obligations under capital lease and the revolving bank term loan approximate their carrying values as the interest rates applicable to these instruments reflect current market rates. Financing costs relating to all financial instruments are expensed as incurred.

#### **Financial Risks**

The Trust is exposed to a number of financial risks in the normal course of its business operations, including market risks, credit risks and liquidity risks. The Trust's operations are all in Canada and therefore are not subject to foreign currency risk. The nature of these risks has not changed significantly from the prior period ended December 31, 2007.

##### **(a) Market Risk**

Market risk is the risk that changes in market prices such as interest rates and commodity prices will affect the Trust's operating income or the value of its financial instruments.

##### **Interest Rate Risk**

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. The revolving bank term loan is a floating rate credit facility which has exposure to changes in market interest rates. Currently the Trust is paying interest based on the prime lending rate, which is subject to market interest rate fluctuations. For each one percent increase/decrease in the prime lending rate, the yearly effect on net earnings would be \$870,000, based on the \$87.0 million balance of the revolving bank term loan as at June 30, 2008.

##### **Commodity Price Risk**

Commodity price risk is the risk that fluctuations in oil or natural gas prices could materially adversely affect the Trust's financial condition. The commodity prices affect the levels of drilling activity, particularly with respect to natural gas, which affects demand for services provided by certain segments of the Trust's business. The Trust mitigates this exposure with its continued diversification into activities not related to the oil and gas industry.

##### **(b) Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument fails to meet its contractual obligations, resulting in a financial loss to the Trust. This relates primarily to the Trust's trade accounts receivable.

The Trust maintains a broad customer base over its four operating business segments. A significant amount of the Trust's customer base is with entities in the oil and gas industry and is subject to normal industry credit risks. The other significant portion of the customer base is with significant construction and forestry companies. Two customers represent 17% and 12% respectively of the Trust's consolidated revenue for the three

## Petrowest Energy Services Trust

### Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

month period ended June 30, 2008. No other customer represents greater than 10% of the Trust's consolidated revenue for the three and six month periods ended June 30, 2008. Two customers each account for approximately 12% of the Trust's accounts receivable balance as at June 30, 2008. No other customer represents greater than 10% of the balance.

The Trust establishes guidelines for customer credit limits and terms and, should thresholds for these limits or terms be reached, procedures are in place to improve collectability. The Trust provides adequate provisions for expected losses from the credit risks associated with trade accounts receivables. The ageing of accounts receivables as at June 30, 2008 is as follows:

|              |               |
|--------------|---------------|
| 0-30 days    | 20,425        |
| 30-61 days   | 9,434         |
| 61-90 days   | 4,517         |
| Over 90 days | 12,962        |
|              | <u>47,338</u> |

Included in the accounts receivable over 90 days is a provision for doubtful accounts in the amount \$544,600. The provision is based on an individual account by account analysis and prior credit history. The movement of the provision for doubtful accounts in respect of trade accounts receivable is detailed below:

|                                  |              |
|----------------------------------|--------------|
| Opening balance – March 31, 2008 | (392)        |
| Additional provision             | (197)        |
| Recovery of provision            | 33           |
| Receivable written off           | 11           |
|                                  | <u>(545)</u> |

#### (c) Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. This risk relates to the Trust's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Trust's processes for managing liquidity risk include preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures, and authorization of contractual agreements. The Trust seeks additional financing based on the results of these processes. The budgets are updated when required as conditions change. The Trust has an unused balance of \$12.0 million related to its revolving credit facility that is available for capital expenditures and funding working capital.

The timing of cash related to the satisfaction of other financial liabilities is as follows:

|  | 1 year        | 2-3 years     | 4-5 years  | Total          |
|--|---------------|---------------|------------|----------------|
| Bank overdraft                           | 988           | -             | -          | 988            |
| Accounts payable and accrued Liabilities | 22,062        | -             | -          | 22,062         |
| Long term debt                           | 15,085        | 73,312        | 139        | 88,536         |
|  | <u>38,135</u> | <u>73,312</u> | <u>139</u> | <u>111,586</u> |

As at June 30, 2008 the Trust has met all the obligations associated with its financial liabilities.

