

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following interim Management's Discussion and Analysis ("MD&A") is dated November 12, 2009. The MD&A should be read in conjunction with Petrowest Energy Services Trust's ("Petrowest" or the "Trust") audited consolidated financial statements and the accompanying MD&A for the year ended December 31, 2008 and the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2009 and the notes contained therein.

### COMPARATIVE PERIODS – DISCONTINUED OPERATIONS

During the second quarter of 2009 the Trust made the decision to dispose of the rig mobilization and demobilization assets of the Transportation segment ("Discontinued Operations"). The Discontinued Operations incurred accumulated losses and negative cash flow the past two years. Management determined that the rig mobilization and demobilization activity was unlikely to improve in the near term due to current economic conditions in the energy sector. Management's strategy includes focusing on its core businesses and disposing of non-core businesses which are underperforming.

The current period for the three months ended September 30, 2009 does not contain any operating results of the Discontinued Operations. The nine month period ended September 30, 2009 contains 134 days of operating results of the Discontinued Operations. The comparable periods in 2008 contain operating results of this business for 92 and 274 days respectively. This interim MD&A will focus on operations from continuing operations.

### NON-GAAP MEASURES

The unaudited interim 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. In addition, readers should note that these measures are based on continuing operations only. 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, service debt, pay current taxes, fund capital expenditures and pay distributions.

**EBITDA Margin Percentage** – Calculated as EBITDA divided by revenue.

Readers are cautioned that "Gross Margin", 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. For the three month period ended September 30, 2009 approximately 33% (2008 – 37%) of the Trust's services were directly related to the energy sector with the remainder of services related to non-energy sectors services. For the nine month period ended September 30, 2009 approximately 35% (2008 – 37%) of services were directly related to the energy sector. These percentages do not factor in the energy sector activities of the Discontinued Operations and relate to continuing operations. For the three month period ended September 30, 2009 the energy sector percentage was 4% less compared to the same period of 2008. This was primarily attributable to the decreased energy sector related activities in both the Transportation and Construction segments for this period compared to 2008. The percentage of direct energy related activities decrease for the nine month periods ended September 30, 2009 and 2008 were for the same reasons as in the three month period.

#### **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 "Murtron Hauling" and "Cutbank Trucking" and specializes in 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. The Discontinued Operations had operated under the trade name "D&D Well Services".

#### **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 35% of the Trust's total revenue from continuing operations for the first nine months of 2009 is directly 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 shale gas plays.

The global economic and financial crisis continues to have an impact on the Trust, primarily the businesses in the Trust dependent on the energy sector. There is a relationship between drilling exploration activity and the price of commodities. The global crisis has caused concerns worldwide regarding the current and short term demand for both oil and gas with a resultant decrease in oil and gas prices, and in turn drilling activities. With a decline in drilling activities, it is anticipated that supply and demand will become balanced in the future with a resultant increase in commodity pricing and drilling activity. The timing of this remains uncertain.

In the third quarter of 2009, the global economic and financial crisis continued 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. This has translated into lower demand for both commodities and pricing of the commodities. Consumption of both oil and natural gas has declined. The Energy Information Administration has projected that oil consumptions will increase in the fourth quarter of 2009. North American gas in storage continues to exceed the five year average with crude oil inventories also above average historical levels. The near-month natural gas price quoted on the New York Mercantile Exchange were approximately 60% lower during the first nine months of 2009 compared to 2008. The price of West Texas Intermediate oil has averaged US \$57.20 during the first nine months of 2009 compared to US \$112.64 in the comparable period of 2008, representing a decrease of 49%. Liquidity and capital constraints have resulted in producers of oil and natural gas demonstrating renewed focus on balance sheet discipline and working within their existing financing and cash flow means, which may continue to 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 October 20, 2009, the Canadian Association of Oilwell Contractors (CAODC) released the 2010 forecast which forecasted 8,523 total wells to be completed in 2010, representing an increase of 245 well completions compared to the most recent 2009 forecast which was released on October 21, 2009.. The average drilling rig utilization is anticipated to be 27% or 218 rigs out of 800 rigs available. This represents an increased utilization of 3% compared to the October 21, 2009 forecast for 2009 of 24% average drilling rig utilization.

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 October, 2008, the majority of oil and gas exploration and production companies have 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 energy sector. For the third quarter of 2009, there were 1,966 wells rig leased compared to 5,294 wells in the same period of 2008, a decrease of 63%. This was the lowest third quarter of drilling since 1992. In the first nine months of 2009 there were 5,723 wells rig released compared to 12,055 in the first nine months of 2008 or a 53% decrease over the comparable period of 2008. British Columbia experienced the lowest percentage decrease (30%) of all provinces during the first nine months of 2009. The Trust is continuing to expand its services to northeastern British Columbia where the drilling activity remains relatively strong compared to the rest of Canada.

The Trust continues to focus on diversification into industrial and civil infrastructure activities. This diversification objective has had limited success due to pricing pressures in the bidding process with increased number of parties providing bids. However, the Construction segment has more non-energy related activities with 65% of activities directly relating to the

energy sector during the three month period ended September 30, 2009 compared to 82% in the comparable period of 2008. On April 7, 2009, the Government of Alberta released its 2009 budget (the "Budget"). The Budget included \$23.2 billion of infrastructure projects over the next three years. These infrastructure projects will not only assist in stimulation of the economy, but will provide Albertans with jobs. Included in the capital plan is \$5.8 billion for provincial highway networks.

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 directly 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 2009 with redeployment of equipment and skilled personnel to capitalize on demand in nearby regions plus improving utilization rates and financial results. With the shift in the North American natural gas markets towards unconventional shale gas basins, the Trust has moved quickly to position itself in two of North America's premier shale gas plays. The Trust has opened a full service office and maintenance facility in Fort Nelson and increased marketing emphasis in the northeastern British Columbia emerging Horn River and Montney shale gas plays. Petrowest has also undertaken a strategy to expand its presence in the oil sands mining sector by appointing a divisional vice president and by securing office and industrial space in Fort McMurray. This sector represents the largest area of potential growth for the Trust.

Management of the Trust continues to streamline and improve operating efficiencies in addition to taking proactive steps to improve the financial flexibility of the Trust. This is being accomplished through consolidation of entities within segments, consolidation of redundant management functions and a detailed review of the fixed cost structures inherent in the Trust to reduce costs and improve both operations and financial results. On July 27, 2009 the Trust announced the formation of a Special Committee of independent directors to investigate and evaluate various strategic alternatives available to the Trust. The Special Committee retained FirstEnergy Capital Corp to act as financial advisors in this review process, which is on going.

