

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated March 11, 2009. The MD&A should be read in conjunction with Petrowest Energy Services Trust's ("Petrowest" or the "Trust") audited consolidated financial statements for the year ended December 31, 2008 and December 31, 2007 and the notes contained therein.

COMPARATIVE AND CURRENT PERIOD

During 2007 Petrowest continued acquiring companies in businesses which were strategically aligned with the existing businesses. On May 18, 2007 the Trust acquired five companies. The financial results of these acquisitions, representing 228 days of operations, are included in the comparable consolidated audited financial results for the year ended December 31, 2007. A full 12 months of operations relating to these acquisitions are contained in the audited consolidated financial results for the year ended December 31, 2008.

NON-GAAP MEASURES

The audited consolidated financial statements and the notes contained therein were prepared in accordance with generally accepted accounting principles ("GAAP"). This MD&A uses various non-GAAP financial measures, which are not recognized under GAAP, as supplemental indicators of the Trust's operating performance and financial performance. These non-GAAP financial measures are provided to enhance the user's understanding of Petrowest's financial performance. Management believes that these measures provide useful information and that they exclude amounts that are not indicative of the Trust's core operating results and ongoing operations, and therefore provide a more consistent basis for comparison between periods. These measures do not have a standardized meaning and may not be comparable to similar non-GAAP measures provided by other issuers.

Readers are cautioned that these non-GAAP measures should not be considered alternatives to net earnings, cash flow from operating activities or other financial measures of performance calculated in accordance with GAAP. The following defines the non-GAAP measures that are used and management's view of why they are viewed as providing incremental informational value to readers.

Gross Margin – This measure is calculated as revenue less operating expenses and is considered a prime indicator of operating performance prior to general and administrative expenses, and before costs of financing, taxes and the consummation of assets by amortization.

Gross Margin Percentage – Calculated as gross margin divided by revenue.

EBITDA – Calculated as earnings before interest expense, income taxes, amortization and gains or losses on disposal of capital assets (including intangible assets). This measure is considered to be an indicator of the Trust's ability to generate cash flows to fund working capital, service debt, pay current taxes, fund capital expenditures and pay distributions.

EBITDA Margin Percentage – Calculated as EBITDA divided by revenue.

Standardized Distributable Cash – This measure is intended to provide a standard measure of cash available for distribution to unitholders and is calculated as cash flow from operating activities less total capital expenditures and any restrictions on distributions arising from compliance with financial covenants. See "*Standardized Distributable Cash and Adjusted Distribution Base*" for further discussion.

Standardized Distributable Cash Payout Ratio – Calculated as distributions divided by Standardized Distributable Cash. See "*Standardized Distributable Cash and Adjusted Distribution Base*" for further discussion.

Adjusted Distribution Base – This measure is considered a prime indicator of the cash generated from operations available to fund working capital, fund principal debt payments, pay current taxes, fund net maintenance capital expenditures and pay distributions. It is calculated as Standardized Distributable Cash adjusted for growth capital expenditures and entity-specific items such as the seasonal impacts of working capital items. See "*Standardized Distributable Cash and Adjusted Distribution Base*" for further discussion.

Adjusted Distribution Base Payout Ratio – Calculated as Distributions divided by Adjusted Distribution Base. See “*Standardized Distributable Cash and Adjusted Distribution Base*” for further discussion.

Readers are cautioned that "Gross Margin", "Standardized Distributable Cash", "Adjusted Distribution Base and "EBITDA" should not be considered as alternatives to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP.

BUSINESS OVERVIEW

GENERAL

Petrowest is an unincorporated, open-ended, limited purpose mutual fund trust established under the laws of Alberta and was formed for the purpose of accumulating businesses involved in pre-drilling and post-completion energy services as well as industrial and civil infrastructure projects, gravel crushing and hauling for non-energy sector customers. The Trust is based in the Grande Prairie area of northern Alberta. In the three months ended December 31, 2008 approximately 46% (2007 – 45%) of the Trust's services were related to the energy sector with the remainder of services related to non-energy sectors. For the year ended December 31, 2008 approximately 50% (2007 – 49%) of services were related to the energy sector. There was a marginal increase in services the Trust provided related to the energy sector on both a three and twelve month basis for the period ended December 31, 2008 compared to the same periods in 2007. There are many factors contributing to the split between energy and non-energy sector services. For example, the increased capacity of the aggregate rock crushing and sand screening operation in the Civil segment increased the non-energy sector related services in addition to the increased Construction segment services relating to industrial and civil infrastructure services. The offset to this is increased Construction segment services in energy related activities in northeastern British Columbia and increased activity in the rig moving business.

Petrowest Construction LP

Petrowest Construction LP operates under the trade names of "Gordon Bros. Construction", "Roy Larson Construction", "Wales Contractors", "Jim Moffatt Construction", "Quigley Contracting", and "Rick's Mechanical" and specializes in the construction of oil and gas lease well site pads, road construction, remediation of oil and gas well sites and civil infrastructure work for non oil and gas related clients. Petrowest Construction LP operates a fleet of heavy equipment including dozers, tracked hoe excavators, articulated rock haulers, compactors, graders, and scrapers as well as other ancillary support equipment.

Petrowest Transportation LP

Petrowest Transportation LP operates under the trade names of "D&D Well Services", "Murtron Hauling" and "Cutbank Trucking" and specializes in the transportation of oil and gas drilling rigs, well site equipment and heavy equipment as well as specialty hauling services including log loading and hauling and gravel loading and hauling. The Transportation LP operates a fleet of heavy transport trucks, trailers, jeeps, boosters, log and gravel loading equipment as well as other ancillary support equipment.

Petrowest Civil Services LP

Petrowest Civil Services LP operates under the trade names of "R Bee Crushing", "Tri-Dave Gravel Sales" and "S.O.S. Oilfield Safety". The Civil Services LP specializes in mobile aggregate rock crushing and sand screening for gravel supply operations throughout Alberta and British Columbia operating a fleet of cone and jaw crusher units, conveyor and sand stacker units, loaders, dozers, tracked hoe excavators and articulated rock trucks. The Civil Services LP also provides safety services including safety supervision and rental of safety air units and wash units provide for safety support during oil and gas drilling operations and plant turnarounds.

Petrowest Services Rentals LP

Petrowest Services Rentals LP operates under the trade name of "Nu-Northern Tractor Rentals" and specializes in heavy equipment rentals to oil and gas companies, oil sand clients, and independent contractors working in the oil and gas, mining, logging, pulp and paper and civil construction industries. The Rental Services LP operates a fleet of heavy equipment including dozers, tracked hoe excavators, articulated rock haulers, compactors and side-boom pipelayers.

INDUSTRY OVERVIEW AND OUTLOOK

Petrowest is dependent to a degree on the overall health of the western Canadian oil and gas industry, as approximately one-half of the Trust's total revenue is related to the support of oil and gas exploration and development activities, and particularly the natural gas sector. The Western Canada Sedimentary Basin ("WCSB") is Canada's primary source of gas production and accounts for the majority of all gas production in Canada. Initial well production rates are declining for both oil and gas in the WCSB with drilling activities focused more in the western portion of the WCSB and in particular the Montney and Horn River plays.

The global economic and financial crisis has had an impact on the Trust, primarily the businesses in the Trust dependent on the oil and gas sector. There is a relationship between drilling exploration activity and the price of commodities. The price of oil increased dramatically during the first half of 2008 with the price of natural gas increasing as well due to low storage levels, high demand and reduced imports of liquefied natural gas. The global crisis has caused concerns worldwide regarding the current and short term demand for both oil and gas with a resultant decrease in drilling activities. With a decline in drilling activities, in addition to OPEC's pledged production cuts, it is anticipated that supply and demand will become balanced in the future with a resultant increase in commodity pricing and drilling activity.

Looking ahead to 2009, the global financial crisis continues to create a high degree of uncertainty which has reduced liquidity in financial markets, restricted access to both debt and equity financing and caused continuing volatility in commodity prices. Both oil and natural gas prices in February 2009 were at their lowest levels for the past couple of years, as slowing energy demand due to the deteriorating economic outlook affected commodity prices. Liquidity and capital constraints are expected to cause many producers of oil and natural gas to demonstrate renewed focus on balance sheet discipline and to work within their existing financing and cash flow means, which may reduce demand for certain of the Trust's services. A prolonged economic slowdown could result in reduced energy consumption and demand, putting further downward pressure on oil and gas prices which will result in lower spending by oil and gas producers for the more marginal oil and natural gas projects and demand for the Trust's services.

On March 3, 2009 the Government of Alberta introduced a three-point short term incentive program designed to stimulate the energy sector in Alberta. The program is designed to provide increased capital spending with a resultant increase in drilling activity. The first part of the program is a drilling royalty credit for new conventional oil and gas wells drilled between April 1, 2009 and March 31, 2010. The incentive will be based on a sliding scale tied to 2008 production and is designed to benefit small and mid-sized producers. The second part of the short term incentive program is a new well incentive which provides a maximum five percent royalty rate for the first year of production for wells commencing production of oil or gas between April 1, 2009 and March 31, 2010. The final part of this incentive program is a \$30.0 million fund committed to the environmental clean-up of inactive oil and gas wells.

Since late October 2008, the majority of oil and gas exploration and production companies scaled back capital spending and delayed certain projects, with expensive projects in the Canadian oil sands being the most affected. This has resulted in the removal of billions of dollars in capital spending from the oil and gas sector. Alberta's record low land-sales is an indicator of future activities. The Canadian Association of Oilwell Drilling Contractors forecast for 2009 shows a 34% reduction over 2008 in wells drilled in the WCSB. In addition, the rig utilization rate is forecast to decrease from 40% in 2008 to 30% in 2009.

