MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is dated March 10, 2010. 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, 2009 and December 31, 2008 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 over the past two years. Management determined that the rig mobilization and demobilization activity was unlikely to improve in the near term due to the economic environment in the energy sector at that time and projected in the near term. Management's strategy includes focusing on its core businesses and disposing of non-core businesses which are underperforming.

The three month period ended December 31, 2009 does not contain any operating results of the Discontinued Operations. The year ended December 31, 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 365 days respectively. This MD&A will focus on operations from continuing operations.

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. 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 December 31, 2009, approximately 44% (2008 – 41%) 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 twelve month period ended December 31, 2009, approximately 41% (2008 – 46%) 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 activities from continuing operations. For the three month period ended December 31, 2009 the energy sector percentage was 3% greater compared to the same period of 2008. The increase is primarily related to a significant infrastructure project in the last quarter of 2008. The percentage of direct energy related activities decreased by 5% for the twelve months ended December 31, 2009 and 2008 due to significant decreases in all business sectors except lumber hauling which had a proportionately smaller year over year decline.

Petrowest Construction LP

Petrowest Construction LP operates under the trade names of "Gordon Bros. Construction", "Roy Larson Construction", "Wales Contractors", "Jim Moffatt Construction", and "Quigley Contracting", 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, gravel loading and hauling, and heavy equipment 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 41% of the Trust's total revenue from continuing operations for 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 affected the world economy in the latter half of 2008 and continued into 2009 to affect the businesses of the Trust which are dependent on the energy sector. There is a relationship between drilling exploration activity and the price of commodities. The global crisis 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. In 2009 the average price of West Texas Intermediate ("WTI") crude oil and the near-month natural gas price quoted on the New York Mercantile Exchange were significantly lower than 2008. However, the fourth quarter of 2009 experienced an increase in the price of WTI compared to the same period in 2008. 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.

The price of WTI averaged US $61.88 in 2009 compared to US $99.51 in 2008 which represents a decrease of approximately 38%. This decreased pricing is lower than the 49% decrease during the first nine months of 2009 compared to the same period of 2008. The near-month natural gas price quoted on the New York Mercantile Exchange averaged approximately 53% less in 2009 compared to 2008.

On January 27, 2010 the Petroleum Services Association of Canada release its revised forecast for 2010 for total wells to be rig released to 9,000, an increase of 611 over 2009. The Canadian Association of Oilwell Contractors released its drilling rig utilization forecast for 2010 on October 20, 2009. The average drilling rig utilization is anticipated to be 27% or 218 rigs out of 800 available rigs. This is in line with the 2009 average rig utilization of 28%.

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. During the fourth quarter of 2009 there were 2,620 wells rig released compared to 4,806 in the same period of 2008, representing a decrease of 45%. During 2009 there were 8,328 wells rig released compared to 16,868 in 2008, representing a decrease of 51%. 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. The Construction segment, which comprised 46% of the Trusts consolidated revenue in 2009 has less non-energy related activities compared to other business segments, with 82% of activities directly relating to the energy sector during the three month period ended December 31, 2009 compared to 70% in the comparable period of 2008.
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 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.

The Trust's ability to continue as a going concern is dependent upon its ability to renew its credit facility and generate positive cash flows from operations. There is no assurance that the negotiations with the banking syndicate will result in a new credit facility acceptable to both the Trust and the banking syndicate or that the Trust will be successful in procuring alternate financing.

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.

FINANCIAL INFORMATION

Selected Annual Information

(thousands of dollars, except per unit amounts, margins and ratios)	**2009**	2008	2007
Revenue by segment:			
Construction	**54,494**	85,048	59,096
Transportation	**22,261**	29,233	24,905
Civil	**40,557**	71,001	50,589
Rentals	**2,310**	5,020	7,402
Corporate	**-**	5	5
Revenue from continuing operations	**119,622**	190,307	141,997
Operating expenses	**105,878**	148,670	110,236
Gross margin from continuing operations[1]	**13,744**	41,637	31,761
Gross margin percentage[1]	**11%**	22%	22%
General and administrative	**6,898**	8,504	5,249
EBITDA from continuing operations[1]	**6,846**	33,133	26,512
EBITDA margin percentage[1]	**6%**	17%	19%
Interest	**4,853**	6,693	5,433
Amortization of property and equipment	**21,002**	25,773	25,458
Amortization of intangible assets	**3,765**	4,632	8,405
Impairment of property and equipment	**5,301**	-	-
Impairment of goodwill and intangible assets	**35,628**	21,271	69,240
(Gain) loss on disposal of property and equipment	**(188)**	2,196	1,178
Other income	**(92)**	(10)	(142)
Net loss and comprehensive loss from continuing operations before income taxes	**(63,423)**	(27,422)	(83,060)
Future income tax expense (recovery)	**(11,736)**	1,695	10,041
Net loss and comprehensive loss from continuing operations	**(51,687)**	(29,117)	(93,101)
Discontinued operations, net of tax	**(7,543)**	(3,459)	(43,972)
Net loss and comprehensive loss for the period	**(59,230)**	(32,576)	(137,073)
Net loss per unit – basic and diluted from continuing operations	**(1.57)**	(0.88)	(2.98)
Net loss per unit – basic and diluted from discontinued operations	**(0.23)**	(0.10)	(1.41)
Net loss per unit – basic and diluted	**(1.80)**	(0.98)	(4.39)
Total assets	**115,440**	204,747	245,245
Total liabilities	**85,355**	115,853	123,753
Unitholders' equity	**30,085**	88,894	121,492