## FINANCIAL INFORMATION

### Financial Results

(thousands of dollars, except per unit amounts, margins and ratios)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue by segment:				
Construction	14,196	24,915	38,647	58,558
Transportation	4,454	5,680	15,484	20,742
Civil	12,928	21,184	31,610	54,983
Rentals	560	1,684	1,536	3,784
Corporate	-	4	-	4
Revenue from continuing operations	32,138	53,467	87,277	138,071
Operating expenses	25,724	40,063	76,286	108,664
Gross margin from continuing operations <sup>(1)</sup>	6,414	13,404	10,991	29,407
Gross margin percentage <sup>(1)</sup>	20%	25%	13%	21%
General and administrative	2,230	2,534	5,487	6,286
EBITDA from continuing operations <sup>(1)</sup>	4,184	10,870	5,504	23,121
EBITDA margin percentage <sup>(1)</sup>	13%	20%	6%	17%
Interest	1,269	1,472	3,608	4,916
Amortization of property and equipment	5,361	6,330	15,644	19,096
Amortization of intangible assets	904	1,106	2,861	3,527
Impairment of property and equipment	5,301	-	5,301	-
Impairment of goodwill and intangible assets	-	-	35,446	1,874
(Gain) loss on disposal of property and equipment	(175)	37	(156)	2,172
Other income	(73)	-	(75)	(10)
Net earnings (loss) and comprehensive income (loss) from continuing operations before income taxes	(8,403)	1,925	(57,125)	(8,454)
Future income tax recovery	(6,526)	(1,621)	(9,467)	(2,437)
Net earnings (loss) and comprehensive income (loss) from continuing operations	(1,877)	3,546	(47,658)	(6,017)
Discontinued operations, net of tax	(85)	(770)	(7,588)	(2,045)
Net earnings (loss) and comprehensive income (loss) for the period	(1,962)	2,776	(55,246)	(8,062)
Net earnings (loss) per unit – basic and diluted from continuing operations	(0.06)	0.11	(1.45)	(0.18)
Net loss per unit – basic and diluted from discontinued operations	(0.00)	(0.03)	(0.23)	(0.06)
Net earnings (loss) per unit – basic and diluted	(0.06)	0.08	(1.68)	(0.24)
Total assets	125,250	238,019	125,250	238,019
Total liabilities	91,309	124,313	91,309	124,313
Unitholders' equity	33,941	113,706	33,941	113,706

<sup>(1)</sup> See "Non-GAAP Measures"

### Financial Resources and Liquidity

(thousands of dollars, except unit amounts)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Cash provided from operating activities	1,249	(5,221)	8,529	(3,138)
Units outstanding	32,946,308	32,926,308	32,946,308	32,926,308
Weighted average units outstanding – basic	32,946,308	33,171,308	32,938,030	33,238,104

Revenue from continuing operations for the three months ended September 30, 2009 was \$32.1 million, a 40% decrease over revenue from continuing operations of \$53.5 million in the comparable period of 2008. Revenue from Discontinued Operations for this period was \$29,000 compared to \$5.3 million in the comparable period of 2008.

For the three month period ended September 30, 2009 the net earnings (loss) and comprehensive income (loss) from continuing operations was \$(1.9) million compared to \$3.5 million in 2008. For the three months ended September 30, 2009 the net loss from Discontinued Operations was \$0.1 million compared to a loss of \$0.8 million in the comparable period of 2008.

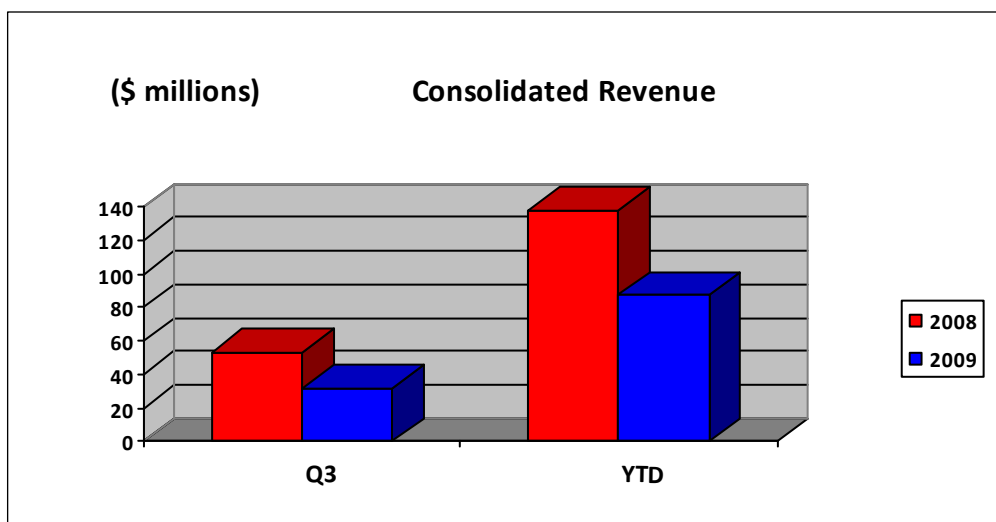
As at September 30, 2009 the revolving bank term loan (including bank overdraft) was \$71.5 million, a reduction of \$9.6 million from the \$81.1 million of net debt as at December 31, 2008 and a reduction of \$21.8 million since September 30,

2008. The trust was not in compliance with three financial covenants contained in the credit facility as at September 30, 2009 and has obtained a waiver from the bank syndicate until October 30, 2009. In addition there was a scheduled reduction and cancellation of commitment due September 30, 2009. The trust has received a deferral of this until October 30, 2009.

Revenue from continuing operations for the nine months ended September 30, 2009 was \$87.3 million, a decrease of 37% over consolidated revenue from continuing operations of \$138.1 million in the comparable period of 2008. Gross margin and EBITDA percentages decreased by 8% and 11% respectively compared to 2008. For the nine month period ended September 30, 2009 the net earnings (loss) and comprehensive income (loss) from continuing operations was \$(47.7) million compared to \$(6.0) million in 2008. For the nine months ended September 30, 2009 the net loss from Discontinued Operations was \$7.6 million compared to a loss of \$2.0 million in the comparable period of 2008.

**RESULTS SUMMARY**

**REVENUE FROM CONTINUING OPERATIONS**



Revenue from continuing operations for the three months ended September 30, 2009 was \$32.1 million, a 40% decrease from revenue of \$53.5 million in the comparable period of 2008. All segments had decreased revenue on a quarter over quarter basis as a result of a significant decrease in activity in the energy sector, lower utilization of equipment in the Civil segment and reduced demand in the lumber sector which affects the Transportation segment.

The Trust's objective of diversifying from the oil and natural gas sector remains an important strategic objective, with approximately 35% (2008 – 37%) of revenue from continuing operations in the first nine months of 2009 directly relating to the energy sector. The Trust will continue to pursue industrial and civil infrastructure projects with the oil and gas sector continuing as an important ongoing component of the Trust. This is particularly important in 2009, given the current activity level and utilization rate projections in the oil and gas sector.

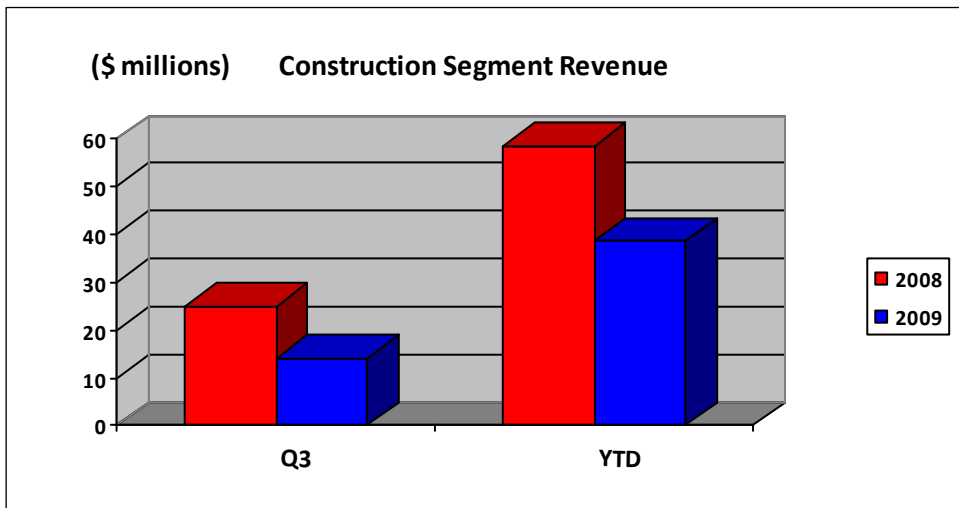
There was not a significant shift in the revenue contribution percentages by the four business segments during the third quarter of 2009 compared to 2008, with a 3% revenue contribution decrease in the Construction segment and a 3% increase in the Transportation segment on a percentage of revenue basis. For the three months ended September 30, 2009, the revenue contribution percentage for each business segment was Construction 44%, Transportation 14%, Civil 40%, and Rentals 2%. The revenue contribution percentage for each business segment for the third quarter of 2008 was Construction 47%, Transportation 11%, Civil 40% and Rentals 2%.