The Trust continues to focus on diversification into industrial and civil infrastructure activities. The oil and natural gas drilling sector will continue to impact the Trust's operations and financial results and will remain an important part of the Trust's operations going forward. However, infrastructure project demand is expected to be strong over the next couple of years as a result of government stimulus packages, with more of the Trust's activities and resources anticipated to be focused and deployed in this area during the summer construction season. The amount of the Trust's services relating to the oil and gas sector will fluctuate as the activity in this sector changes in addition to the amount of non-oil and gas related projects which the Trust is successful in securing. The Trust continued to pursue geographic diversification in 2008 with redeployment of equipment and skilled personnel to capitalize on demand in nearby regions plus improving utilization rates and financial results.

FINANCIAL INFORMATION

Financial Results

(thousands of dollars, except per unit amounts, margins and percentages)	For the three months ended December 31		For the year ended December 31	
	2008	2007	2008	2007
Revenue by segment:				
Construction	26,490	20,518	85,048	59,096
Transportation	13,490	13,702	49,134	41,591
Civil	16,019	12,617	71,001	50,589
Rentals	1,236	988	5,020	7,402
Corporate	1	5	5	-
Revenue	57,236	47,830	210,208	158,683
Operating expenses	45,529	39,861	168,682	127,246
Gross margin ⁽¹⁾	11,707	7,969	41,526	31,437
Gross margin percentage ⁽¹⁾	20%	17%	20%	20%
General and administrative	2,218	1,541	8,504	5,249
EBITDA ⁽¹⁾	9,489	6,428	33,022	26,188
EBITDA margin percentage ⁽¹⁾	17%	13%	16%	17%
Amortization	8,544	11,612	33,396	39,731
Interest	1,905	2,213	6,970	5,439
Interest income	-	53	(10)	(143)
Loss on disposal of property and equipment	24	644	2,276	1,178
Impairment of goodwill and intangible assets	19,397	107,015	21,271	107,015
Net loss and comprehensive loss for the period before income taxes	(20,381)	(115,109)	(30,881)	(127,032)
Future income tax expense (recovery)	4,133	(1,461)	1,695	10,041
Net loss and comprehensive loss	(24,514)	(113,648)	(32,576)	(137,073)
Net loss per unit – basic and diluted	(0.74)	(3.42)	(0.98)	(4.39)
Total assets	204,747	245,245	204,747	245,245
Total liabilities	115,853	123,753	115,853	123,753
Unitholders' equity	88,894	121,492	88,894	121,492

⁽¹⁾ See "Non-GAAP Measures"

Financial Resources and Liquidity

(thousands of dollars, except unit amounts)	For the year ended December 31	
	2008	2007
Cash provided from operating activities	13,230	25,651
Standardized distributable cash (shortfall) ⁽¹⁾	2,311	9,741
Adjusted distribution base ⁽¹⁾	20,760	20,606
Units outstanding	32,926,308	33,266,308
Weighted average units outstanding – basic	33,159,077	31,202,093
Distributions declared	-	27,314

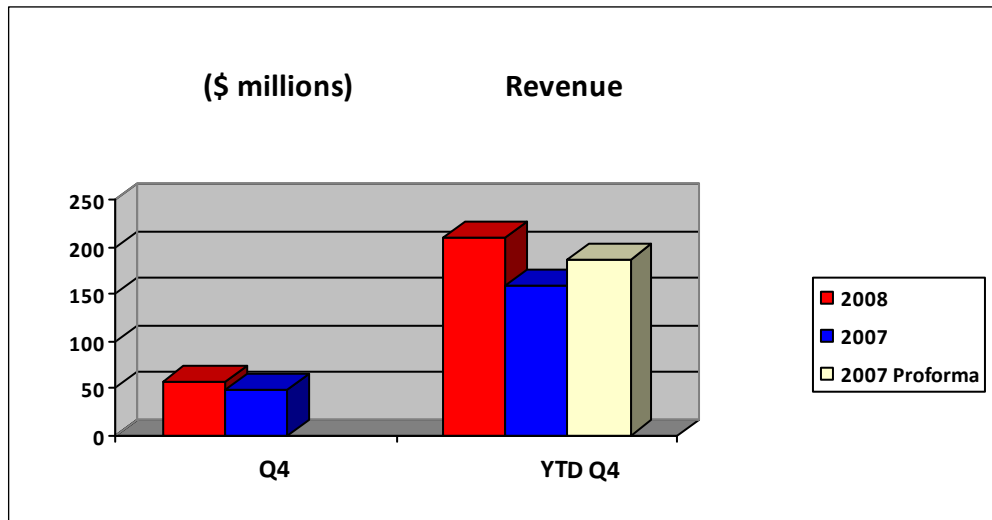
⁽¹⁾ See "Non-GAAP Measures"

RESULTS SUMMARY

COMPARATIVE PERIODS

The consolidated financial results for the current periods for the three and twelve months ended December 31, 2008 include the operations of the 2007 Acquired Companies (see – "Acquisitions"). The comparative 12 month period in 2007 contains the financial results of the 2007 Acquired Companies for the 228 day period from May 18, 2007 to December 31, 2007. References to "proforma" are on the basis as if the acquisitions had been acquired on January 1, 2007. The proforma information has been supplied as supplemental information to the audited consolidated financial statements for the year ended December 31, 2008 and 2007 and was prepared by management of the 2007 Acquired Companies.

REVENUE



Year ended December 31, 2008

Consolidated revenue for the year ended December 31, 2008 was \$210.2 million, an increase of 32% over revenue of \$158.7 million in the comparable period of 2007. Consolidated revenue increased 13% compared to proforma revenue for the year ended December 31, 2007 of \$186.4 million.

The major factor contributing to the increase in revenue on both an actual and proforma basis was the increased capacity in the Civil segment. In the Construction segment there were some revenue reductions due to the reduced activity in the oil and gas service sector which were offset by increased infrastructure projects and oil and gas related activity in the Montney and Horn River shale gas plays. Transportation was affected by pricing pressure from major customers and reduced activity in the rig mobilization and demobilization business.

The Trust's objective of diversifying from the oil and natural gas sector remains an important strategic objective, with approximately 50% (2007 – 49%) of consolidated revenue in 2008 relating to this sector. During the year the Trust continued to pursue industrial and civil infrastructure projects with the oil and gas sector continuing as an important ongoing component of the Trust. This will be especially important in 2009, given the current activity level projections in the oil and gas sector.

The segments which experienced the largest contribution change to consolidated revenue for the year ended December 31, 2008, compared to the same period in 2007, were the Construction segment which had an increase of 4% and the Rentals segment which had a decrease of 3% on a percentage of revenue basis. The revenue contribution percentages for each business segment for the year ended December 31, 2008 were Construction 41%, Transportation 23%, Civil 34% and Rentals 2%. The revenue contribution percentages for each business segment for the year ended December 31, 2007 were Construction 37%, Transportation 26%, Civil 32% and Rentals 5%.

There are various operating synergies amongst the four operating segments which have a positive financial impact on the Trust. These inter segment sales relate to the market value of activity between certain segments of the Trust, including the Transportation segment which hauls equipment on behalf of the Construction and Civil segments. In addition the Rentals segment supplies equipment to the Civil and Construction segments plus cross utilization of manpower. For the year ended December 31, 2008 inter segment sales were \$17.5 million compared to \$12.1 million in the same period of 2007. Applying the Trust's average EBITDA Margin Percentage of 16% to the year ended December 31, 2008 inter segment sales, there would be approximately \$2.8 million of additional earnings retained in the Trust which would have been paid out to third party contractors in the absence of these synergies.

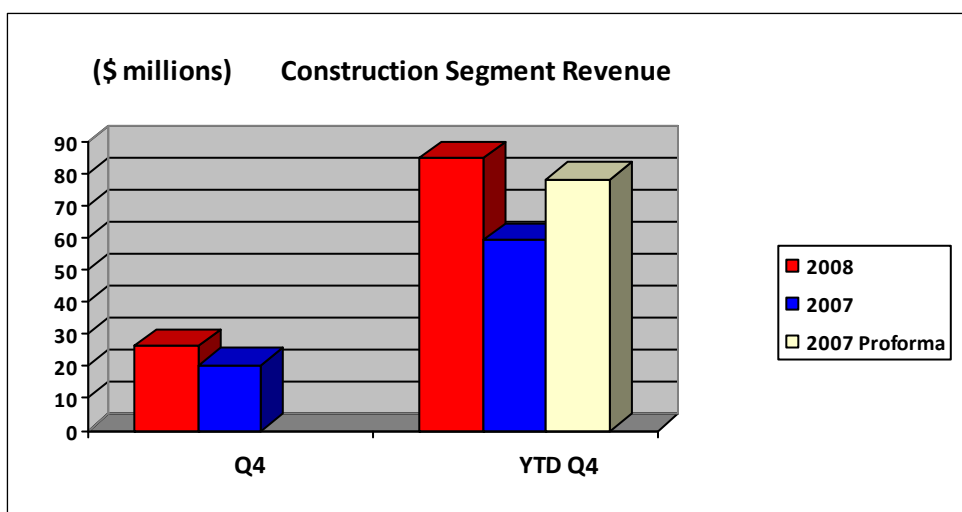
Three months ended December 31, 2008

Consolidated revenue for the three months ended December 31, 2008 was \$57.2 million, a 20% increase over revenue of \$47.8 million in the comparable period of 2007. The Construction, Civil and Rentals segments had increased revenue on a quarter over quarter basis with the Transportation segment remaining flat.

There was not a significant shift in the revenue contribution percentages by the four business segments during the fourth quarter of 2008 compared to the fourth quarter of 2007, with a 5% revenue contribution decrease in the Transportation segment offset by a 3% increase in the Construction segment and 2% increase in the Civil segment. For the fourth quarter of 2008 the revenue contribution percentage for each business segment was Construction 46%, Transportation 24%, Civil 28%, and Rentals 2%. The revenue contribution percentage for each business segment for the fourth quarter of 2007 was Construction 43%, Transportation 29%, Civil 26% and Rentals 2%.