[1] See "*Non-GAAP Measures*"

Fourth Quarter Financial Results

(thousands of dollars, except per unit amounts, margins and ratios)	Three months ended December 31 2009	2008
Revenue by segment:		
Construction	**15,847**	26,490
Transportation	**6,777**	8,492
Civil	**8,947**	16,018
Rentals	**774**	1,236
Corporate	**-**	1
Revenue from continuing operations	**32,345**	52,237
Operating expenses	**29,591**	40,004
Gross margin from continuing operations[1]	**2,754**	12,233
Gross margin percentage[1]	**9%**	23%
General and administrative	**1,411**	2,218
EBITDA from continuing operations[1]	**1,343**	10,015
EBITDA margin percentage[1]	**4%**	19%
Interest	**1,245**	1,777
Amortization of property and equipment	**5,358**	6,678
Amortization of intangible assets	**904**	1,105
Impairment of property and equipment	**-**	-
Impairment of goodwill and intangible assets	**182**	19,397
(Gain) loss on disposal of property and equipment	**(31)**	24
Other income	**(17)**	-
Net loss and comprehensive loss from continuing operations before income taxes	**(6,298)**	(18,966)
Future income tax expense (recovery)	**(2,269)**	4,132
Net loss and comprehensive loss from continuing operations	**(4,029)**	(23,098)
Discontinued operations, net of tax	**45**	(1,416)
Net loss and comprehensive loss for the period	**(3,984)**	(24,514)
Net loss per unit – basic and diluted from continuing operations	**(0.12)**	(0.70)
Net loss per unit – basic and diluted from discontinued operations	**(0.00)**	(0.04)
Net loss per unit – basic and diluted	**(0.12)**	(0.74)
Total assets	**115,440**	204,747
Total liabilities	**85,355**	115,853
Unitholders' equity	**30,085**	88,894

[1] See "*Non-GAAP Measures*"

Financial Resources and Liquidity

(thousands of dollars, except unit amounts)	Year ended December 31 2009	2008
Cash provided from operating activities	**13,757**	12,272
Units outstanding	**32,946,308**	32,926,308
Weighted average units outstanding – basic	**32,940,116**	33,159,077

As at December 31, 2009, $68.2 million was outstanding under the Trust's revolving bank term loan (including bank overdraft). A reduction of $12.9 million from the $81.1 million (net of cash) that was outstanding as at December 31, 2008. The term of the credit facility expired on December 14, 2009 and the banking syndicate has not extended this date. As a result, the Trust is required to repay 1/12 of the amount outstanding at the end of each financial quarter following such date until December 14, 2011 at which time the remaining amount would be due and payable.

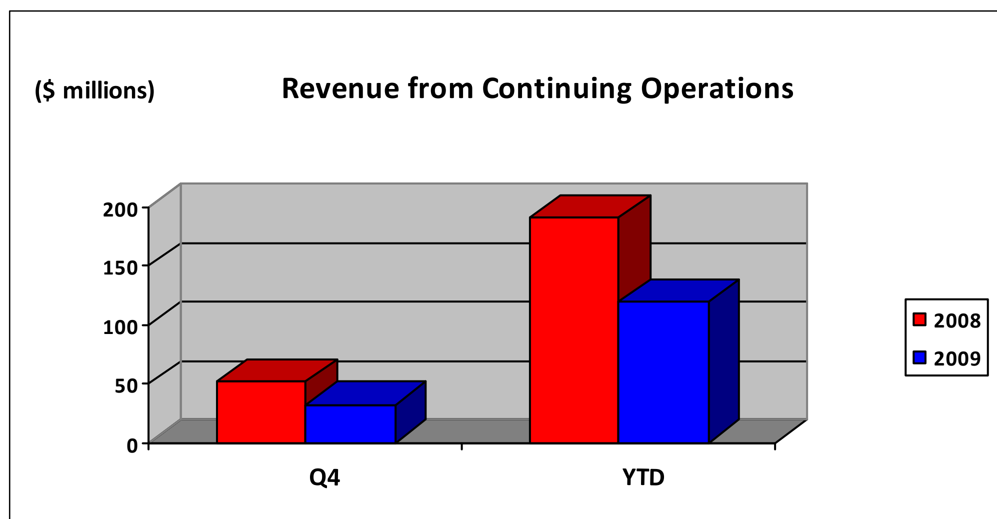
In addition, the Trust was not in compliance with three financial covenants contained in the credit facility as at December 31, 2009 and obtained waivers of these breaches of covenants from the banking syndicate until January 15, 2010. Furthermore, there were scheduled reductions and cancellations of commitments due September 30, 2009 and December 31, 2009 in the aggregate amount of $9.5 million which the banking syndicate provided a deferral until January 15, 2010. The waivers and deferrals above have not been extended subsequent to January 15, 2010 by the banking syndicate, and as a result the Trust is in default under the credit facility whichis effectively due on demand.