Revenue from continuing operations for the nine months ended September 30, 2009 was \$87.3 million, a 37% decrease from revenue of \$138.1 million in the comparable period of 2008. All segments had decreased revenue on a quarter over quarter basis as a result of a significant decrease in activity in the energy sector.

For the nine months ended September 30, 2009, compared to the same period in 2008, the largest contribution change was the Civil segment which had a decrease of 4%, with the Construction segment increasing by 2% and the Transportation segment increasing by 3% on a percentage of revenue basis. The revenue contribution percentages for each business segment for the nine months ended September 30, 2009 were Construction 44%, Transportation 18%,

Civil 36% and Rentals 2%. The revenue contribution percentages for each business segment for the nine months ended September 30, 2008 were Construction 42%, Transportation 15%, Civil 40% and Rentals 3%.

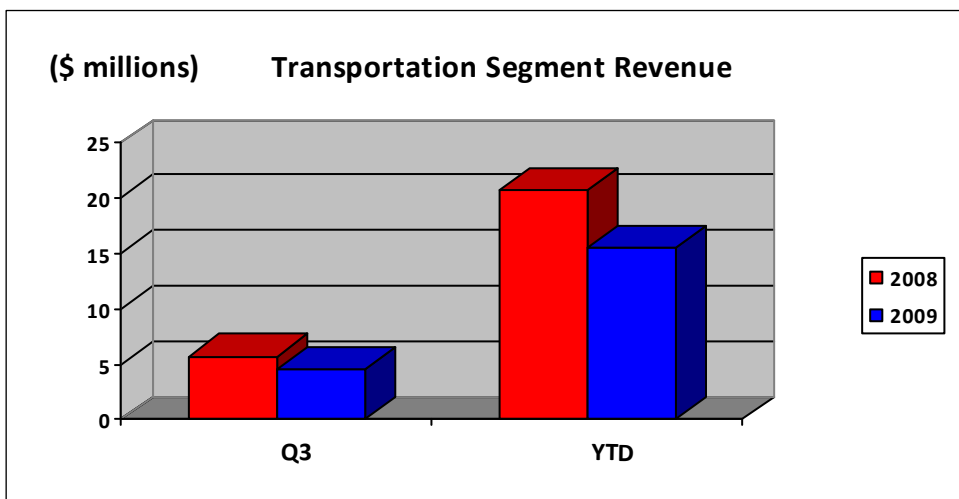
### Construction Segment



Construction segment revenue for the three months ended September 30, 2009 was \$14.2 million (2008 - \$24.9 million) comprising 44% of the Trust's total consolidated revenue and representing a decrease of \$10.7 million over the comparable prior year period. The overall general decline in revenue in the Construction segment is directly attributable to the decreased activity in the oil and gas sector. During this period 66% of the Construction segments' services were related to the energy sector compared to 82% in the comparable period of 2008. This was related to infrastructure services provided during the period on a business site, hospital site and provincial road work. The energy sector services were primarily related to activity in northeastern British Columbia where the Montney and Horn River shale gas plays are located.

Construction segment revenue for the nine months ended September 30, 2009 was \$38.6 million (2008 - \$58.6 million) comprising 44% of the Trust's total consolidated revenue and representing a decrease of \$19.9 million over the comparable prior year period. The overall general decline in revenue is attributed to the same factors as discussed above in addition to the loss of revenue in the Woodland Cree First Nations area which contributed significant revenues in the first quarter of 2008. During this nine month period 82% of the segments' services related to the energy sector compared to 89% in the comparable period of 2009.

### Transportation Segment



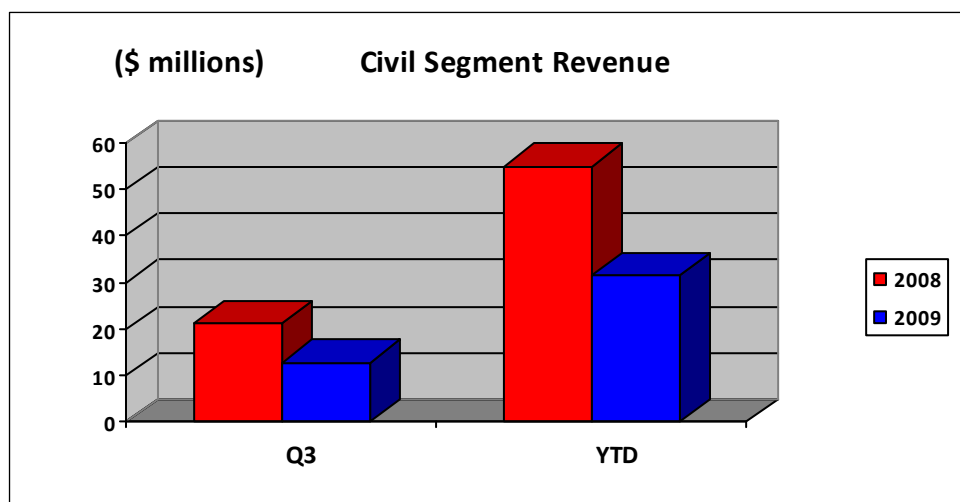
The Transportation segment consists of specialized hauling; primarily log hauling in the winter months and gravel hauling in the summer in addition to year round heavy equipment hauling. The rig mobilization and demobilization business was

directly affected by the significant reduction in drilling activities in the energy sector and has been classified as a discontinued operation and was sold in May, 2009 due to the accumulated losses and negative cash flows over the past two years and management's view that drilling activity was not likely to improve in the near term. The revenue from the Discontinued Operations has been excluded from this revenue analysis.

Transportation segment revenue for the three months ended September 30, 2009 was \$4.5 million (2008 - \$5.7 million), comprising 14% of the Trust's total consolidated revenue and representing a decrease of \$1.2 million over the comparable period in the prior year. A significant customer of the Transportation segment incurred a shutdown of operations resulting in a delay to the summer log haul program.

Transportation segment revenue for the nine months ended September 30, 2009 was \$15.5 million (2008 - \$20.7 million) representing a decrease of \$5.2 million over the comparable period of 2008. In addition to the factor mentioned above, one of the major forestry clients reduced the amount of log haul, which affected revenues on a quarter over quarter basis in the first quarter of 2009 and a delay in log haul operations by a significant customer in the second quarter of 2009.

### Civil Segment

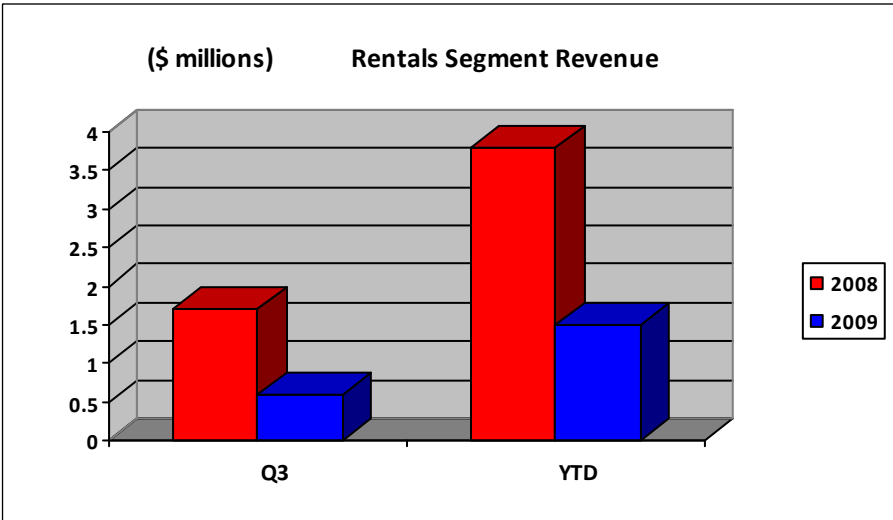


The Civil segment has two components, with the largest component of this segment being mobile aggregate rock crushing and sand screening. The second component, oilfield safety services, provides air unit trailers and wash unit services for sour gas drilling and plant turnarounds. Services provided in this component are related to drilling activity in the energy sector resulting in this business operation being directly affected by oil and natural gas drilling activities.