During the three months ended December 31, 2008 there were \$7.0 million of inter segment sales compared to \$3.9 million for the three months ended December 31, 2007. Applying the Trust's average EBITDA Margin Percentage of 17% to the fourth quarter 2008 inter segment sales, there would be approximately \$1.2 million of additional earnings retained in the Trust which would have been paid out to third party contractors in the absence of these synergies.

Construction Segment



Year ended December 31, 2008

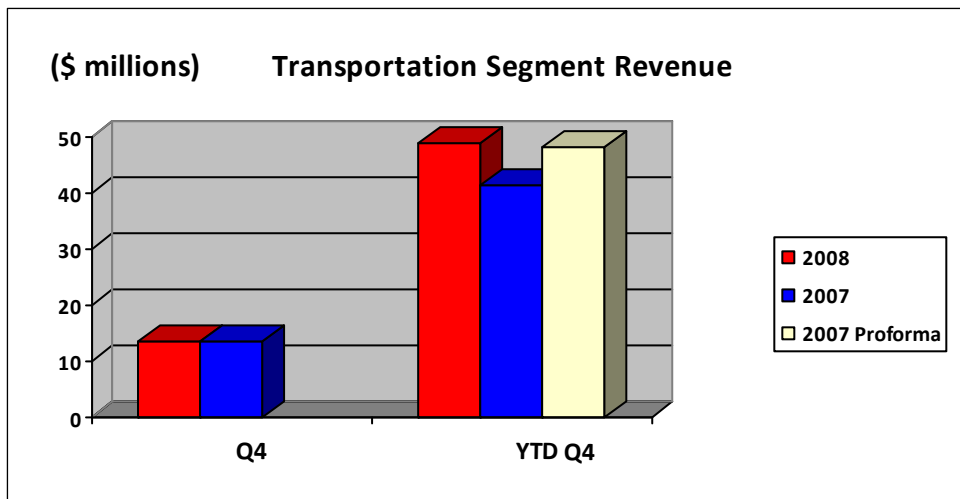
Construction segment revenue for the year ended December 31, 2008 was \$85.0 million (2007 - \$59.1 million) representing an increase of \$25.9 million over the comparable period of 2007. Construction segment revenue increased \$6.8 million compared to proforma revenue for the comparable period in 2007 of \$78.2 million as a result of an increase in activity in last 6 months of 2008 partially offset by the decreased activity in the first 6 months of the year related to the oil and gas sector.

The construction segment experienced revenue growth primarily as a result of increased services provided in northeastern British Columbia where the Montney and Horn River shale gas plays are located, in addition to focusing more on non-energy sector related industrial and civil infrastructure projects. There was a significant infrastructure project in the Grande Prairie area which contributed significantly to both the Construction segment and Transportation segment. This net increase was partially offset by reduced energy sector activity in northwestern Alberta relating to the Woodland Cree First Nations (see – "Impairment of Intangible Asset").

Three months ended December 31, 2008

Construction segment revenue for the three months ended December 31, 2008 was \$26.5 million (2007 - \$20.5 million) comprising 46% of the Trust's total consolidated revenue and representing an increase of \$6.0 million over the comparable period in the prior year. The primary contribution to this increase was an infrastructure project in the Grande Prairie area.

Transportation Segment



The Transportation segment has two main components. The first component in this segment is drilling rig mobilization and demobilization services. The second component consists of other specialized hauling; primarily log hauling in the winter months and gravel hauling in the summer along with year round heavy equipment hauling. The rig moving operation has historically been a significant business operation of the Trust. The decrease in drilling activity from a "rig released" basis in 2008, compared to 2007, had an overall effect on the rig mobilization and demobilization component. However, the increased activity in northeastern British Columbia was positive.

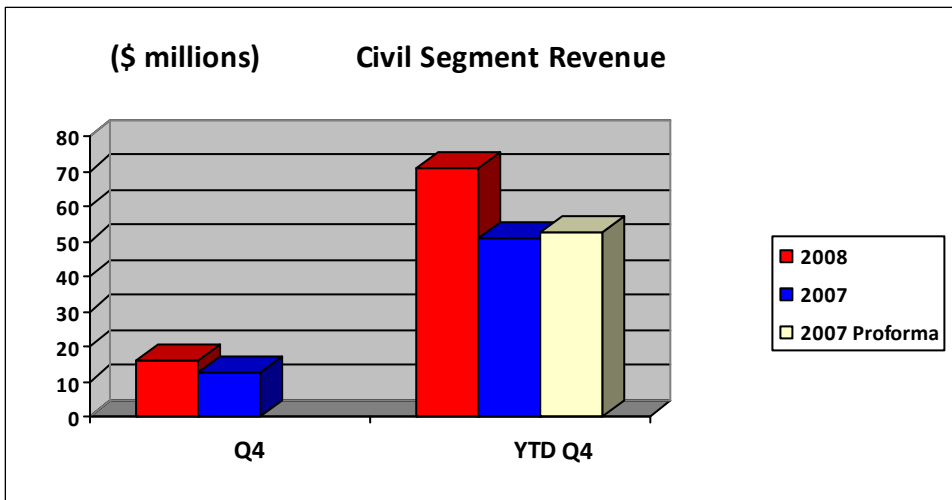
Year ended December 31, 2008

Transportation segment revenue for the year ended December 31, 2008 was \$49.1 million (2007 - \$41.6 million) representing an increase of \$7.5 million over the comparable period of 2007. Transportation segment revenue increased \$0.8 million compared to proforma revenue for the comparable period in 2007 of \$48.3 million. The rig mobilization and demobilization part of this segment experienced increased revenue growth in 2008, primarily as a result of geographically redeploying some equipment to northeastern British Columbia. The gravel and log loading and hauling parts of this segment experienced a small decrease in revenue due to price pressures relating to significant customers in the lumber industry.

Three months ended December 31, 2008

Transportation segment revenue for the three months ended December 31, 2008 was \$13.5 million (2007 - \$13.7 million) comprising 24% of the Trust's total consolidated revenue.

Civil Segment



The Civil segment has two main components with the largest component of this segment being gravel crushing. The second component, oilfield safety services, provides air unit trailers and wash car unit services for sour gas drilling and plant turnarounds. Services provided are tied to drilling activity and consequently this business operation is directly affected by oil and natural gas drilling activities. Revenue has increased for both of these components of the Civil segment.

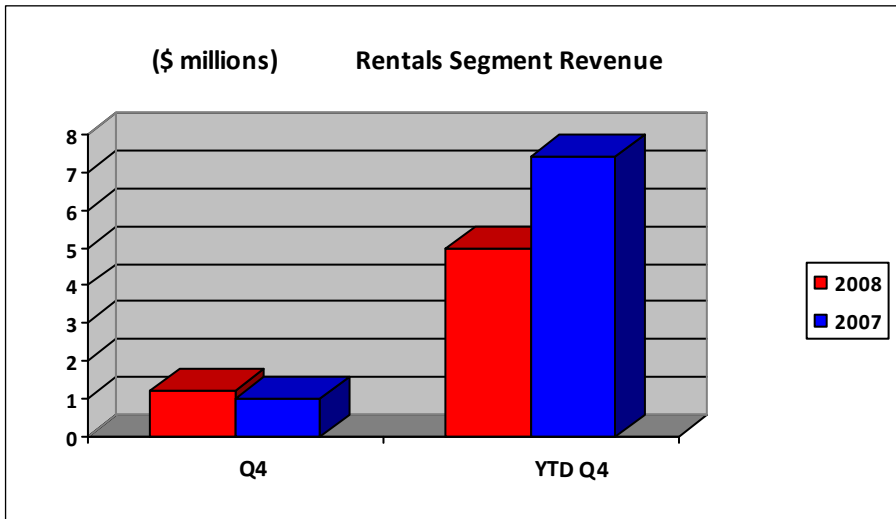
Year ended December 31, 2008

Civil segment revenue for the year ended December 31, 2008 was \$71.0 million (2007 - \$50.6 million) representing an increase of \$20.4 million over the comparable period of 2007. Civil segment revenue increased \$18.5 million compared to proforma revenue for the comparable period in 2007 of \$52.5 million. The capacity relating to the gravel crushing component was increased significantly in 2007. There was a plant added relating to one of the 2007 Acquired Companies, three additional plants acquired during the year 2007 and a single cone plant was increased to a dual cone plant. This increased capacity contributed revenue for the entire twelve months of 2008.

Three months ended December 31, 2008

Civil segment revenue for the three months ended December 31, 2008 was \$16.0 million (2007 - \$12.6 million) comprising 28% of the Trust's total consolidated revenue and representing an increase of \$3.4 million over the prior year. The primary factors contributing to this increase in revenue were the increased capacity resulting from the additional crushing spreads acquired during 2007 being fully operational in 2008 in addition to three plants being redeployed in December, 2007.

Rentals Segment



There are numerous factors contributing to the financial results of the Rentals segment. There was a reduction in demand for certain equipment deployed in the Fort McMurray area related to a significant customer which resulted in unutilized equipment. Management is reviewing alternative uses of this equipment to maximize revenue going forward. The Trust redeployed this equipment to other segments which required the equipment. This redeployment was to different entities and was geographically diverse. Inter-segment revenue is eliminated on consolidation.