The Trust's ability to continue operations is dependent on the continued support of the banking syndicate or the ability to refinance the existing bank credit facility. Currently, the Trust is negotiating with the banking syndicate on a new credit

facility, but the outcome of such negotiations cannot be predicted at this time. Management and the Board are reviewing all debt and equity alternatives available. There is no assurance that the negotiations with the banking syndicate will result in a new credit facility acceptable to both the Trust and the banking syndicate or that the Trust will be successful in procuring alternate financing.

RESULTS SUMMARY

REVENUE FROM CONTINUING OPERATIONS



Year ended December 31, 2009

Consolidated revenue from continuing operations for the year ended December 31, 2009 was $119.6 million, a decrease of 37% over consolidated revenue from continuing operations of $190.3 million in the comparable period of 2008. Gross margin and EBITDA percentages decreased by 11% compared to 2008. For the twelve month period ended December 31, 2009, the net loss and comprehensive loss from continuing operations was $51.7 million compared to $29.1 million in 2008. For the twelve months ended December 31, 2009 the net loss from Discontinued Operations was $7.5 million compared to a loss of $3.5 million in the comparable period of 2008.

For the year ended December 31, 2009, compared to the same period in 2008, the largest contribution change was the Transportation segment which had an increase of 3%, with the Construction segment increasing by 1 % and the Civil segment decreasing by 3% on a percentage of revenue basis. The revenue contribution percentages for each business segment for the twelve months ended December 31, 2009 were Construction 45%, Transportation 19%, Civil 34% and Rentals 2%. The revenue contribution percentages for each business segment for the comparable period of 2008 were Construction 45%, Transportation 15%, Civil 37% and Rentals 3%.

Three months ended December 31, 2009

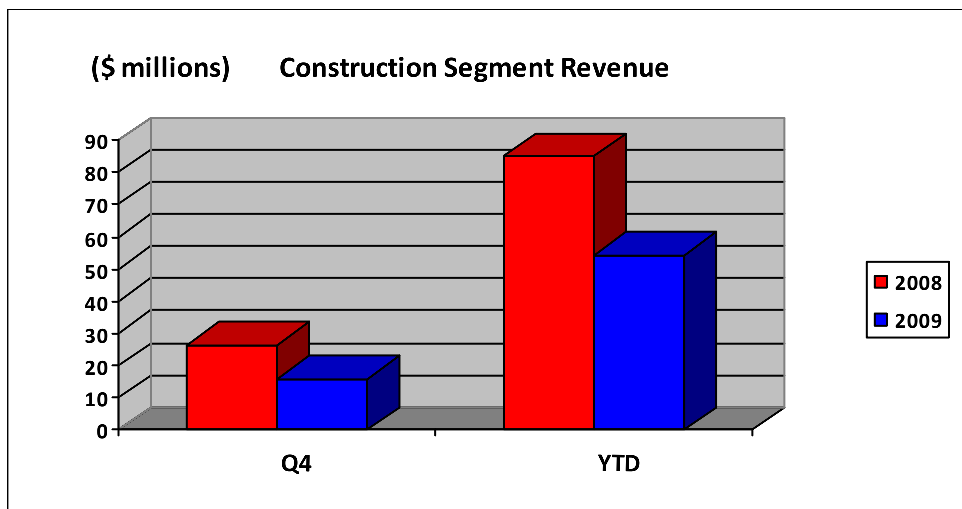
Revenue from continuing operations for the three months ended December 31, 2009, was $32.3 million, a 38% decrease from revenue of $52.2 million in the comparable period of 2008. All segments had decreased revenue on a quarter over quarter basis as a result of a significant decrease in activity in the energy sector, lower utilization of equipment in the Civil segment, reduced demand in the lumber sector which affects the Transportation segment and lower pricing overall for all segments.

The Trust's objective of diversifying from the oil and natural gas sector remains an important strategic objective, with approximately 41% (2008 – 46%) of revenue from continuing operations in 2009 directly relating to the energy sector. 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, particularly in light of the 2009 activity levels and utilization rates experienced in the oil and gas sector.