Revenue has decreased for both components of the Civil segment. Civil segment revenue for the three months ended September 30, 2009 was \$12.9 million (2008- \$21.2 million) comprising 40% of the Trust's total consolidated revenue and representing a decrease of \$8.3 million over the comparable period in the prior year. The decrease relates to lower utilization (due to demand) of the crushing spreads during the quarter in addition to lower pricing due to competitive pressures.

Civil segment revenue for the nine months ended September 30, 2009 was \$31.6 million (2008 – \$55.0 million) representing a decrease of \$23.4 million compared to the same period of 2008. The same factors mentioned for the three month period above applies to the nine month period.

## Rentals Segment



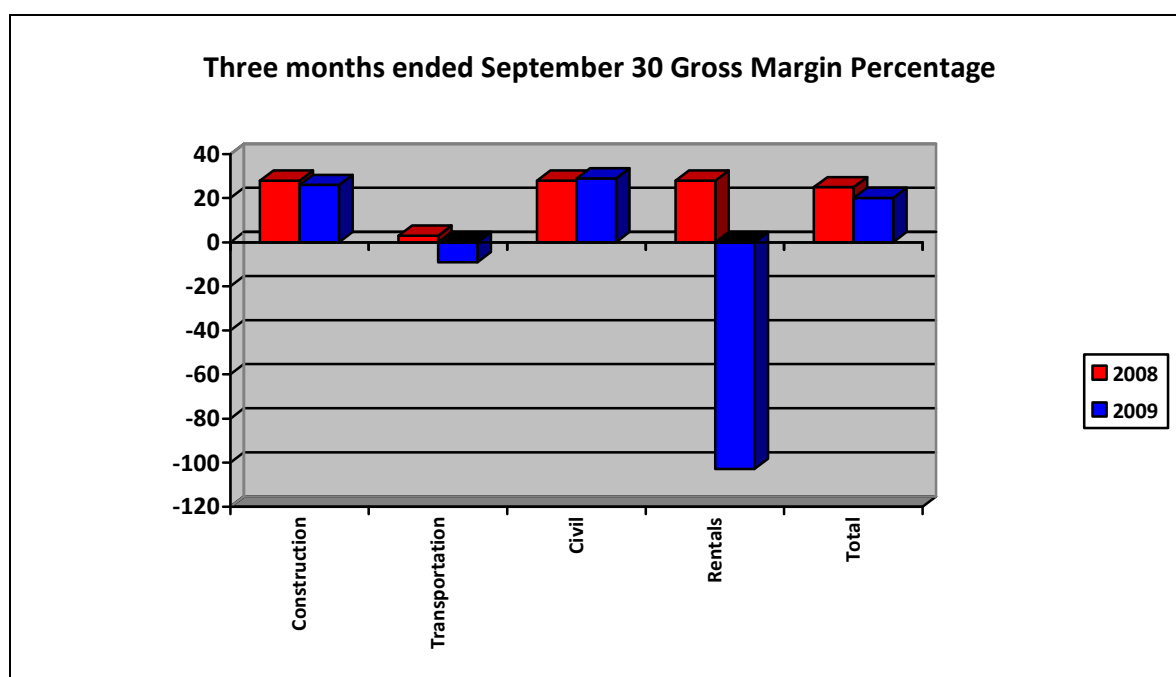
There are numerous factors contributing to the financial results of the Rentals segment. Reduced demand for certain equipment resulted in unutilized equipment. Management is reviewing alternative uses of this equipment to maximize revenue going forward. The Trust redeployed this equipment to other segments which required the equipment. During the three month period ended September 30, 2009 58% of the Rental segment revenue was inter-segment revenue which revenue is eliminated on consolidation.

Rentals segment revenue for the three months ended September 30, 2009 was \$0.6 million (2008 - \$1.7 million) comprising 2% of the Trust's total consolidated revenue and representing a decrease of \$1.1 million over the comparable period in the prior year.

Rentals segment revenue for the nine months ended September 30, 2009 was \$1.5 million (2008 - \$3.8 million) comprising 2% of the Trust's total consolidated revenue and representing a decrease of \$2.3 million over the comparable period in the prior year.

## OPERATING EXPENSES AND GROSS MARGIN

Consolidated Gross Margins from continuing operations have been under considerable pricing pressure the first nine months of 2009 compared to 2008. The level of drilling activity in the energy sector has resulted in significantly less demand for construction of oil and gas lease well site pads and other ancillary services. This has resulted in increased pricing pressure due to the increased number of parties submitting bids for a lower number of projects. In addition, there has been considerable pricing pressure relating to industrial and civil infrastructure projects. These factors, combined with a minimum fixed cost structure and lower revenues has contributed to reduced margins. Inter-segment revenues and expenses are eliminated on consolidation which impacts the gross margins in the segments providing or receiving these inter-segment services.



(thousands of dollars except percentages)	Operating expenses for the three months ended September 30, 2009	Operating expenses as a % of revenue	Gross Margin Percentage	Operating expenses for the three months ended September 30, 2008	Operating expenses as a % of revenue	Gross Margin Percentage
Construction segment	10,556	74%	26%	17,974	72%	28%
Transportation segment	4,837	109%	(9)%	5,535	97%	3%
Civil segment	9,196	71%	29%	15,344	72%	28%
Rentals segment	1,135	203%	(103)%	1,210	72%	28%
	<b>25,724</b>	<b>80%</b>	<b>20%</b>	<b>40,063</b>	<b>75%</b>	<b>25%</b>

Consolidated operating expenses for the three months ended September 30, 2009 were \$25.7 million (2008 - \$40.1 million) with a Gross Margin of 20% compared to 25% for the same period in 2008. The major costs incurred for equipment owned by the Trust are labour, fuel, equipment leases and repairs and maintenance. The other significant operating expenses relate to payments to subcontractors. Margins continued to be under pressure as a result of increasing costs associated with the operation of the Trust's equipment and significantly lower activity levels in the energy sector, all of which combine to result in pricing pressures and lower utilization of equipment. The comparably low level of commodity prices during this period significantly impacted the level of activity in the energy sector. The fixed components