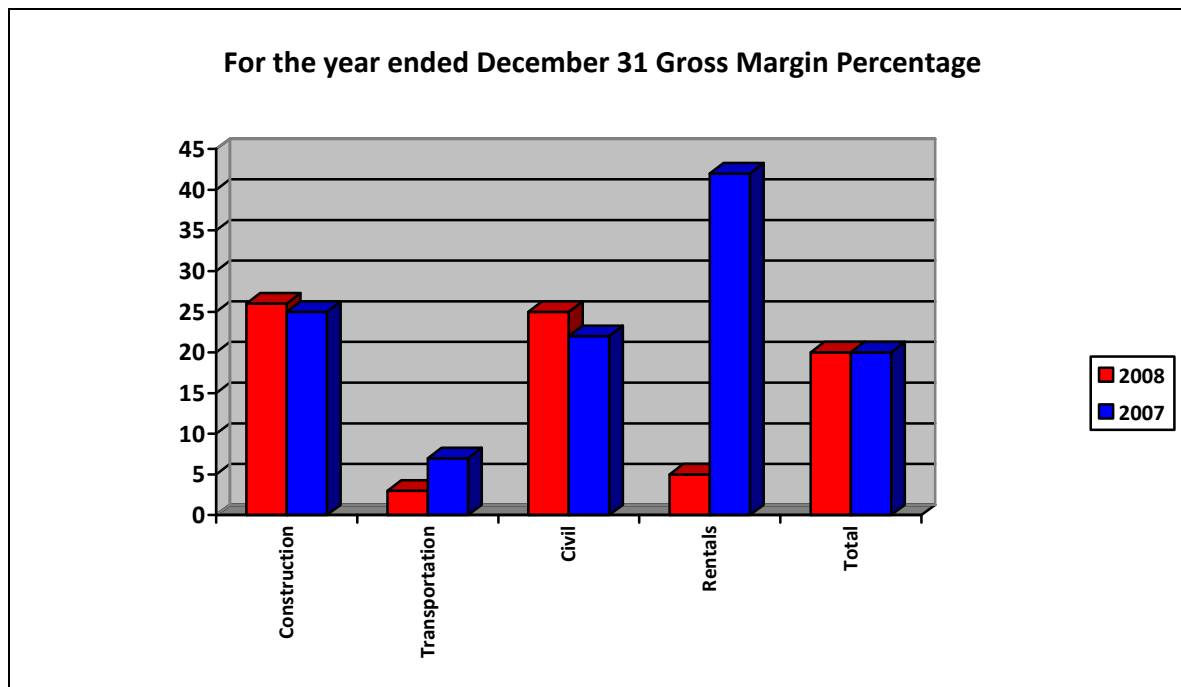
Year ended December 31, 2008

Rentals segment revenue for the year ended December 31, 2008 was \$5.0 million (2007 - \$7.4 million) representing a decrease of \$2.4 million over the comparable period of 2007.

Three months ended December 31, 2008

Rentals segment revenue for the three months ended December 31, 2008 was \$1.2 million (2007 - \$1.0 million) comprising 2% of the Trust's total consolidated revenue and representing an increase of \$0.2 million over the comparable period in the prior year.

OPERATING EXPENSES AND GROSS MARGIN



	Operating expenses for the twelve months ended December 31, 2008	Operating expenses as a % of revenue	Gross Margin Percentage	Operating expenses for the twelve months ended December 31, 2007	Operating expenses as a % of revenue	Gross Margin Percentage
Construction segment	62,994	74%	26%	44,285	75%	25%
Transportation segment	47,503	97%	3%	38,616	93%	7%
Civil segment	53,412	75%	25%	39,347	78%	22%
Rentals segment	4,773	95%	5%	4,998	68%	32%
	168,682	80%	20%	127,246	80%	20%

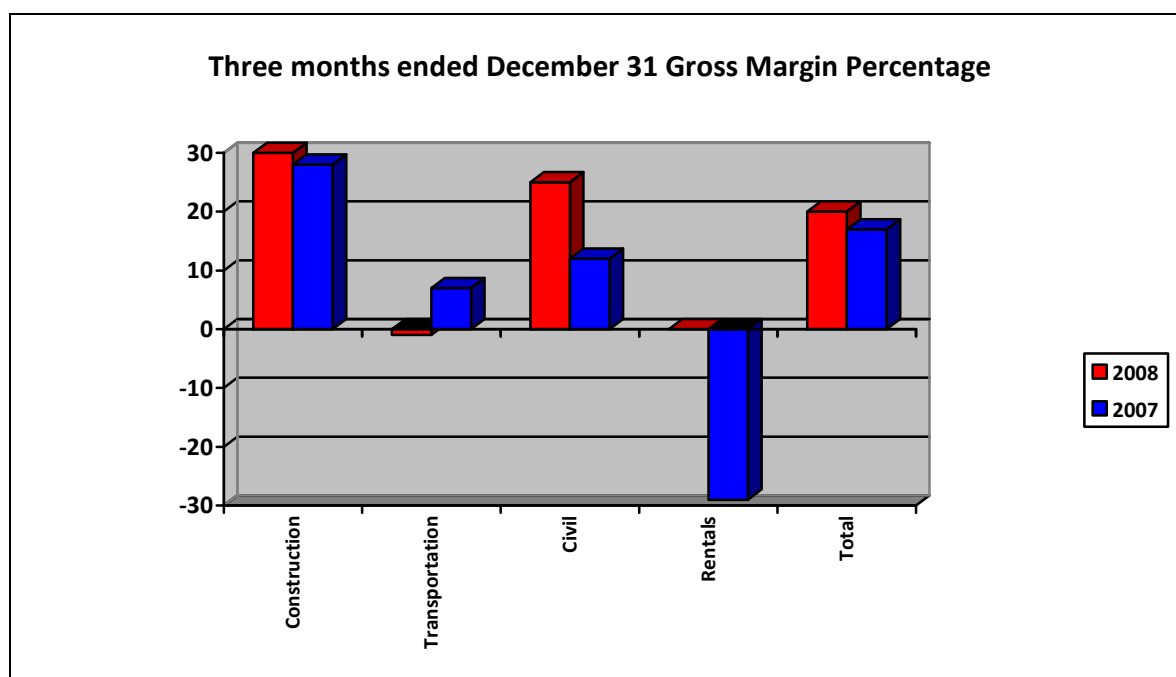
On a consolidated basis the Gross Margin for the years ended December 31, 2008 and 2007 were both 20%. The Civil segment contributed the greatest margin improvement with a 3% increase in 2008 compared to 2007 with the greatest decrease being the Rental segment with a 27% decrease year over year. Margins continue to be under pressure as a result of increasing costs associated with the operation of the Trust's equipment, lower activity levels in the oil and gas sector, resulting in pricing pressures and lower utilization of equipment. Increased fuel prices continued to affect margins in 2008 representing approximately 14% (2007 – 12%) of revenue. The amount of this increase which is not passed on to customers directly affects the Gross Margin Percentage. The Trust has reviewed its contracts and customers to determine what costs could be ultimately passed on to customers such as through contractual fuel surcharges, and will incorporate as the industry conditions improve. There has been a reduction in fuel costs in the last quarter of 2008 which is a positive factor from a margin perspective.

The Construction segment Gross Margin increased 1% for the year ended December 31, 2008 compared to the year ended December 31, 2007. The Gross Margin for this segment decreased by approximately 3% if inter segment expenses relating to the Transportation segment were not eliminated on consolidation. There was a significant inter segment cost associated with gravel hauling on the infrastructure project in Grande Prairie which, on a consolidated basis improved the margins in the Construction segment and decreased the margins in the Transportation segment. The increased costs relating to the unconsolidated decrease in margin were primarily due to pricing pressures, increased subcontractor costs and increased repair and maintenance costs.

The Transportation segment Gross Margin decreased 4% in the year ended December 31, 2008 compared to the year ended December 31, 2007. There was an improvement during 2008 primarily related to less utilization of subcontractors. This was offset by higher fuel costs which could not be passed on to customers and increased repairs and maintenance costs due to the equipment being required to travel more kilometers to projects sites due to the Trust's geographic diversification. The inter segment revenue associated with the gravel hauling for the Construction segment's Grande Prairie infrastructure project, which is eliminated on consolidation, had a negative affect on the Transportation segment's Gross Margin.

The Civil segment Gross Margin increased 3% for the year ended December 31, 2008 compared to the year ended December 31, 2007. Major factors contributing to this increase were less subcontracting costs in addition to less incidental costs associated with increasing capacity. Increased fuel costs partially offset the margin improvement.

The Rentals segment Gross Margin decreased 27% in the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily as a result of a decrease in revenue, as certain operating costs are fixed and any change in revenue has a significant impact on Gross Margin. Approximately 35% of Rental segment revenue is inter segment revenue eliminated on consolidation which has a significant impact on the segment's Gross Margin. The revenue contribution of this segment is minimal which results in less impact on the overall Gross Margin.



(thousands of dollars except percentages)	Operating expenses for the three months ended December 31, 2008	Operating expenses as a % of revenue	Gross Margin Percentage	Operating expenses for the three months ended December 31, 2007	Operating expenses as a % of revenue	Gross Margin Percentage
Construction segment	18,616	70%	30%	14,681	72%	28%
Transportation segment	13,632	101%	(1)%	12,743	93%	7%
Civil segment	12,050	75%	25%	11,164	88%	12%
Rentals segment	1,231	100%	0%	1,273	129%	(29)%
	45,529	80%	20%	39,861	83%	17%

Consolidated operating expenses for the three months ended December 31, 2008 were \$45.5 million (2007 - \$39.9 million) with a Gross Margin of 20% compared to 17% in the fourth quarter of 2007. The major costs incurred for equipment owned by the Trust are labour, fuel, equipment leases and repairs and maintenance. The other significant operating expense relates to the payments to subcontractors. The fourth quarter of 2008 experienced reduced fuel costs compared to the same period in 2007 which partially offset the other increased costs.

The Construction segment Gross Margin increased 2% for the three months ended December 31, 2008 over the comparable period in 2007. The Gross Margin for this segment actually decreased by approximately 8% if inter segment expenses were not eliminated on consolidation. The decrease in fuel costs partially offset this unconsolidated margin decrease.

The Transportation segment Gross Margin decreased 8% for the three months ended December 31, 2008 over the comparable period in 2007. If the inter segment revenue relating to the gravel haul for the Construction segment's Grande Prairie infrastructure project was not eliminated on consolidation then the Transportation segment would have an unconsolidated increase in margin of approximately 4%.