There was not a significant shift in the revenue contribution percentages by the four business segments during the fourth quarter of 2009 compared to 2008, with a 5% revenue contribution increase in the Transportation segment which was

offset by 2% and 3% decreases in the Construction and Civil segments respectively. For the three months ended December 31, 2009, the revenue contribution percentage for each business segment was Construction 49%, Transportation 21%, Civil 28%, and Rentals 2%. The revenue contribution percentage for each business segment for the fourth quarter of 2008 was Construction 51%, Transportation 16%, Civil 31% and Rentals 2%.

Construction Segment



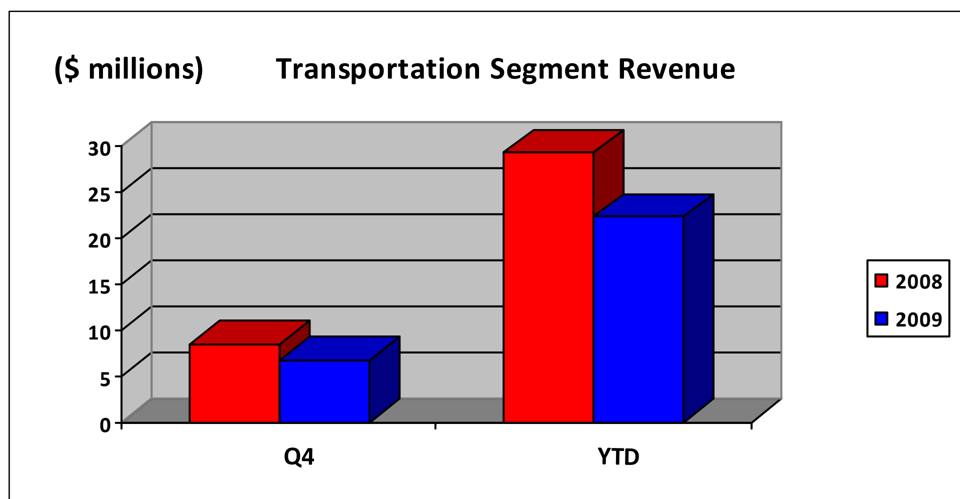
Year ended December 31, 2009

Construction segment revenue for the year ended December 31, 2009 was $54.5 million (2008 - $85.0 million) comprising 46% of the Trust's total consolidated revenue and representing a decrease of $30.5 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 significant infrastructure work in the fourth quarter of 2008 and the loss of revenue in the Woodland Cree First Nations area, which contributed significant revenues in the first quarter of 2008. During this twelve month period, 80% of the segments' services related to the energy sector compared to 83% in the comparable period of 2009.

Three months ended December 31, 2009

Construction segment revenue for the three months ended December 31, 2009 was $15.8 million (2008 - $26.5 million) comprising 49% 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 attributable to the decreased activity in the oil and gas sector and a decline in revenue infrastructure projects from the fourth quarter of 2008. During this period 82% of the Construction segments' services were related to the energy sector compared to 70% in the comparable period of 2008. Non-energy sector services 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.

Transportation Segment



Year ended December 31, 2009

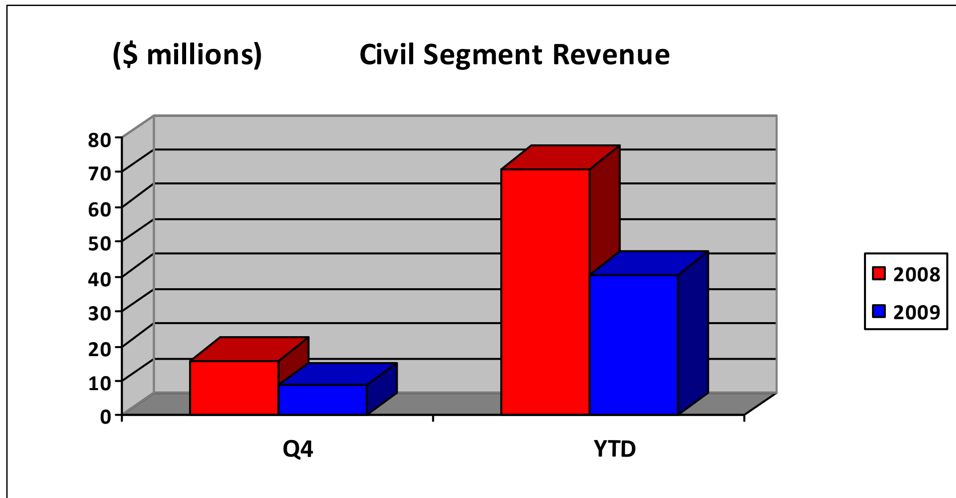
Transportation segment revenue for the year ended December 31, 2009 was $22.3 million (2008 - $29.2 million) representing a decrease of $6.9 million from the comparable period of 2008. In addition to the factor mentioned above, one of the major forestry clients reduced the amount of log haul (including rates) during 2009 and the summer log hauling operations commenced later in 2009 compared to 2008.

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.