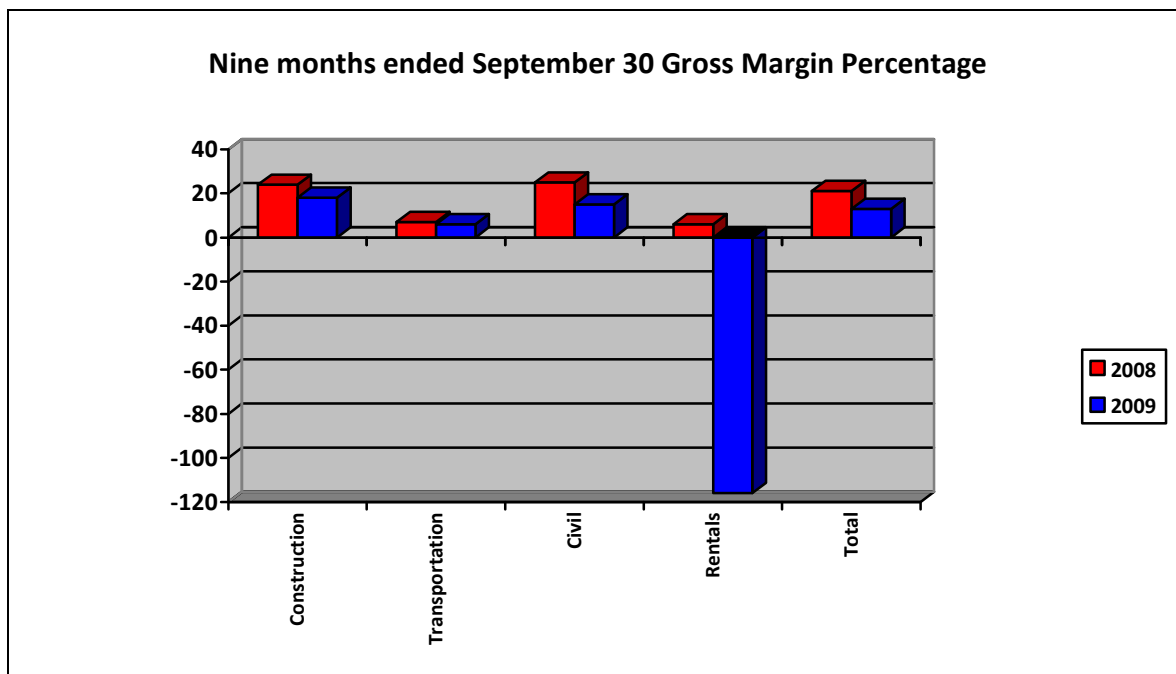
relating to equipment leases and facilities rent further affect the margins negatively when revenues are at a reduced level. The reduced price of fuel is improving margins but not at a level sufficient to significantly mitigate the other factors reducing the margins.

The Construction segment Gross Margin decreased 2% for the three months ended September 30, 2009 over the comparable period in 2008. This decrease is primarily related to the fixed amount of equipment and facilities rent which is spread over a smaller revenue base. The fixed component structure relating to these costs, combined with the decreased revenue, affected margins significantly so as to mitigate any of the benefits associated with lower repair and maintenance costs and fuel as a percentage of revenue.

The Transportation segment Gross Margin decreased 12% for the three months ended September 30, 2009 over the comparable period in 2008. If inter-segment revenues and expenses were not eliminated on consolidation, the Gross Margin for the Transportation segment would have increased 4% compared to 2008. Typically the Transportation segment provides services to other segments on a net basis. There was a significant increase in material and supply costs this period due to a large gravel component relating to the current activities.

The Civil segment Gross Margin for the third quarter of 2009 increased 1% over the comparable period of 2008. The reduced fuel costs in the quarter were effectively offset by fixed equipment charges.

The Rentals segment Gross Margin for the third quarter of 2009 decreased 131% over the comparable period in 2008. Typically the Rentals segment provides inter-segment services with the revenues being eliminated on consolidation which results in a lower Rentals segment margin on a consolidated basis. If the inter-segment revenues and expenses were not eliminated on consolidation the Gross Margin for the Rentals segment would have decreased by 37% compared to 2008.



(thousands of dollars except percentages)	Operating expenses for the nine months ended September 30, 2009	Operating expenses as a % of revenue	Gross Margin Percentage	Operating expenses for the nine months ended September 30, 2008	Operating expenses as a % of revenue	Gross Margin Percentage
Construction segment	31,604	82%	18%	44,379	76%	24%
Transportation segment	14,527	94%	6%	19,382	93%	7%
Civil segment	26,844	85%	15%	41,362	75%	25%
Rentals segment	3,311	216%	(116)%	3,541	94%	6%
	<b>76,286</b>	<b>87%</b>	<b>13%</b>	<b>108,664</b>	<b>79%</b>	<b>21%</b>

Consolidated operating expenses for the nine months ended September 30, 2009 were \$76.3 million (2008 - \$108.7 million) with a Gross Margin of 13% compared to 21% for the same period in 2008. The major costs incurred for equipment owned by the Trust are labour, fuel, equipment leases and repairs and maintenance. The other significant operating expenses relate to the payments to subcontractors. Margins continued to be under pressure as a result of increasing costs associated with the operation of the Trust's equipment and significantly lower activity levels in the oil and gas sector, all of which combine to result in pricing pressures and lower utilization of equipment. The fixed components relating to equipment leases and facilities rent further affect the margins negatively when revenues are at a reduced level. The reduced price of fuel is improving margins but not at a level sufficient to significantly mitigate the other factors reducing the margins.

The Construction, Transportation and Civil segments' Gross Margins decreased by 6%, 1% and 10% respectively for the nine months ended September 30, 2009 over the comparable period in 2009.

The Rentals segment Gross Margin for the third quarter of 2009 decreased 122% over the comparable period in 2008. This is primarily due to the large percentage of revenue for the segment being eliminated on consolidation combined with the fixed cost structure of the segment.

## GENERAL AND ADMINISTRATIVE

On a percentage of revenue basis, general and administrative costs were approximately 6.9% of revenue in the third quarter of 2009 compared to 4.7% in the third quarter of 2008. General and administrative costs were higher as a percentage of revenue due to lower revenue in the third quarter of 2009 and approximately \$0.5 million of certain one time non-recurring costs relating to the restructuring of the credit facility and the strategic review currently on going with FirstEnergy Capital Corp. During the quarter the general and administrative costs were \$2.2 million compared to \$2.5 million in the comparable period of 2008.

For the nine month period ended September 30, 2009 and 2008 the general and administrative costs were 6.3% and 4.6% of revenue respectively. General and administrative costs for the year were higher as a percentage of revenue but lower on a dollar basis of \$5.5 million compared to \$6.3 million in the comparable period of 2008. Management of the Trust continues to review the fixed cost structure to reduce costs through the consolidation of management and operating functions within specific segments.

The Trust has initiated significant reductions of general and administrative expenses during the first nine months of 2009. These reductions are related to reduced head count, consolidation of businesses and general streamlining of administrative functions to improve efficiencies.

## **AMORTIZATION**

Amortization of property and equipment for the three months ended September 30, 2009 was \$5.4 million compared to \$6.3 million in the comparable period of 2008. 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. Amortization of property and equipment for the nine months ended September 30, 2009 was \$15.6 million compared to \$19.1 million. 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 reduced the amortizable base of property and equipment. This equipment was either underutilized or approaching a fully "hoored" basis.

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 \$6.2 million was recorded during 2008, which reduced the carrying value of intangible assets, reducing the base for amortization in 2009. Amortization of intangibles for the three month period ended September 30, 2009 was \$0.9 million (2008 - \$1.1 million). Intangible assets amortization for the nine month ended September 30, 2009 was \$2.9 million (2008 - \$3.5 million). During the second quarter of 2009 the Trust recorded an impairment of \$1.1 million for intangible assets which further reduced amortization in future periods.

## **INTEREST**

Interest expense for the three months ended September 30, 2009 was \$1.3 million compared to \$1.5 million in the comparable period of 2008. This decrease was the result of a decrease in the prime based lending rate and a \$21.8 million reduction in the revolving bank term loan balance, partially offset by increased fees relating to the restructuring of the credit facility.

Interest expense for the nine months ended September 30, 2009 was \$3.6 million compared to \$4.9 million, the reasons for the decrease are similar to the three month period.