The Civil segment Gross Margin for the fourth quarter of 2008 increased 13% over the comparable period of 2007. This significant increase in Gross Margin is attributable to lower fuel costs, subcontractor costs and camp and subsistence costs due to the geographic location of certain projects. In addition there were less mobilization costs in the quarter compared to the same quarter of 2007.

The Rentals segment Gross Margin for the fourth quarter of 2008 increased 29% over the comparable period in 2007. This is due to the large percentage of revenue for the segment being eliminated on consolidation in addition to the fixed cost structure of the segment. There were also higher repair costs in 2007 which could not be passed on to the customers.

GENERAL AND ADMINISTRATIVE

For the years ended December 31, 2008 and 2007 the general and administrative costs were 4.0% and 3.3% of revenue respectively. General and administrative costs for the year were higher due to a number of factors. There were certain non-recurring costs and professional fees incurred during the year, which are not expected to continue on a regular basis. In addition, the unit based compensation expense reversal in 2007 related to the Trust's cancelled unit option plan in July, 2007 which resulted in an understated comparative.

Effective April 15, 2008 the Trust adopted a Deferred Trust Unit ("DTU") plan. Under this DTU plan, DTU's were granted to employees, directors and consultants which entitled participants, at the Trust's option, to either receive a trust unit or cash equivalent in exchange for a vested unit. The Trust initially granted 908,000 DTU's to participants which vest one third per year over the three year period from the date of grant. DTU plans are either classified as equity settled instruments or as liabilities. For DTU plans classified as equity settled instruments, the unit based compensation expense related to the DTU's 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 charged to unit based compensation expense and contributed surplus. The contributed surplus balance is reduced as vested units are settled. For DTU's classified as liability settled instruments the 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 each reporting date where they are "marked to market" based on the unit price at the period end.

There were 77,718 forfeitures in the period April 15, 2008 to December 31, 2008 resulting in unit based compensation being accrued for 830,282 units. The initial intent of the Trust was to settle the initial grant with units. Therefore, the DTU unit based compensation expense was calculated to September 30, 2008 based on the fair value of the units at the date of the grant. During the fourth quarter of 2008 the Trust decided to settle the first vesting with cash and the remainder with equity. Therefore, the Trust will account for the DTU unit based compensation expense for 2008 using the liability method up to the vesting date of April 15, 2009 and then as an equity settled instrument for the remaining periods. The effect on the consolidated financial statements is a reversal of the unit based compensation expense previously booked based on the equity method of approximately \$313,497. Approximately \$72,551 of unit based compensation was expensed based on the liability method.

On December 1, 2008 an additional grant of 600,000 DTU's was made. These units will vest one third per year over the three year period from the date of grant and be classified as an equity settled instrument and are based on the fair value of the units at the date of the grant.

On a percentage of revenue basis, general and administrative costs were approximately 3.9% of revenue in the fourth quarter of 2008 compared to 3.2% in the fourth quarter of 2007. There were certain non-recurring costs and professional fees representing approximately 0.7% of revenue incurred during the quarter which are not expected to continue on a regular basis.

AMORTIZATION

Amortization of property and equipment for the year ended December 31, 2008 was \$28.7 million compared to \$29.0 million in the comparable period of 2007. Amortization is applied to reduce the book value of property and equipment to its estimated residual value over its estimated useful life on a declining balance basis annually or on an actual usage basis. During the second quarter of 2008 there was a sale at auction of certain property and equipment which resulted in the reduction of net book value relating to the property and equipment of \$4.9 million and which reduced the amortizable base of property and equipment. This equipment was either underutilized or approaching a fully holed basis.

Amortization of property and equipment for the three months ended December 31, 2008 was \$7.4 million (2007 - \$8.6 million). The decrease is due to the same factor as the year ended December 31, 2008.

Intangible assets, consisting of acquired customer relationships, business alliance, brand and trade names, and non-competition agreements are recorded at cost and amortized over their useful lives, which is estimated to be five years for business alliance, brand and trade names, and non-competition agreements and ten years for customer relationships. Intangible assets are tested for impairment when events or changes in circumstances indicate the carrying amount of the intangible asset is not recoverable and exceeds its fair value. An impairment charge of \$35.7 million was recorded in the fourth quarter of 2007 which reduced the carrying value of intangible assets, reducing the base for amortization commencing in 2008. Amortization of intangible assets for the year ended December 31, 2008 was \$4.7 million (2007 - \$10.8 million). During the second quarter of 2008, management determined that the relationship with the Woodland Cree First Nations had changed to the degree where the intangible asset related to this business alliance 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. This impairment reduced the base for amortization of intangible assets commencing in the third quarter of 2008.

Amortization of intangibles for the three month ended December 31, 2008 was \$1.1 million (2007 - \$3.0 million).

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS

In 2007 the Trust recorded a total impairment of \$107.0 million, comprised of a goodwill impairment of \$71.3 million and an impairment of intangible assets of \$35.7 million. The ongoing global economic and financial crisis has resulted in significant reductions in the price of publicly traded units in Canada and a reduction in the multiples applied in the valuations of recent corporate acquisitions in the energy services sector. The Trust conducted its annual review of goodwill and intangible assets to determine if there was a further impairment due to the changing economic landscape. The review resulted in a further impairment of \$19.4 million in total, comprised of a goodwill impairment of \$15.1 million and an impairment of intangible assets of \$4.3 million. The goodwill impairment represented 31% of the balance as at September 30, 2008. The impairment of intangible assets during the quarter, combined with the impairment in the second quarter of 2008 of \$1.9 million, resulted in a total impairment of intangible assets of \$6.2 million for 2008.

INTEREST

Interest expense for the year ended December 31, 2008 was \$7.0 million compared to \$5.4 million in the comparable period of 2007. The reasons relating to this increase are an increased lending rate and increased borrowings incurred to finance the acquisitions in 2007 and to fund working capital requirements.

Interest expense for the three months ended December 31, 2008 was \$1.9 million (2007 - \$2.3 million).

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.

For SIFTs in existence on October 31, 2006, such as Petrowest, the SIFT tax will not be effective until 2011 unless certain rules related to “undue expansion” are not adhered to. Under the guidance provided, Petrowest can increase its total equity, subject to annual limits, to approximately \$497.8 million by 2011 without prematurely triggering the SIFT tax.

Under the SIFT tax, distributions will not be deductible for income tax purposes by SIFTs in 2011 and thereafter and any trust level taxable income will be taxed at a rate approximating the corporate income tax rate currently estimated to be 29.5% in 2011 and 28.0% in 2012, based upon a 13.0% provincial tax rate and a federal tax rate of 16.5% reducing to 15.0% in 2012. On February 26, 2008, the Minister of Finance released the federal budget (the “Budget”). The Budget proposes to replace this 13.0% provincial tax rate with the applicable provincial income tax rates for each province in which the SIFT has a permanent establishment, based on a provincial allocation formula. This draft regulation has not been substantively enacted in parliament as at December 31, 2008.

For 2007, subsequent to the implementation of the SIFT legislation, Petrowest recorded a non-cash future income tax provision which resulted in a net charge of \$10.0 million to future income taxes to reflect the temporary differences between the book and tax basis of assets and liabilities expected to be remaining in the Trust in 2011.

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 December 31, 2008	As at December 31, 2007
Future income tax assets		
Trust unit issue costs	699	698
Unit based compensation	28	-
	727	698
Future income tax liabilities		
Property and equipment	10,935	8,387
Intangible assets	1,528	2,352
	12,463	10,739

For the year ended December 31, 2008 there is a future income tax expense of \$1.7 million and a net loss and comprehensive loss before taxes of \$30.9 million. The primary factors contributing to a future income tax provision, in a year where there is a loss reported for accounting purposes, are the impairment of goodwill and intangible assets, which are accounting deductions that are not deductible for tax purposes, and certain other expenses which are not deductible for tax purposes. Management does not anticipate the Trust to be taxable in 2009.

NET LOSS AND COMPREHENSIVE LOSS

Net loss and comprehensive loss for the year ended December 31, 2008 was \$(32.6) million compared to net loss and comprehensive loss for the comparable period of 2007 of (\$137.1) million. This represents a net loss per unit of (\$0.98) and (\$4.39) respectively, basic and fully diluted.

Net loss and comprehensive loss for the three months ended December 31, 2008 was \$(24.5) million compared to net loss and comprehensive loss for the fourth quarter of 2007 of (\$113.6) million. This represents net loss per unit of (\$0.74) and (\$3.42) respectively, basic and fully diluted.

ACQUISITIONS

May 18, 2007 Acquisitions

Petrowest entered into agreements to acquire 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”).

Cutbank Trucking Ltd. and Cutbank Transportation Ltd. are operated together as one business and specialize in hauling logs and gravel and the provision of log loading equipment in Grande Prairie, Alberta. Cutbank Trucking Ltd. was formed in 1972 and Cutbank Transportation Ltd. was formed in 1997.

Jim Moffatt Construction Ltd. is a lease and road building company operating in northern Alberta. Jim Moffatt Construction Ltd. was formed in 1992 and operates from its base in Worsley, Alberta. In addition to lease and road building, Jim Moffatt Construction Ltd. also operates a 250-man camp permanently located in Worsley.

Rick's Mechanical Services Ltd. is a mid-size lease and road builder based in Peace River, Alberta. Rick's Mechanical Services Ltd. was formed in 1993 and had achieved a working relationship with the Woodland Cree First Nation in providing services to oil sand developers operating on the traditional lands of the Woodland Cree First Nation (see Impairment of Intangible asset).

Quigley Contracting Ltd. is a lease and road building company operating in Fort St. John, British Columbia. Quigley Contracting Ltd. was formed in 1990 by Rick Quigley. The acquisition of Quigley Contracting Ltd. expanded Petrowest's geographical footprint into the northern regions of British Columbia.