Three months ended December 31, 2009

Transportation segment revenue for the three months ended December 31, 2009 was $6.8 million (2008 - $8.5 million), comprising 21% of the Trust's total consolidated revenue and representing a decrease of $1.7 million over the comparable period in the prior year. This decrease was a result of reduced gravel haul due to limited infrastructure projects and reduced log haul as a result of lower activity relating to a significant forestry client.

Civil Segment



Year ended December 31, 2009

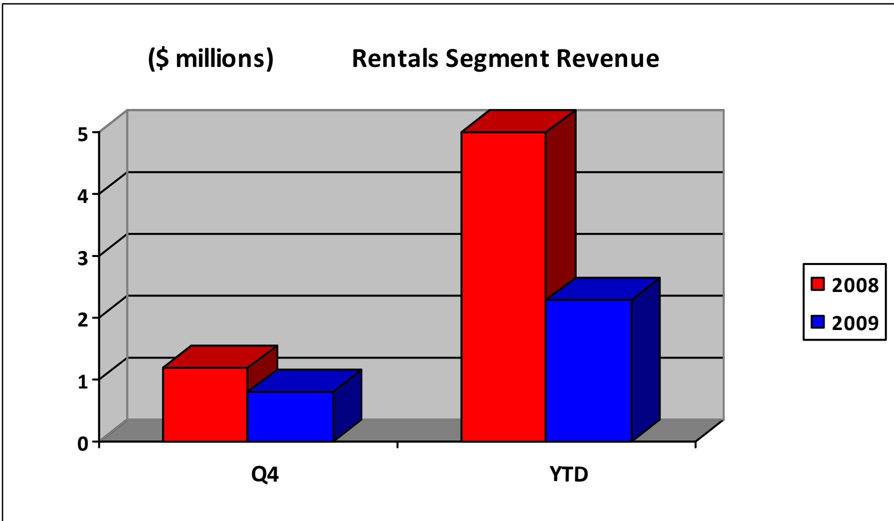
Civil segment revenue for the year ended December 31, 2009 was $40.6 million (2008 – $71.0 million) representing a decrease of $30.4 million compared to the same period of 2008. The decrease relates to lower utilization (due to demand) of the crushing spreads during the quarter in addition to lower pricing due to competitive pressures. A significant customer which historically utilized two to three crushing spreads at various periods during the year, acquired its' own crushing equipment which reduced the demand for the Trusts' services.

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.

Three months ended December 31, 2009

Civil segment revenue for the three months ended December 31, 2009 was $8.9 million (2008- $16.0 million) comprising 28% of the Trust's total consolidated revenue and representing a decrease of $7.1 million from the comparable period in the prior year. The same factors mentioned for the 12 month period above applies to the three month period.

Rentals Segment



Year ended December 31, 2008

Rentals segment revenue for the year ended December 31, 2009 was $2.3 million (2008 - $5.0 million) comprising 2% of the Trust's total consolidated revenue and representing a decrease of $2.7 million over the comparable period in the prior year.

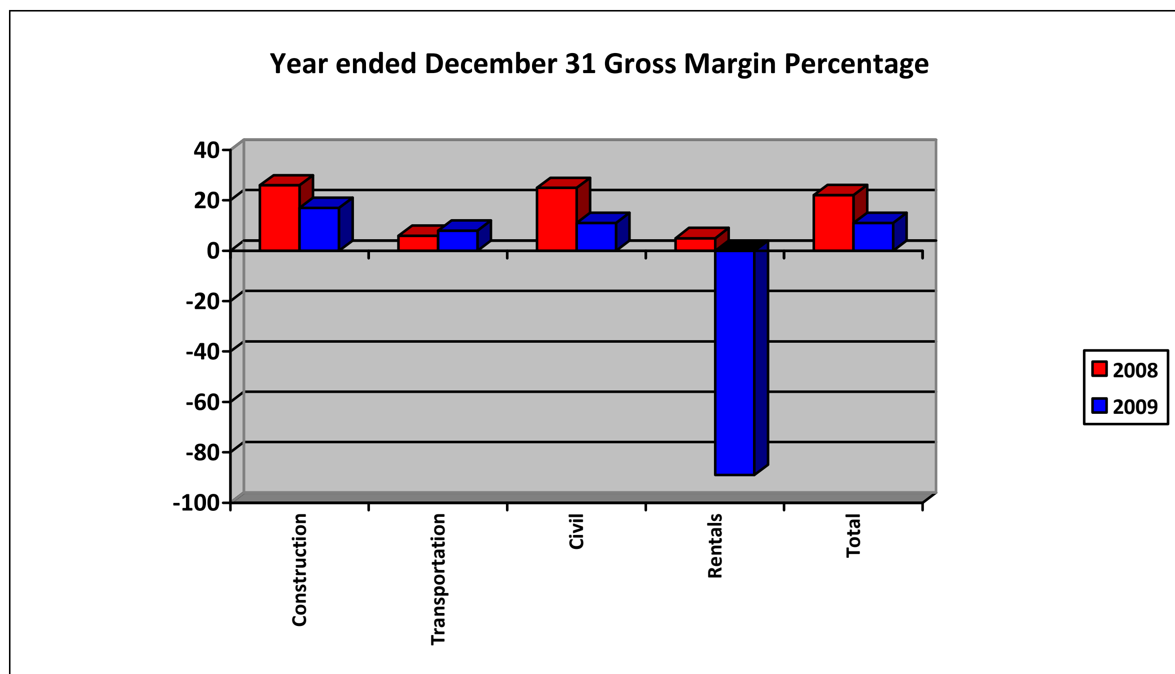
There are numerous factors contributing to the financial results of the Rentals segment. Reduced demand for certain equipment resulted in unutilized equipment. Management is reviewing alternative uses of this equipment to maximize revenue going forward. The Trust redeployed this equipment to other segments which required the equipment. During the three month period ended December 31, 2009 54% of the Rental segment revenue was inter-segment revenue which is eliminated on consolidation.