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### 13 Capital Disclosures

The Trust strives to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Trust is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the amount of distributions (if any) to unitholders and the amount of capital returned to unitholders, in addition to the amount of new units issued. Sale of redundant assets may also be undertaken to adjust the capital structure by paying down the revolving bank term loan. Financing decisions are set based on the timing and extent of expected operating and capital cash outlays. Factors considered when determining whether to take on new debt or to issue equity include the amount of cash sought, the availability of these sources and their terms, and to the overall Net Debt to Capitalization ratio.

The Trust's capital structure is comprised of unitholders' equity, the revolving bank term loan (including the current portion) and obligations under capital leases (including the current portion) and is monitored by using a non-GAAP financial metric of Net Debt to Capitalization. Net Debt is calculated as the sum of the revolving bank term loan (including the current portion) and obligations under capital leases (including the current portion), less cash and cash equivalents. The Trust targets a Net Debt to Capitalization ratio in the range of 40% to 50% as calculated as follows:

|   | <b>As at<br/>June 30, 2008</b> | As at<br>December 31, 2007 |
|---|--------------------------------|----------------------------|
| Revolving bank term loan                            | <b>87,000</b>                  | 82,000                     |
| Obligations under capital leases                    | <b>1,536</b>                   | 1,286                      |
| Add (Less) cash and cash equivalents/bank overdraft | <b>988</b>                     | (215)                      |
|   | <b>89,524</b>                  | 83,071                     |
| Unitholders' Equity                                 | <b>110,741</b>                 | 121,492                    |
| Total Capitalization                                | <b>200,265</b>                 | 204,563                    |
| Net debt to Total Capitalization                    | <b>44.7%</b>                   | 40.6%                      |

The Trust's credit facility contains four financial covenants which are required to be met on a quarterly basis. The funded debt to four quarter's trailing proforma EBITDA ratio was recently amended (see Note 7) to reflect the current industry conditions and is currently at 3.25 to 1. Management monitors this specific covenant in the management of its capital. As at June 30, 2008 the Trust was in compliance with all financial covenants. The Trust's capital management objectives have not changed over the periods presented.

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

### 14 Segmented Information

The Trust determines its reportable segments based on the structure of its operations, which are focused on four principal business segments – Construction, Transportation, Civil and Rentals. The following is selected financial information for each business segment.

#### For the three months ended June 30, 2008

|  | Construction | Transportation | Civil  | Rentals | Corporate | Total    |
|--|--------------|----------------|--------|---------|-----------|----------|
| Total revenue                            | 10,130       | 8,204          | 17,569 | 1,043   | -         | 36,946   |
| Less inter-segment revenue               | (578)        | (982)          | (2)    | (256)   | -         | (1,818)  |
| Revenue                                  | 9,552        | 7,222          | 17,567 | 787     | -         | 35,128   |
| Operating and general and administrative | 9,372        | 8,119          | 12,968 | 1,235   | 1,698     | 33,392   |
| Interest expense                         | 18           | 1              | 1      | 0       | 1,490     | 1,510    |
| (Interest and other income) Expense      | (34)         | -              | -      | -       | -         | (34)     |
| Loss on disposal of equipment            | 1,565        | 186            | 310    | 121     | -         | 2,182    |
| Amortization and impairment              | 5,929        | 1,554          | 1,871  | 791     | 90        | 10,235   |
| Future income taxes                      | -            | -              | -      | -       | (934)     | (934)    |
| Net earnings (loss)                      | (7,298)      | (2,638)        | 2,417  | (1,360) | (2,344)   | (11,223) |
| Capital expenditures                     | 1,356        | 2,790          | 3,338  | 474     | 84        | 8,042    |

#### For the three months ended June 30, 2007

|  | Construction | Transportation | Civil  | Rentals | Corporate | Total    |
|--|--------------|----------------|--------|---------|-----------|----------|
| Total revenue  | 7,775        | 6,137          | 11,717 | 3,090   | -         | 28,719   |
| Less inter-segment revenue                                       | (583)        | (569)          | (12)   | (421)   | -         | (1,585)  |
| Revenue  | 7,192        | 5,568          | 11,705 | 2,669   | -         | 27,134   |
| Operating and general and Administrative                         | 7,119        | 7,022          | 9,798  | 529     | 1,638     | 26,106   |
| Interest expense   | 153          | 1              | 7      | 1       | 940       | 1,102    |
| (Interest and other income) (Gain) loss on disposal of Equipment | (24)         | (17)           | (2)    | (6)     | (49)      | (98)     |
|  | -            | (1)            | (7)    | 1       | (4)       | (11)     |
| Amortization   | 3,708        | 2,113          | 1,675  | 1,491   | 150       | 9,137    |
| Future income taxes  | -            | -              | -      | -       | 11,969    | 11,969   |
| Net earnings (loss)  | (3,764)      | (3,550)        | 234    | 653     | (14,644)  | (21,071) |
| Capital expenditures   | 2,569        | 1,669          | 2,991  | 316     | 140       | 7,685    |