## **IMPAIRMENT OF PROPERTY AND EQUIPMENT**

### **Continuing Operations**

Management of the Trust assesses the carrying amount of property and equipment for impairment when certain events or changes in circumstances indicate that the carrying amount may not be recoverable. In these circumstances, an impairment loss is recognized for the amount by which the carrying amount exceeds fair value. Management assessed the carrying amount of property and equipment as at September 30, 2009 as a result of significant decreases in the market price of similar property and equipment.

The first step in determining whether there is an impairment is a comparison of the carrying amount of the assets to the sum of the undiscounted cash flows related to the use of the assets. Where the carrying amount of the assets exceeded the undiscounted cash flows, this was an indication to management of an impairment.

The amount of the impairment loss is measured by the amount by which the carrying amount of the asset exceeds its fair value. Fair value is then determined to be the amount an asset could be bought or sold in a current transaction between willing parties, other than a forced or liquidation sale. Management has determined fair value utilizing an externally prepared appraisal report as the basis for calculating fair values.

As a result of the above, management has recorded an impairment of property and equipment as at September 30, 2009 in the amount \$5.3 million, with \$4.8 million relating to the Construction segment and \$0.5 million to the Rentals segment.

### **Discontinued Operations**

The Trust provided for an impairment of \$4.5 million related to the rig mobilization and demobilization assets from the Transportation segment on March 31, 2009. The amount has been included as discontinued operations on the statement of loss for September 30, 2009. Management of the Trust determined the fair value of the rig mobilization and

demobilization equipment using industry standard valuations prepared by a third party based on current market assumptions relating to the oil and gas services sector.

## IMPAIRMENT OF GOODWILL

Goodwill represents the excess of purchase price of the acquired businesses over the fair value of net assets acquired and liabilities assumed.

	September 30, 2009	December 31, 2008
September 7, 2006 acquisitions	97,949	97,949
Additional settlement costs	119	119
May 18, 2007 acquisitions	21,939	21,939
Additional Settlement Costs	690	690
	<b>120,697</b>	120,697
Impairment	<b>120,697</b>	86,376
Closing balance	-	34,321

During 2008 and 2009, the most significant event affecting the Canadian economy was the global economic and financial crisis. This crisis has resulted in reduced liquidity in the financial markets and caused lower commodity pricing. There have been significant reductions in capital spending of companies operating in the oil and gas sector. Although the Trust is partially diversified from the oil and gas sector, the events have impacted management's review of the carrying value of goodwill. As at June 30, 2009 the Trust recorded an impairment of goodwill for the remaining balance of \$34.3 million due to further decreases in oil and gas sector activity levels in the second quarter. On an operating segmented basis the amount of the impairment was \$12.0 million in Construction, \$4.5 million in Transportation, \$15.0 million in Civil, and \$2.8 million in Rentals. The erosion of the Trust's enterprise value, primarily as a result of the global economic and financial crisis, combined with the change in pricing of corporate transactions in the energy services sector, the continued low activity levels in the energy sector, and continued pricing and margin pressures were factors contributing to the impairment. Management of the Trust determined the fair value of goodwill on a segment by segment basis using industry standard valuation methods such as earnings multiples and discounted cash flows.

## IMPAIRMENT OF INTANGIBLE ASSETS

The Trust reviewed the remaining \$11.4 million carrying value of intangible assets for impairment as at June 30, 2009, as certain events or changes in circumstances occurred during the second quarter which indicated certain intangible assets were being carried at a cost greater than their fair value. An impairment of \$1.1 million was recorded in the second quarter of 2009. On an operating segmented basis the amount of the impairment was \$0.9 million in the Construction segment and \$0.2 million in the Rentals segment. The impairment was primarily related to customer relationships. The erosion of the Trust's enterprise value, primarily as a result of the global economic and financial crisis, combined with the change in pricing of corporate transactions in the energy services sector, were factors relating to this impairment. The continued low activity levels in the energy sector and continued pricing and margin pressures were also factors contributing to the impairment. Management of the Trust determined the fair value of intangible assets on a segment by segment basis using industry standard valuation methods such as discounted cash flows. There was no further impairment of intangible assets during the third quarter of 2009.

## INCOME TAXES

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

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

	As at September 30, 2009	As at December 31, 2008
<b>Future income tax assets</b>		
Non Capital Loss	2,853	-
Trust unit issue costs	627	699
Unit based compensation	107	28
	<b>3,587</b>	<b>727</b>
<b>Future income tax liabilities</b>		
Property and equipment	4,961	10,935
Intangible assets	895	1,528
	<b>5,856</b>	<b>12,463</b>

The \$1.1 million impairment of intangible assets in the second quarter of 2009 and the \$5.3 impairment of property and equipment in the third quarter of 2009 reduced the Trust's expected future income tax liability and expense, as the carrying value of these assets was reduced with no corresponding reduction in the tax base of these assets. Goodwill impairment has no tax consequences and therefore does not affect the Trust's provision for future income taxes.

## DISCONTINUED OPERATIONS

On April 2, 2009, the Trust made a decision to dispose of the rig mobilization and demobilization assets of the Transportation segment. The rig mobilization and demobilization has incurred accumulated losses and negative cash flow for the last two years. Management determined that the rig mobilization and demobilization activity was unlikely to improve in the near term due to current economic conditions.

On May 14, 2009 the Trust sold all of the assets used by Petrowest in its rig mobilization and demobilization business for a purchase price of \$10.0 million and recorded a loss on disposal of \$1.0 million under discontinued operations. As this was an asset sale, Petrowest retained all of the accounts receivable and accounts payable associated with this business. Proceeds from the sale were used to reduce the revolving bank term loan.

Comparative figures have been adjusted to remove activities in the rig mobilization and demobilization assets and to report those amounts as a discontinued operation.

Discontinued Operations, for the three months ended September 30, 2009 reported a loss of \$0.1 million compared to a loss of \$0.8 million for 2008.

Discontinued Operations for the nine months ended September 30, 2009 reported a loss of \$7.6 million compared to a loss of \$2.0 million for 2008. This represents a net loss per unit from discontinued operations of \$(0.23) and \$(0.06) respectively, basic and fully diluted. As at March 31, 2009, the Trust provided for an impairment of \$4.5 million related to the rig mobilization and demobilization assets from the Transportation segment. Management of the Trust determined the fair value of the rig mobilization and demobilization equipment using industry standard valuations prepared by a third party based on current market assumptions relating to the oil and gas services sector. The measurement of the impairment was assessed as the amount by which the carrying amount of an asset exceeded its estimated fair market value.

The following results from Discontinued Operations have been included in the September 30, 2009 and September 30, 2008 Consolidated Statements of Net Earnings (Loss), Comprehensive Income (Loss) and Accumulated Loss are:

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
<b>Revenue</b>	<b>29</b>	5,338	<b>5,077</b>	14,902
<b>Expenses</b>				
Operating expenses	<b>114</b>	5,207	<b>6,442</b>	14,489
Interest	-	147	<b>131</b>	149
Amortization of property and equipment	-	742	<b>569</b>	2,179
Amortization of intangible assets	-	17	<b>17</b>	50
Impairment of property and equipment	-	-	<b>4,500</b>	-
	<b>114</b>	6,113	<b>11,659</b>	16,867
<b>Operating loss</b>	<b>(85)</b>	(775)	<b>(6,582)</b>	(1,965)
Gain/(loss) on sale of property and equipment	-	5	<b>(1,006)</b>	(80)
<b>Net loss before income taxes</b>	<b>(85)</b>	(770)	<b>(7,588)</b>	(2,045)
Income taxes (recovery)	-	-	-	-
<b>Discontinued Operations, net of tax</b>	<b>(85)</b>	(770)	<b>(7,588)</b>	(2,045)

### NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the three month period ended September 30, 2009 the net earnings (loss) and comprehensive income (loss) from continuing operations was \$(1.9) million compared to \$3.5 million in 2008. This represents net earnings (loss) per unit of \$(0.06) and \$0.11 respectively, basic and fully diluted.