Three months ended December 31, 2009

Rentals segment revenue for the three months ended December 31, 2009 was $0.8 million (2008 - $1.2 million) comprising 2% of the Trust's total consolidated revenue and representing a decrease of $0.4 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 during 2009 compared to 2008. The level of drilling activity in the energy sector resulted in significantly less demand for construction of oil and gas lease well site pads and other ancillary services. This 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. Over the past quarter there appears to be indication of increased activity which will result in margins increasing as the economy improves.



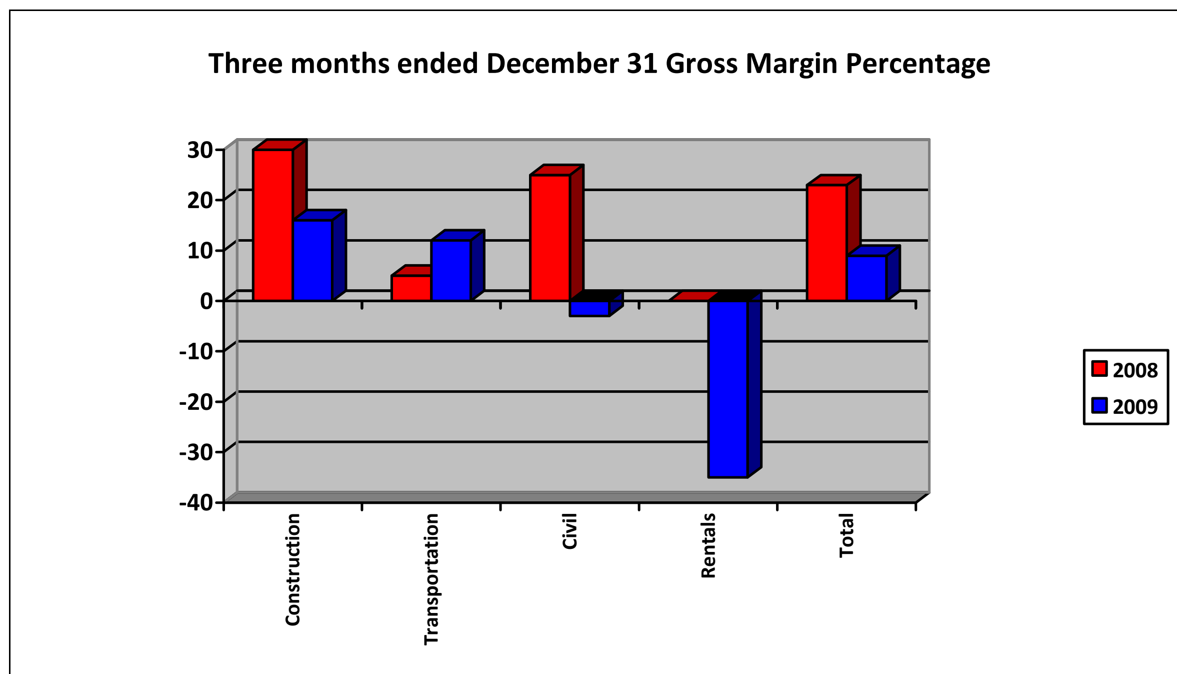
(thousands of dollars except percentages)	**Operating expenses for the year ended December 31, 2009**	**Operating expenses as a % of revenue**	**Gross Margin Percentage**	Operating expenses for for the year ended December 31, 2008	Operating expenses as a % of revenue	Gross Margin Percentage
Construction segment	**44,994**	**83%**	**17%**	62,994	74%	26%
Transportation segment	**20,509**	**92%**	**8%**	27,491	94%	6%
Civil segment	**36,020**	**89%**	**11%**	53,412	75%	25%
Rentals segment	**4,355**	**189%**	**(89)%**	4,773	95%	5%
	105,878	**89%**	**11%**	148,670	78%	22%

Consolidated operating expenses for the year ended December 31, 2009 were $105.9 million (2008 - $148.7 million) with a Gross Margin of 11% compared to 22% 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, Civil and Rental segments' Gross Margins decreased by 9%, 14% and 94% respectively for the year ended December 31, 2009 over the comparable period in 2008.