Tri-Dave Gravel Sales Ltd. is a gravel crushing operation that operates in the Edmonton area. Tri-Dave Gravel Sales Ltd. was formed in 1984. Tri-Dave Gravel Sales Ltd. provided additional capacity to Petrowest's crushing operations conducted by R. Bee Crushing.

The estimated purchase price including acquisition costs of the 2007 Acquired Companies was \$93.3 million. See note 4(a) to the December 31, 2008 audited consolidated financial statements for further details.

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 with 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.

CAPITAL RESOURCES AND LIQUIDITY

STANDARDIZED DISTRIBUTABLE CASH AND ADJUSTED DISTRIBUTION BASE

The Canadian Institute of Chartered Accountants ("CICA") issued the Interpretive Release "*Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities*" in July 2007. This MD&A is in all material respect in accordance with the recommendations contained in the interpretive release. The interpretive release defines standardized distributable cash as cash flow from operating activities less total capital expenditures as defined by GAAP and any restrictions on distributions arising from compliance with financial covenants.

Standardized Distributable Cash is intended to provide a standard measure of cash available for distribution to unitholders which would be comparable between income trusts and consistent over time. Long term distribution capacity is dependent on the generation of positive cash flows from operations in excess of both maintenance and growth capital requirements. Long term negative Standardized Distributable Cash would suggest that an entity would not have sustainable cash available to maintain distributions. The Trust currently has surplus equipment and operational capacity which is available for generation of future cash flow from operations. Management believes that a return to higher capacity utilization is required in order to generate positive Standardized Distributable Cash flow to support future capital needs and for distributions to be reinstated.

The interpretive release also provides guidance on the calculation of an adjusted distribution base which is Standardized Distributable Cash adjusted for entity-specific adjustments.

Standardized Distributable Cash

(thousands, except per unit amounts and ratios)	For the year ended December 31, 2008	December 31, 2007	Cumulative from inception of Trust July 6, 2006
Cash provided from operating activities	13,230	25,651	42,871
Less adjustments for:			
Capital expenditures, net	10,919	15,910	40,918
Restrictive bank covenants	-	-	-
Standardized distributable cash	2,311	9,741	1,953
Distributions declared	-	27,314	37,964
Standardized distributable cash payout ratio	N/A	2.80	19.44
Standardized distributable cash per unit – basic	0.07	0.31	0.06
Standardized distributable cash per unit – diluted	0.07	0.31	0.06

The starting point for the calculation of Standardized Distributable Cash is “cash provided from operations” measured in accordance with GAAP. This starting point takes changes in non-cash working capital balances into account. The Standardized Distributable Cash Payout Ratio is not applicable for the year ended December 31, 2008, as there were no distributions declared during the year. The Standardized Distributable Cash for the year ended December 31, 2008 incorporated approximately \$12.9 million of negative non-cash working capital items for the year, consisting primarily of an increase in accounts receivable of \$3.5 million and a decrease in accounts payable of \$10.4 million. This resulted in an increase in working capital for the year (net of classification of the revolving bank term loan). See “Working Capital”. The cumulative balance of Standardized Distributable Cash since inception of the Trust is \$2.0 million compared to a negative \$0.4 million as at the year ended December 31, 2007.

Adjusted Distribution Base

(thousands, except per unit amounts and ratios)	For the year ended December 31, 2008	December 31, 2007	Cumulative from inception of Trust July 6, 2006
Standardized distributable cash (shortfall)	2,311	9,741	1,953
Adjusted for:			
Growth capital expenditures	5,583	15,910	35,582
Changes in accounts receivable	3,480	(6,475)	(2,145)
Changes in prepaid expenses	(710)	(2,055)	(1,928)
Changes in inventory	(324)	1,872	844
Changes in accounts payable and accrued liabilities	10,420	1,613	19,328
Adjusted Distribution Base	20,760	20,606	53,634
Distributions declared	-	27,314	37,964
Surplus (deficit) of adjusted distribution base over distributions	20,760	(6,708)	15,670
Adjusted distribution payout ratio	N/A	1.33	0.71
Adjusted distribution base per unit – basic	0.63	0.66	1.69
Adjusted distribution base per unit - diluted	0.60	0.66	1.62

This measure takes Standardized Distributable Cash and adjusts for entity specific items such as seasonal working capital fluctuations. It is also measured before net maintenance capital expenditures. This measure is intended to indicate the Trust’s ability to fund working capital, principal debt payments, current taxes, net maintenance capital expenditures and distributions.

Since inception of the Trust, there has been a surplus of \$15.7 million resulting from the excess of the Adjusted Distribution Base over distributions declared. This surplus is an improvement of \$20.8 million over the deficit of \$5.1 million at the year ended December 31, 2007 and can be attributable to both relatively improved financial results for 2008 and having no distributions declared during 2008.

Management views the Adjusted Distribution Base as the most appropriate measure of ongoing sustainability and liquidity. This measure most closely represents the entity specific conditions of the Trust and management's objectives and beliefs regarding future sustainability of distributions, which are currently suspended.

During the first quarter of 2008, distributions were suspended in order to protect the Trust's balance sheet and position it to fund accretive opportunities going forward. Pursuant to the amended credit facility (see "*Long Term Debt*") the Trust is prohibited from reinstating distributions without the written consent of the lending syndicate.

The Trust's ability to continue as a going concern is dependent upon its ability to renew its credit facility that has a one year term ending on December 14, 2009 and generate positive cash flows from operations. In the event the loan is not extended at the end of the term on December 14, 2009, the outstanding principal amount will become immediately due and payable. This lends to significant doubt as to the ability of the Trust to meet its obligations, without obtaining alternative sources of financing and accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Trust were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

ENTITY SPECIFIC ADJUSTMENTS

Seasonal Impacts on Cash Flow

The Trust strives to fund distributions primarily from cash flow from operations before changes in non-cash working capital items. However, Petrowest's business operations are seasonal by nature. Management expects that the Trust will consume cash during periods of normally higher activity, historically the first and fourth quarters, and to a lesser extent in the third quarter. Typically in these quarters operations would increase receivable balances at a rate in excess of collections. In the second quarter, the impact of spring breakup will typically start to reverse this trend. To reduce the impact on cash, the Trust has secured a credit facility comprised of a syndicated revolving term credit facility and a working capital facility in part to finance the cyclical nature of its operations. This credit facility is utilized to fund distributions (not currently making distributions) and working capital during these periods when working capital requirements exceed cash from operations before changes in non-cash working capital items. The Trust believes this seasonal impact will be ongoing and accordingly has adjusted for this seasonal impact in the calculation of the Adjusted Distribution Base.

Productive Capacity

The Trust strives to fund maintenance capital expenditures from cash flow from operations. The Trust defines maintenance capital expenditures to be capital expenditures replacing older equipment reaching the end of its life cycle and expenditures to maintain the equipment's current operating capacity and maintain its future cash flow from operations at a constant level. The expenditure of maintenance capital would not normally increase capacity or revenue generating potential, but rather maintain it. Equipment is evaluated based on hours of service, expected maintenance requirements as equipment reaches certain hour thresholds and residual values. Equipment is rotated based on these criteria. Occasionally equipment will be refurbished rather than replaced, thereby extending the useful life of the asset. The total of both replacement of older equipment and refurbishment is included in the estimate of maintenance capital expenditures.

The Trust typically acquires equipment that has estimated usable lives of over four years without the expectation of high maintenance refurbishment over that period. Inversely, equipment that can be expected to require major refurbishment within the four year period is usually financed by way of operating leases. This shorter life equipment is turned over within the four year period but requires no provision for maintenance capital expenditure. In light of the current significant weakening of the energy sector activity and current lower overall equipment utilization, management believes that the sizeable capital expenditures incurred since inception, provide the Trust with the capacity to sustain operations into 2009 with minimal maintenance capital expenditures.

Since the inception of the Trust in 2006, the majority of capital expenditures have been growth related through the civil segment which increased capacity and through acquisition of businesses. For the year ended December 31, 2008 total net capital expenditures were \$10.9 million, with approximately \$5.6 million of growth capital expenditures and \$5.3 million of net maintenance capital expenditures. It is anticipated that maintenance capital expenditures will increase as a

percentage of total capital expenditures as the energy sector returns to higher activity levels and older equipment is replaced.

Growth capital expenditures are typically funded by combinations of cash provided from operations, operating leases, debt and Trust unit capital. Since inception, Petrowest's productive capacity has increased significantly with the addition of equipment financed by debt and operating leases. In addition, the acquisitions on May 18, 2007 of the 2007 Acquired Companies added an additional \$42.0 million in capital assets to the Trust. These acquisitions have also expanded the geographical footprint of the Trust and opened new markets for the Trust's services. The cost of the 2007 Acquired Companies was financed by debt and the issue of Units of the Trust.

Net property and equipment asset acquisitions incurred for the three months ended December 31, 2008 was approximately \$3.2 million. The Trust's definition of Adjusted Distribution Base is a measure of available cash prior to funding net maintenance capital expenditures.

WORKING CAPITAL

(thousands of dollars)	As at December 31, 2008	As at December 31, 2007
Cash	2,348	215
Accounts receivable	47,761	44,281
Prepaid expenses and other	1,196	1,906
Inventory	5,476	5,800
Accounts payable and accrued liabilities	(18,355)	(28,775)
Distributions payable	-	(953)
Current portion of revolving bank term loan	(83,500)	-
Current portion of obligations under capital leases	(661)	(489)
Working capital	(45,735)	21,985

Working capital at December 31, 2008 was \$67.7 million less than working capital at December 31, 2007. This significant decrease is primarily due to the entire amount of the revolving bank term loan classified as current (see "Long Term Debt"). If working capital is adjusted for the revolving bank term loan then there is an increase in working capital of \$15.8 million. The major changes during the year were an increase in cash of \$2.1 million, an increase in accounts receivable of \$3.5 million, and a decrease in accounts payable and accrued liabilities of \$10.4 million.