For the nine month period ended September 30, 2009 the net earnings (loss) and comprehensive income (loss) from continuing operations was \$(47.7) million compared to \$(6.0) million in 2008. This represents net earnings (loss) per unit of \$(1.45) and \$(0.18) respectively, basic and fully diluted.

Net earnings (loss) and comprehensive income (loss) for the three months ended September 30, 2009 was \$(2.0) million compared to \$2.8 million for 2008. This represents net earnings (loss) per unit of \$(0.06) and \$0.08 respectively, basic and fully diluted.

Net earnings (loss) and comprehensive income (loss) for the nine months ended September 30, 2009 was \$(55.2) million compared to \$(8.1) million for 2008. This represents net earnings (loss) per unit of \$(1.68) and \$(0.24) respectively, basic and fully diluted.

## **CAPITAL RESOURCES AND LIQUIDITY**

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.

### **SEASONAL IMPACTS ON CASH FLOW**

The Trust strives to fund operations 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 require 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 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 seasonal 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.

### **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 had been growth related through the Civil segment which increased capacity and through acquisition of businesses. 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. Approximately \$82.7 million of capital assets were acquired in 2006 with the initial public offering which comprised nine companies. In 2007 an additional \$42.0 million of capital assets were acquired with the acquisition of five more companies, which also expanded the geographical footprint of the Trust and opened new markets for the Trust's services. The 2007 acquisitions were financed with debt and the issuance of Units of the Trust.

## WORKING CAPITAL

(thousands of dollars)	As at September 30, 2009			As at December 31, 2008
	Continuing Operations	Discontinued Operations	Total	
Cash (bank overdraft)	(3,557)	-	(3,557)	2,348
Accounts receivable	33,268	122	33,390	47,761
Prepaid expenses and other	2,750	72	2,822	1,196
Inventory	4,426	-	4,426	5,476
Accounts payable and accrued liabilities	(12,743)	(169)	(12,912)	(18,355)
Current portion of revolving bank term loan	(67,950)	-	(67,950)	(83,500)
Current portion of obligations under capital leases	(573)	-	(573)	(661)
Working capital	(44,379)	25	(44,354)	(45,735)
(Cash) bank overdraft	3,557	-	3,557	(2,348)
Current portion of revolving bank term loan	67,950	-	67,950	83,500
Adjusted working capital	27,128	25	27,153	35,417

Working capital as at September 30, 2009 was \$1.4 million more than working capital as at December 31, 2008. During the first nine months of 2009 there was a reduction in the revolving bank term loan of \$9.6 million, net of cash/bank overdraft. After adjusting working capital for the revolving bank term loan, bank overdraft and cash, there is a decrease of \$8.3 million. The major changes during this nine month period were a decrease in accounts receivable of \$14.5 million and a decrease in accounts payable and accrued liabilities of \$5.6 million.

## REVOLVING BANK TERM LOAN

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 December 15, 2008, the Trust renewed its credit facility. The credit facility has a one year revolving term ending on December 14, 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 \$4.75 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.

The amount of the committed credit facility as at September 30, 2009 was \$75.5 million, a reduction of \$19.5 million during the first 9 months of 2009. This reduction is comprised of two quarterly reductions totaling \$9.5 million, \$5.0 million relating to obtaining the waiver of the financial covenant as at March 31, 2009 and \$5.0 million relating to the sale of certain assets in the Transportation segment.

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 September 30, 2009 is 2.38 to 1.
- Funded debt to four quarter's trailing proforma EBITDA ratio of not greater than 2.5 to 1. The Trust's ratio at September 30, 2009 is 4.62 to 1.
- Fixed charge coverage of not less than 1 to 1. The Trust's ratio at September 30, 2009 is 0.83 to 1.
- Funded debt to capitalization of not more than 0.50 to 1. The Trust's ratio at September 30, 2009 is 0.68 to 1.

The Trust obtained waivers from the bank syndicate of the “funded debt to EBITDA ratio”, “fixed charge coverage ratio” and “funded debt to capitalization ratio” financial covenants contained in the credit facility. In addition, the Trust obtained a deferral of the \$4.75 million scheduled reduction and cancellation of commitment which was to take effect September 30, 2009 and reduce the total commitment from \$75.5 million to \$70.8 million. Both the waivers and the deferral were effective until October 30, 2009. The Trust has submitted a formal request to the banking syndicate to extend the above waivers and deferral to December 14, 2009 and is currently in discussions with the banking syndicate. The Trust is also in discussions with the banking syndicate with respect to amending the existing credit facility. If the discussions are not successful then a future covenant default or further reduction and cancellation of the total commitment could result in the demand for repayment of the current outstanding advances on the credit facility.

## CONTRACTUAL OBLIGATIONS

(thousands of dollars)	As at September 30, 2009				
	< 1 year	1 – 3 Years	4 – 6 Years	Thereafter	Total
Bank overdraft	3,557	-	-	-	3,557
Revolving bank term loan	67,950	-	-	-	67,950
Obligations under capital leases	573	461	-	-	1,034
Operating leases on equipment	7,028	3,553	-	-	10,581
Operating leases on offices, shop and yards	2,718	4,096	2,028	901	9,743
<b>TOTAL</b>	<b>81,826</b>	<b>8,110</b>	<b>2,028</b>	<b>901</b>	<b>92,865</b>

## 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 November 12, 2009 there were 32,946,308 units outstanding.

	As at September 30, 2009		As at December 31, 2008	
	Units	Amount	Units	Amount
Balance, beginning of period	<b>31,766,308</b>	<b>291,107</b>	31,756,308	291,144
Acquired units in purchase of acquired companies	-	-	-	(56)
Issued for services rendered	<b>20,000</b>	<b>6</b>	10,000	19
	<b>31,786,308</b>	<b>291,113</b>	31,766,308	291,107
Subordinated units, beginning of period	<b>1,160,000</b>	<b>1,385</b>	1,510,000	1,735
Redemption of subordinated units issued for cash	-	-	(350,000)	(350)
Redemption of subordinated units issued for promissory notes	-	-	-	(700)
Promissory note repayment	-	-	-	700
	<b>1,160,000</b>	<b>1,385</b>	1,160,000	1,385
Balance, end of period	<b>32,946,308</b>	<b>292,498</b>	32,926,308	292,492
Weighted average units for period – basic	<b>32,946,308</b>		33,159,077	
Weighted average units for period – diluted	<b>35,422,911</b>		34,589,359	

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 September 30, 2009, there was a balance of \$2,095,000 outstanding related to promissory notes, net of repayments.

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. All escrowed units have now been released.

## CONTRIBUTED SURPLUS

Continuity of contributed surplus:

	As at September 30, 2009	As at December 31, 2008
Balance – beginning of period	635	-
Unit based compensation expense	287	15
Value assigned to expired warrants	-	270
Redemption of subordinated units below carrying value	-	350
Balance – end of period	<b>922</b>	<b>635</b>

## RELATED PARTY TRANSACTIONS

Petrowest paid rent, supplies, and services for the three and nine months ended September 30, 2009 for office and shop space under leases entered into with certain employees who were former owners of businesses acquired in the amount of \$539,148 (2008 - \$993,227) and \$2,195,139 (2008 - \$2,144,112) respectively. Transactions were recorded at the exchange amount which is estimated to approximate fair market value. The Trust has payables of \$187,975 (2008 - \$216,381) and receivables of \$nil (2008 - \$55,628) related to services provided to and from certain former owners of businesses acquired.

## CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES

### Critical Accounting Estimates

The unaudited interim consolidated financial statements for the three and nine months ended September 30, 2009 have been prepared in accordance with the accounting policies described in the notes to the unaudited 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

### ***Goodwill and Intangible Assets***

On January 1, 2009, the Trust adopted the new CICA section 3064, "*Goodwill and Intangible Assets*" which replaced section 3062. This new standard revises the criteria for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the Trust's unaudited interim consolidated financial statements.

### **Recent Accounting Pronouncements**

In December 2008, the Canadian Institute of Chartered Accountants ("CICA") issued section 1582, "*Business Combinations*" which will replace section 1581. Under this new guidance, the purchase price used is based on the fair value as of the date of acquisition. The new guidance generally requires all acquisition costs to be expensed, rather than the current practice of capitalizing them as part of the purchase price; contingent liabilities including contingent considerations are to be recognized at fair value at the acquisition date and revalued at fair value with the change flowing through earnings until settled. Negative goodwill is required to be recognized immediately into earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Entities adopting section 1582 will also be required to adopt section 1601 "*Consolidated Financial Statement*" and section 1602 "*Non-Controlling Interests*". Sections 1601 and 1602 may require a change in the measurement of non-controlling interest and will require the change to be presented as part of unitholders' equity on the balance sheet. These three standards will be effective January 1, 2011 and the adoption of these standards is not anticipated to have a material impact on the Trust's financial statements.

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 engaged in ongoing discussions with our external auditors. The impact of disclosure controls and internal controls over financial reporting will also be determined.

The changeover plan will be updated at the end of 2009 to incorporate new and amended IFRS accounting standards. Due to significant changes anticipated in key elements of IFRS before 2011, the impact of IFRS on the Trust's consolidated financial statements is not reasonably determinable at this time.

## SUMMARY OF QUARTERLY RESULTS

<i>(thousands of dollars except per unit amounts)</i>	2009			2008			2007	
	Sept.30	Jun.30	Mar.31	Dec. 31	Sep. 30	Jun. 30	Mar.31	Dec.31
<b>Revenue by segment</b>								
Construction	14,196	5,563	18,888	26,490	24,915	9,552	24,091	20,518
Transportation	4,454	2,616	8,415	8,492	5,679	4,928	10,134	8,495
Civil	12,928	8,526	10,156	16,019	21,184	17,567	16,231	12,617
Rentals	560	298	678	1,236	1,684	787	1,313	988
Corporate	-	-	-	1	4	-	-	5
<b>Total revenue</b>	<b>32,138</b>	<b>17,003</b>	<b>38,137</b>	<b>52,238</b>	<b>53,466</b>	<b>32,834</b>	<b>51,769</b>	<b>42,623</b>
<b>Operating expenses by segment</b>								
Construction	10,556	6,932	14,116	18,616	17,974	9,372	17,033	14,681
Transportation	4,837	2,751	6,939	8,108	5,536	5,029	8,818	7,118
Civil	9,196	8,324	9,324	12,050	15,344	12,968	13,050	11,164
Rentals	1,135	1,058	1,118	1,231	1,210	1,235	1,096	1,273
<b>Total operating expenses</b>	<b>25,724</b>	<b>19,065</b>	<b>31,497</b>	<b>40,005</b>	<b>40,064</b>	<b>28,604</b>	<b>39,997</b>	<b>34,236</b>
Administrative expenses	2,230	1,409	1,848	2,218	2,534	1,698	2,054	1,541
<b>EBITDA <sup>(1)</sup></b>	<b>4,184</b>	<b>(3,471)</b>	<b>4,792</b>	<b>10,015</b>	<b>10,868</b>	<b>2,532</b>	<b>9,718</b>	<b>6,846</b>
Gain (loss) on disposal of assets	175	-	(19)	(24)	(37)	(2,097)	(38)	(644)
Interest income	73	-	2	-	-	34	(24)	(53)
<b>Net earnings (loss) before other items</b>	<b>4,432</b>	<b>(3,471)</b>	<b>4,775</b>	<b>9,991</b>	<b>10,831</b>	<b>469</b>	<b>9,656</b>	<b>6,149</b>
Future income tax (recovery) expense	(6,526)	(6)	(2,935)	4,133	(1,621)	(934)	117	(1,461)
Amortization of property and equipment	5,361	5,261	5,022	6,677	6,330	6,405	6,361	7,679
Amortization of intangible assets	904	984	973	1,105	1,106	1,210	1,211	2,438
Impairment of goodwill and intangible assets	-	35,446	-	19,397	-	1,874	-	69,240
Impairment of property and equipment	5,301	-	-	-	-	-	-	-
Interest	1,269	1,312	1,027	1,777	1,472	1,509	1,935	2,211
<b>Net earnings (loss) from continuing operations</b>	<b>(1,877)</b>	<b>(46,468)</b>	<b>688</b>	<b>(23,098)</b>	<b>3,544</b>	<b>(9,595)</b>	<b>32</b>	<b>(73,958)</b>
Discontinued operations	(85)	(2,170)	(5,334)	(1,416)	(768)	(1,628)	353	(39,690)
<b>Net earnings (loss)</b>	<b>(1,962)</b>	<b>(48,638)</b>	<b>(4,646)</b>	<b>(24,514)</b>	<b>2,776</b>	<b>(11,223)</b>	<b>385</b>	<b>(113,648)</b>
<b>Net earnings (loss) per unit basic and diluted from continuing operations</b>	<b>(\$0.06)</b>	<b>(\$1.41)</b>	<b>\$0.02</b>	<b>(\$0.70)</b>	<b>\$0.11</b>	<b>(\$0.29)</b>	<b>\$0.00</b>	<b>(\$2.22)</b>
<b>Net earnings (loss) per unit basic and diluted from discontinued operations</b>	<b>(\$0.00)</b>	<b>(\$0.07)</b>	<b>(\$0.16)</b>	<b>(\$0.04)</b>	<b>(\$0.03)</b>	<b>(\$0.05)</b>	<b>\$0.01</b>	<b>(\$1.20)</b>
<b>Net earnings (loss) per unit basic and diluted</b>	<b>(\$0.06)</b>	<b>(\$1.48)</b>	<b>(\$0.14)</b>	<b>(\$0.74)</b>	<b>\$0.08</b>	<b>(\$0.34)</b>	<b>\$0.01</b>	<b>(\$3.42)</b>
<b>Adjusted working capital<sup>(2)</sup></b>	<b>27,128</b>	<b>25,215</b>	<b>29,621</b>	<b>35,417</b>	<b>43,655</b>	<b>31,573</b>	<b>31,187</b>	<b>21,770</b>

<sup>(1)</sup> See "Non-GAAP Measures"

<sup>(2)</sup> Working capital adjusted for the revolving bank term loan, bank overdraft, and cash – See "Capital Resources and Liquidity" – "Seasonal Impacts on Cash Flow" section

## KEY RISKS AND UNCERTAINTIES

The Trust has removed the distributable cash section since there is no expectation in the near future to distribute cash.

The Trust is exposed to market risks and other operational risks. For a detailed discussion of these risks readers should refer to the Trust's Annual Information Form and the key risks and uncertainties section of the Trust's 2008 annual MD&A both of which are available at [www.sedar.com](http://www.sedar.com) and on the Trust's website at [www.petro-west.com](http://www.petro-west.com).

## DISCLOSURE AND INTERNAL CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in annual filings, interim filings or other reports under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Internal control over financial reporting is designed

to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with GAAP. The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting. There were no changes in the Trust's internal control over financial reporting during the third quarter of 2009 that have materially affected or are reasonable likely to materially affect the Trust's internal controls over financial reporting.

## 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](http://www.sedar.com).

## FORWARD LOOKING STATEMENTS

Certain information and statements contained in this interim 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 interim 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 interim MD&A. All of***

*the forward looking statements of the Trust contained in this interim 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.*