The Transportation segment Gross Margin for the twelve months ended December 31, 2009 increased by 2% 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. Average fuel prices were lower in 2009 versus 2008 helped improve margins.



(thousands of dollars except percentages)	**Operating expenses for the three months ended December 31, 2009**	**Operating expenses as a % of revenue**	**Gross Margin Percentage**	Operating expenses for for the three months ended December 31, 2008	Operating expenses as a % of revenue	Gross Margin Percentage
Construction segment	**13,390**	**84%**	**16%**	18,615	70%	30%
Transportation segment	**5,981**	**88%**	**12%**	8,107	95%	5%
Civil segment	**9,176**	**103%**	**(3)%**	12,050	75%	25%
Rentals segment	**1,044**	**135%**	**(35)%**	1,232	100%	0%
	29,591	**91%**	**9%**	40,004	77%	23%

Consolidated operating expenses for the three months ended December 31, 2009 were $29.6 million (2008 - $40.0 million) with a Gross Margin of 9% compared to 23% 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 Construction segment Gross Margin decreased 14% for the three months ended December 31, 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 (no benefit in Q4). The pricing declines outpaced any wage declines which was another factor contributing to the decreased margin. Subcontractor costs were reduced as a result of projects being completed with internal resources due in large part to the reduced amount of work. On an unconsolidated basis, margins decreased by 9%.

The Transportation segment Gross Margin increased 7% for the three months ended December 31, 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 decreased by 6% compared to 2008, as there was a significant inter-segment gravel haul for the Construction segment's Grande Prairie infrastructure project in the fourth quarter of 2008. Typically the Transportation segment provides services to other segments on a net basis.

The Civil segment Gross Margin for the fourth quarter of 2009 decreased 28% from the comparable period of 2008. Contributing factors relating to this decrease were reduced revenue caused by lower pricing and a shutdown of the crushing plants earlier in 2009 for the Christmas holiday season compared to 2008. Fixed costs of equipment leases against declining revenues negatively affected margins. An Increased number of plant moves in the quarter increased redeployment costs and more remote plant site locations increased subsistence costs. Higher repair and maintenance costs also contributed to margin decrease.

The Rentals segment Gross Margin for the fourth quarter of 2009 decreased 35% 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 9% compared to 2008.

GENERAL AND ADMINISTRATIVE

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

For the year ended December 31, 2009 and 2008, general and administrative costs were 5.8% and 4.5% of revenue respectively. General and administrative costs for the year were higher as a percentage of revenue basis due to the lower revenue achieved in 2009, but lower on an absolute dollar basis of $6.9 million compared to $8.5 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.

On a percentage of revenue basis, general and administrative costs were approximately 4.4% of revenue in the fourth quarter of 2009 compared to 4.3% in the comparable period of 2008. General and administrative costs were effectively the same as a percentage of revenue, as the one time non-recurring costs relating to the restructuring of the credit facility and the strategic review offset the reduction of costs achieved during the year. For the fourth quarter of 2009, general and administrative costs were $1.4 million compared to $2.2 million in the comparable period of 2008 which, when viewed on an absolute basis versus a percentage of revenue, illustrate the cost reductions being realized.

AMORTIZATION

Amortization of property and equipment for the year ended December 31, 2009 was $21.0 million compared to $25.8 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 During the third quarter of 2009 the Trust recorded a $5.3 million impairment of property and equipment which reduced the amortizable base for the fourth quarter of 2009. Also, in the second quarter of 2008 there was a sale at auction of certain property and equipment which reduced the net book value of property and equipment by $4.9 million, also resulting in a reduced amortizable base. This equipment was either underutilized or approaching a fully "houred" basis.

Amortization of property and equipment for the three months ended December 31, 2009 was $5.4 million compared to $6.7 million in the comparable period of 2008. The decrease is due to the same factors as the year ended December 31, 2009.

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 Intangible assets amortization for the year ended December 31, 2009 was $3.8 million (2008 - $4.6 million). During the second quarter of 2009 the Trust recorded an impairment of $1.1 million for intangible assets with an additional impairment of $0.2 million recorded in the fourth quarter of 2009, which reduced amortization in future periods. Amortization of intangibles for the three month period ended December 31, 2009 was $0.9 million (2008 - $1.1 million).

INTEREST

Interest expense for the year ended December 31, 2009, was $4.9 million compared to $6.7 million in the comparable period of 2008. This decrease was the result of a decrease in the average annual prime based lending rate and a significant 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 three months ended December 31, 2009 was $1.2 million compared to $1.8 million in 2008. This decrease was a result of the same rational as outlined above.

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.

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 exceed the undiscounted cash flows, this is 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.

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. Based on the steps outlined above, management 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 December 31, 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.