#### For the six months ended June 30, 2008

|  | Construction | Transportation | Civil  | Rentals | Corporate | Total    |
|--|--------------|----------------|--------|---------|-----------|----------|
| Total revenue                            | 36,010       | 27,222         | 33,927 | 2,801   | -         | 99,960   |
| Less inter-segment revenue               | (2,367)      | (2,596)        | (129)  | (701)   | -         | (5,793)  |
| Revenue                                  | 33,643       | 24,626         | 33,798 | 2,100   | -         | 94,167   |
| Operating and general and Administrative | 26,405       | 23,129         | 26,018 | 2,331   | 3,752     | 81,635   |
| Interest expense                         | 99           | 20             | 51     | 1       | 3,275     | 3,446    |
| Interest income                          | (2)          | -              | -      | (2)     | (6)       | (10)     |
| (Gain) loss on disposal of Equipment     | 1,603        | 186            | 310    | 121     | -         | 2,220    |
| Amortization and impairment              | 9,951        | 3,037          | 3,729  | 1,633   | 181       | 18,531   |
| Future income taxes                      | -            | -              | -      | -       | (817)     | (817)    |
| Net earnings (loss)                      | (4,413)      | (1,746)        | 3,690  | (1,984) | (6,385)   | (10,838) |
| Capital expenditures                     | 700          | 1,116          | 929    | 473     | 48        | 3,266    |

# Petrowest Energy Services Trust

## Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars unless otherwise stated, except per unit amounts)

For the six months ended June 30, 2007

|  | Construction | Transportation | Civil  | Rentals | Corporate | Total    |
|--|--------------|----------------|--------|---------|-----------|----------|
| Total revenue                            | 18,436       | 18,369         | 21,693 | 5,455   | -         | 63,953   |
| Less inter-segment revenue               | (1,260)      | (1,494)        | (37)   | (1,165) | -         | (3,956)  |
| Revenue                                  | 17,176       | 16,875         | 21,656 | 4,290   | -         | 59,997   |
| Operating and general and administrative | 14,785       | 16,529         | 16,282 | 2,218   | 3,329     | 53,143   |
| Interest expense                         | 157          | 4              | 45     | 3       | 1,437     | 1,646    |
| (Interest income)                        | (25)         | (18)           | (2)    | (6)     | (97)      | (148)    |
| (Gain) loss on disposal of Equipment     | 83           | 2              | 153    | 1       | (4)       | 235      |
| Amortization                             | 6,017        | 3,929          | 3,172  | 3,012   | 318       | 16,448   |
| Future income taxes                      | -            | -              | -      | -       | 11,969    | 11,969   |
| Net earnings (loss)                      | (3,841)      | (3,571)        | 2,006  | (938)   | (16,952)  | (23,296) |
| Capital expenditures                     | 4,200        | 2,567          | 3,691  | 650     | 615       | 11,723   |

### Selected balance sheet items as at June 30, 2008

|                        | Construction | Transportation | Civil  | Rentals | Corporate | Total   |
|------------------------|--------------|----------------|--------|---------|-----------|---------|
| Current assets         | 15,003       | 9,377          | 27,899 | 1,496   | 445       | 54,220  |
| Property and equipment | 42,291       | 23,252         | 28,055 | 12,640  | 1,548     | 107,786 |
| Intangible assets      | 11,054       | 1,559          | 6,111  | 1,450   | -         | 20,174  |
| Goodwill               | 20,607       | 4,510          | 14,951 | 8,541   | 762       | 49,371  |
| Future income taxes    | -            | -              | -      | -       | 913       | 913     |
| Total assets           | 88,955       | 38,698         | 77,016 | 24,127  | 3,668     | 232,464 |

All transactions between segments were initially recorded at approximate market rates. Transactions between segments have been eliminated on consolidation.