LONG TERM DEBT

Long term debt is comprised of the credit facility and obligations under capital leases. The credit facility is comprised of a syndicated revolving term credit facility and a working capital facility to provide availability to the Trust for growth capital and working capital requirements. Security for the credit facility is provided by a first charge debenture, a general security agreement and a general assignment of book debts.

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 was 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.

On December 15, 2008, the Trust renewed its credit facility. The credit facility has a one year revolving term ending on December 14 of 2009 which may be extended for an additional 364 days at the discretion of the lender on application by the Trust. The agreement entered into by the Trust with its bank syndicate reduced the overall size of the credit facility from \$100.0 million to \$95.0 million with quarterly reductions of \$4.8 million commencing on March 31, 2009. In addition, the amendments preclude the payment of distributions by the Trust without the prior written consent of the bank syndicate and reduced the "funded debt to capitalization ratio" covenant to 0.50 to 1 from the current covenant of 0.55 to 1.

In the event the credit facility is not extended at the end of the term on December 14, 2009, the outstanding principal amount will become immediately due and payable. The credit facility bears interest at floating rates based on the bank prime rate plus a spread of up to 2.5%, depending on the current level of indebtedness and certain debt ratios.

For purposes of the credit facility, the term "EBITDA" is defined as: consolidated net earnings before income taxes, interest expense, amortization of property and equipment and amortization of intangible assets and excluding non-cash income and expenses and extraordinary items. Current EBITDA levels require payment of interest at prime plus 2.5%.

As at December 31, 2008, the Trust had drawn \$83.5 million on its credit facility of which approximately \$64.3 million was utilized to meet the cash requirements of the acquisition of the 2007 Acquired Companies and the business alliance with the WCFN. The remainder of the drawn component of the facility has been utilized for the purchase of equipment and to fund working capital needs.

The Trust's revolving bank term loan requires the Trust to maintain certain financial covenants as follows:

- Current ratio, excluding the revolving bank term loan, of greater than 1.35 to 1. The Trust's ratio at December 31, 2008 is 2.99 to 1.
- Funded debt to four quarter's trailing proforma EBITDA ratio of not greater than 2.75 to 1. The Trust's ratio at December 31, 2008 is 2.57 to 1.
- Fixed charge coverage of not less than 1 to 1. The Trust's ratio at December 31, 2008 is 3.11 to 1.
- Funded debt to capitalization of not more than 0.50 to 1. The Trust's ratio at December 31, 2008 is 0.49 to 1.

In the event the Trust fails to meet any of the financial covenants, the implications to the Trust could include a requirement to immediately repay the credit facility. The Trust is compliant with all financial covenants at December 31, 2008.

The current debt levels were incurred to fund the cash portion on the acquisition of the 2007 Acquired Companies and is viewed as a level which needs to be reduced over time. It is anticipated that cash flows from operations will allow the partial repayment of debt in an orderly manner over the medium term, depending on industry activity levels.

CONTRACTUAL OBLIGATIONS

(thousands of dollars)	As at December 31, 2008				
	< 1 year	1 – 3 Years	4 – 6 Years	Thereafter	Total
Revolving bank term loan	83,500	-	-	-	83,500
Obligations under capital leases	661	783	91	-	1,535
Operating leases on equipment	11,822	8,849	497	-	21,168
Operating leases on offices, shop and yards	2,931	4,763	2,444	1,358	11,496
TOTAL	98,914	14,395	3,032	1,358	117,699

Operating and capital lease commitments are consistent with levels previously retained within the individual companies prior to their acquisition by Petrowest. It is management's view that lease commitments can be met from cash flows from operations.

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 Board of Directors of Petrowest Energy Services General Partner Ltd. in priority to any distribution payments on the subordinated units. On March 11, 2009 there were 32,946,308 units outstanding.

	As at December 31, 2008		As at December 31, 2007	
	Units	Amount	Units	Amount
Balance, beginning of year	31,756,308	291,144	26,765,094	255,769
Acquired units in purchase of Acquired Companies	-	(56)	-	-
Units issued on acquisitions (note 4)	-	-	4,351,622	32,316
Issued for services rendered	10,000	19	10,000	72
Units issued under distribution reinvestment plan	-	-	629,592	2,987
	31,766,308	291,107	31,756,308	291,144
Subordinated units, beginning of year	1,510,000	1,735	1,510,000	1,510
Redemption of subordinated units issued for cash	(350,000)	(350)	-	-
Subordinated units issued for promissory notes	-	-	-	3,020
Redemption of subordinated units issued for promissory notes	-	(700)	-	-
Promissory note repayment	-	700	-	-
Less amount issued for promissory notes (net of repayment)	-	-	-	(2,795)
	1,160,000	1,385	1,510,000	1,735
Balance, end of year	32,926,308	292,492	33,266,308	292,879
Weighted average units for year – basic	33,159,077		31,202,093	
Weighted average units for year – diluted	34,589,359		31,202,093	

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. As at December 31, 2008, there was a balance of \$2,095,000 outstanding related to promissory notes, net of repayments.

On April 27, 2007, Petrowest approved the implementation of a distribution reinvestment program ("DRIP") which provided unitholders the option to reinvest cash distributions towards the purchase of additional units from treasury at a price equal to 95% of the average market price based on weighted average trading prices for the ten days prior to distribution payment date. The DRIP program was cancelled November 13, 2007.

On September 3, 2008, the Trust acquired 350,000 subordinated units for \$700,000 from a former officer of the Trust. The transaction has been measured in these financial statements at the carrying amount of the subordinated units with the difference between the cash paid to reacquire the units and the average carrying amount of the units credited to contributed surplus. In conjunction with this transaction the former officer repaid the note receivable balance of \$700,000, resulting in no net cash outlay to the Trust.

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 and 8,884,789 released in the third quarter of 2008. There are 3,263,716 to be released in 2009.

Petrowest declared distributions of \$27,313,604 for the year ended December 31, 2007 to unitholders of record on each distribution date. Declared distributions included \$906,000 to subordinated unitholders. On a per unit basis, the distributions declared for 2007 were \$0.10 for January to June, \$0.06 for July through October, and \$0.03 for November and December. No distributions were declared for subordinated unitholders when the distribution rate fell below \$0.10 per unit on a monthly basis.

Total distributions paid in 2007 were \$26,393,097 with \$2,988,099 reinvested as part of the DRIP program and \$225,000 of the subordinated unit distributions applied to the promissory notes held by the subordinated unitholders. Subsequent to December 31, 2007, distributions were suspended.

CONTRIBUTED SURPLUS

Continuity of contributed surplus:

	As at December 31, 2008	As at December 31, 2007
Balance – beginning of period	-	-
Unit based compensation expense	15	-
Value assigned to expired warrants	270	-
Redemption of subordinated units below carrying value	350	-
Balance – end of period	635	-

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 4 (b)). The Trust valued the warrants at \$270,000. The amount relating to the expired warrants was transferred to contributed surplus.

RELATED PARTY TRANSACTIONS

Petrowest paid rent, supplies, and services for the year ended December 31, 2008 and December 31, 2007 for office and shop space under leases entered into with certain former owners of businesses acquired in the amount of \$3,176,612 and \$2,086,816 respectively. Transactions were recorded at the exchange amount which is estimated to approximate fair market value. The Trust has payables of \$416,952 (2007 - \$198,576) and receivables of \$96,599 (2007 – nil) related to services provided to and from certain former owners of businesses acquired.

For the year ended December 31, 2008, the Trust acquired 350,000 subordinated units for \$700,000 from a former officer of the Trust. The transaction has been measured in these financial statements at the carrying amount of the subordinated units. This transaction also included a \$700,000 repayment of a promissory note.

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

Critical Accounting Estimates

The consolidated financial statements for the year ended December 31, 2008 have been prepared in accordance with the accounting policies described in the notes to the annual audited consolidated financial statements. As a normal part of the financial statement preparation process, management is required 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 unaudited interim consolidated financial statements and the reported amounts of revenues and expenses for the period reported. Actual results could differ from these estimates. Such estimates include amortization of property and equipment, recoverability of accounts receivable, valuation of assets included in acquisitions and impairment of goodwill, intangibles and property and equipment.

Changes in Accounting Policies and Practices

Inventory

On January 1, 2008 the Trust adopted the new Canadian Institute of Chartered Accountants (“CICA”) section 3031, “*Inventories*” which replaced CICA section 3030 of the same name. This section establishes standards for the measurement and disclosure of inventories. The adaption of this standard did not have a material impact on the Trust’s consolidated financial statements.

Capital Disclosures

On January 1, 2008, the Trust adopted the new CICA section 1535, “*Capital Disclosures*”. Section 1535 requires disclosure of qualitative information on an entity’s objectives, policies and processes for managing capital. This section also requires entities to disclose quantitative descriptions of what is considered to be defined as capital, the nature of externally imposed capital requirements, how these requirements are incorporated into the entity’s management of capital and whether the entity is meeting its objectives for managing capital. See Note 15, “*Capital Disclosures*”.

Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Trust adopted the new CICA section 3862, “*Financial Instruments – Disclosures*” and CICA section 3863, “*Financial Instruments – Presentation*”, which replaced CICA section 3861, “*Financial Instruments – Disclosure and Presentation*”. Section 3862 outlines the disclosure requirements for risks arising from financial instruments and the entity’s approach to managing the identified risks. The section specifically requires disclosure of risks associated with financial instruments and the potential impact on the entity’s financial position. The guidance provided in section 3862 outlines specific disclosure of both qualitative and quantitative information regarding an entity’s exposure to risks arising from financial instruments. The adaption of this standard did not have a material impact on the Trust’s consolidated financial statements. The presentation requirements in section 3862 remain substantially as those contained in section 3861. See Note 14, “*Financial Instruments*” for additional disclosures under section 3862.

Recent Accounting Pronouncements

In February 2008, the Canadian Accounting Standards Board (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. Our project consists of three phases: Phase 1 – diagnose; Phase 2 – develop; and Phase 3 – implement. We have completed the diagnose phase, which involved a high level review of the major differences between current Canadian GAAP and IFRS. Currently, we have determined that the areas of accounting difference with the highest potential to impact our company are accounting for property, plant and equipment, impairment testing, business combinations, first time adoption of IFRS, and disclosures. We are currently engaged in the development phase of our project. We are working in issue-specific teams to focus on generating options and making recommendations in the identified areas. An IFRS implementation committee has been setup which consists of senior levels of management from finance, information technology, and operations. Regular feedback is provided to our senior executive management and the audit committee of our Board of Directors. We are also engage in ongoing discussions with our external auditors. The impact of disclosure controls and internal controls over financial reporting will also be determined.

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 does not believe the new recommendation will have a material impact on the consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

<i>(thousands of dollars except per unit amounts)</i>	2008				2007			
	Dec. 31	Sep. 30	Jun. 30	Mar.31	Dec.31	Sept.30	Jun. 30	Mar.31
Revenue by segment								
Construction	26,490	24,915	9,552	24,091	20,518	21,402	7,192	9,984
Transportation	13,490	11,018	7,222	17,404	13,702	11,014	5,568	11,307
Civil	16,019	21,184	17,567	16,231	12,617	16,316	11,705	9,951
Rentals	1,236	1,684	787	1,313	988	2,124	2,669	1,621
Corporate	1	4	-	-	5	-	-	-
Total revenue	57,236	58,805	35,128	59,039	47,830	50,856	27,134	32,863
Operating expenses by segment								
Construction	18,616	17,974	9,372	17,033	14,681	14,820	7,119	7,663
Transportation	13,632	10,742	8,119	15,010	12,743	9,344	7,022	9,507
Civil	12,050	15,344	12,968	13,050	11,164	11,901	9,798	6,809
Rentals	1,231	1,210	1,235	1,096	1,273	1,506	529	1,367
Total operating expenses	45,529	45,270	31,694	46,189	39,861	37,571	24,468	25,346
Administrative expenses	2,218	2,534	1,698	2,054	1,541	379	1,638	1,691
EBITDA ⁽¹⁾	9,489	11,001	1,736	10,796	6,428	12,906	1,028	5,826
Gain (loss) on disposal of assets	(24)	(32)	(2,182)	(38)	(644)	(299)	11	(246)
Interest income	-	-	34	(24)	(53)	47	98	50
Net earnings before other items	9,465	10,969	(412)	10,734	5,731	12,654	1,137	5,630
Future income tax (recovery) expense	4,133	(1,621)	(934)	117	(1,461)	(467)	11,969	-
Amortization of property and equipment	7,422	7,072	7,134	7,069	8,576	8,626	6,620	5,131
Amortization of intangible assets	1,122	1,123	1,227	1,227	3,036	3,043	2,517	2,180
Impairment of goodwill and intangible assets	19,397	-	1,874	-	107,015	-	-	-
Interest	1,905	1,619	1,510	1,936	2,213	1,581	1,102	544
Net earnings (loss)	(24,514)	2,776	(11,223)	385	(113,648)	(129)	(21,071)	(2,225)
Net earnings (loss) per unit basic and diluted	(\$0.74)	\$0.08	(\$0.34)	\$0.01	(\$3.42)	(\$0.00)	(\$0.69)	(\$0.08)

⁽¹⁾ See "Non-GAAP Measures"

KEY RISKS AND UNCERTAINTIES

Volatility of Industry Conditions

The demand, pricing and terms for energy services largely depend upon the level of industry activity for Canadian natural gas, oil and oil sands exploration and development. Industry conditions are influenced by numerous factors over which the Trust has no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining initial production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the Canadian and Alberta oil and gas exploration and production industry is very uncertain as a result of the sheer pace and potential depth of the global economic slowdown. While oil prices exceeded all time highs in July 2008, they are currently at their lowest level in the last couple of years. Oil prices have fallen by approximately 73% in the past seven months. Natural gas prices have returned to lower price levels from the higher prices enjoyed in mid-2008 due to generally warmer weather, high storage levels, the impact of world-wide LNG development, and the downturn in world economic conditions. Reduced industry activity typically results in lower equipment utilization and increased pricing pressure.

Ongoing uncertainty could continue to have a material adverse effect on Canadian and Alberta industry activity and Petrowest's business activity levels, financial condition, results of operations and cash flows and therefore on any future distributions to Unitholders.

Seasonality

In Canada, the level of activity in the energy services industry is influenced by seasonal weather patterns. Spring breakup during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of energy services. The duration of this period will have a direct impact on the level of Petrowest's activities. Spring breakup occurs earlier in the year in southeastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring breakup is dependant on weather patterns but it generally occurs in April and May. Additionally, if an unseasonably warm winter prevents sufficient freezing, Petrowest may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for energy services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting financial results. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on Petrowest's business, financial condition, results of operations and cash flows.

Capital Expenditures

Petrowest operates in a capital intensive business. There can be no assurance that the actual capital costs incurred by Petrowest will not be higher than anticipated. In particular, Petrowest will be subject to capital costs that it has little control over, including, but not limited to, the cost of the equipment required by Petrowest's business. Any material increase in capital costs may materially affect Petrowest's business, financial condition, results of operations and cash flows

Changes in Legislation

There can be no assurance that income tax laws and other governmental programs relating to the oil and gas industry and the energy services industry, such as the status of mutual fund trusts, will not be changed in a manner which adversely affects unitholders. Recent proposed changes to the Income Tax Act of Canada will result in a change to the status of Trust with respect to income taxes being levied on distributions after January 1, 2011.

Absence of Financial History

The Trust has only been carrying on business as a consolidated entity since September 7, 2006, the date the Acquired Companies were acquired by the Trust. As such, management has had limited time to integrate the financial controls and procedures of the Trust with the Acquired Companies. Difficulties in integrating the financial controls and procedures and deficiencies in financial and internal controls and procedures in respect of the Acquired Companies may have a negative effect on the Trust and its operations.

Financial Covenants

There are four financial covenants in the "Credit Agreement" which the Trust must achieve on a quarterly basis or an "event of default" occurs and the revolving bank term loan could be due and payable. There is a risk that a financial covenant may not be met or a waiver of the covenant obtained.

Cost Escalations

The Trust does not have control over certain elements of cost escalation such as inflation, interest rates, fuel, insurance and equipment. The ability to pass increases on is dependent in large part on the current economic conditions.

Credit Risk

A significant portion of our accounts receivable is with customers in the energy sector whose operations are in turn affected by the economic fluctuations in the sector which could affect collectability of these receivables.

Financial Market Risk

The Trust does not have control over conditions in the financial markets. Over the last six months, there has been a collapse of some of the world's largest financial institutions and an extreme tightening of global credit markets, resulting in a dramatic reduction in the amount of debt and equity financing available. As a result of these factors, there is no guarantee that the revolving loan would be renewed when it becomes due on December 14, 2009 or that alternative financing could be arranged. The Trust would not have sufficient resources to repay the entire loan balance if the loan becomes due.

DISCLOSURE AND INTERNAL CONTROLS

Management has the responsibility to design and maintain disclosure controls and procedures "DCP" and internal controls over financial reporting "ICFR" to provide reasonable assurance that all material information has been received and disclosed as required and that financial reporting is reliable and external financial statements have been prepared in accordance with GAAP.

On December 15, 2008, the final Canadian Securities Administrators' NI 52-109 regulation came into force. The new instrument requires that the CEO and CFO assess the operating effectiveness of DCP and ICFR as at year-end and disclose their conclusions within the annual MD&A. In anticipation of the requirements of the final NI 52-109, Management undertook a program of control assessment well in advance of year-end to identify control deficiencies and complete necessary remediation on a timely basis.

Management concludes that as at December 31, 2008, DCP and ICFR are operating effectively. Copies of the CEO/CFO NI 52-109 internal control certifications are available through SEDAR at www.sedar.com.

It should be noted that while Petrowest's Chief Executive Officer and Chief Financial Officer believe that the Trust's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Trust's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

ADDITIONAL CORPORATE INFORMATION

Additional information relating to the Trust, including the Trust's Annual Information Form, can be found on SEDAR at www.sedar.com and on the Trust's website at www.petro-west.com.

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 units operated through affiliates of the Trust, expectations respecting the competitive position of such business units, expectations concerning the financing of future business activities, statements as to future economic and operating conditions, revenues from oil and gas and non-oil and gas activities, debt to EBITDA ratio and utilization. **Readers should review the cautionary statement respecting forward-looking information that appears below. Any forward statements are made as of the date hereof and the Trust does not undertake to publicly update and review such statements to reflect new events, subsequent events or otherwise, except to the extent events and circumstances have occurred that are reasonably likely to cause actual results to differ materially from material forward-looking information for a period that is not yet complete or as otherwise required by law.**

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 units are, or may be, exposed in all aspects of their business, the ability of the Trust's various business units to access equipment (including parts) and new technologies and to maintain relationships with key suppliers, the ability of the Trust's various business units to attract and maintain key personnel and other qualified employees, various environmental risks to which the Trust's business units are exposed in the conduct of their operations, inherent risks associated with the conduct of the businesses in which the Trust's business units 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 or changes in administrative practices on the part of regulatory authorities. 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 leverage of the Trust and its affiliates. Forward-looking information concerning the nature and timing of growth within the various business units is based on the current budget of the Trust (which is subject to change), factors that affected the historical growth of such business units, 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 units is based upon the current competitive environment in which those business units operate, expectations relating to future economic and operating conditions and 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 and opinions of third-party analysts respecting anticipated economic and operating conditions. 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 under "Key Risks and Uncertainties" herein.*