	December 31, 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
	120,697	120,697
Impairment	**120,697**	86,376
Closing balance	**-**	34,321

During the latter half 2008 and continuing into 2009, the most significant event affecting the Canadian economy was the global economic and financial crisis. This crisis resulted in reduced liquidity in the financial markets and caused lower commodity pricing. There were 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 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 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. In the fourth quarter of 2009, a further impairment of $0.2 million was recorded relating to the discontinued used of the trade name “Rick's Mechanical”.

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 non-capital losses and with the property and equipment and intangibles acquired by the Trust on September 7, 2006 and May 18, 2007 as follows:

	As at December 31, 2009	As at December 31, 2008
Future income tax assets		
Non Capital Loss	**5,599**	-
Trust unit issue costs	**627**	699
Unit based compensation	**65**	28
Subtotal	**6,291**	727
Valuation Allowance	**(1,731)**	-
	4,560	727
Future income tax liabilities		
Property and equipment	**3,713**	10,935
Intangible assets	**847**	1,528
	4,560	12,463

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. To the extent that the Corporation does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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 twelve months ended December 31, 2009 reported a loss of $7.5 million compared to a loss of $3.5 million for 2008. This represents a net loss per unit from discontinued operations of $(0.23) and $(0.10) 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 December 31, 2009 and December 31, 2008 Consolidated Statements of Net Loss, Comprehensive Loss and Accumulated Loss are:

	December 31, 2009	December 31, 2008
Revenue	**5,076**	19,901
Expenses		
Operating expenses	**6,396**	20,012
Interest	**131**	277
Amortization of property and equipment	**569**	2,924
Amortization of intangible assets	**17**	67
Impairment of property and equipment	**4,500**	-
	11,613	23,280
Operating loss	**(6,537)**	(3,379)
Gain/(loss) on sale of property and equipment	**(1,006)**	(80)
Net loss before income taxes	**(7,543)**	(3,459)
Income taxes (recovery)	**-**	-
Discontinued Operations, net of tax	**(7,543)**	(3,459)

NET LOSS AND COMPREHENSIVE LOSS

Net loss and comprehensive loss from continuing operations for the year ended December 31, 2009 was $51.7 million compared to $29.1 million for 2008. This represents net loss per unit of $1.57 and $0.88 respectively, basic and fully diluted.

Net loss and comprehensive loss (including Discontinued Operations) for the twelve months ended December 31, 2009 was $59.2 million compared to $32.6 million for 2008. This represents net loss per unit of $1.80 and $0.98 respectively, basic and fully diluted.

For the three month period ended December 31, 2009 the net loss and comprehensive loss from continuing operations was $4.0 million compared to $23.1 million in 2008. This represents net loss per unit of $0.12 and $0.70 respectively, basic and fully diluted. One of the primary reasons for the $19.1 million difference between periods was the $19.4 million impairment of goodwill and intangible assets recorded in the fourth quarter of 2008.

For the three month period ended December 31, 2009 the net loss and comprehensive loss (including Discontinued Operations) was $4.0 million compared to $24.5 million in 2008. This represents net loss per unit of $0.12 and $0.74 respectively, basic and fully diluted.

CAPITAL RESOURCES AND LIQUIDITY

The term of the credit facility expired on December 14, 2009 and the banking syndicate has not extended this date. As a result, the Trust is required to repay 1/12 of the amount outstanding at the end of each financial quarter following such date until December 14, 2011 at which time the remaining amount would be due and payable.

In addition, the Trust was not in compliance with three financial covenants contained in the credit facility as at December 31, 2009 and obtained waivers of these breaches of covenants from the banking syndicate until January 15, 2010. Furthermore, there were scheduled reductions and cancellations of commitments due September 30, 2009 and December 31, 2009 in the aggregate amount of $9.5 million which the banking syndicate provided a deferral until January 15, 2010. The waivers and deferrals above have not been extended by the banking syndicate subsequent to January 15, 2010, and as a result the Trust is in default under the credit facility which is effectively due on demand.

The Trust's ability to continue as a going concern is dependent on the continued support of the banking syndicate or the ability to refinance the existing bank credit facility. Currently, the Trust is negotiating with the banking syndicate on a new credit facility, but the outcome of such negotiations cannot be predicted at this time. Management and the Board are reviewing all debt and equity alternatives available. There is no assurance that the negotiations with the banking syndicate will result in a new credit facility acceptable to both the Trust and the banking syndicate or that the Trust will be successful in procuring alternate financing.

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 2010 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.

For the year ended December 31, 2009, $7.0 million in capital expenditure excluding Discontinued Operations was incurred compared to $12.8 million in 2008 and were directed principally towards maintenance capital expenditures.

WORKING CAPITAL

(thousands of dollars)	As at December 31, 2009 Continuing Operations	Discontinued Operations	Total	As at December 31, 2008
Cash (bank overdraft)	**(270)**	**-**	**(270)**	2,348
Accounts receivable	**28,262**	**102**	**28,364**	47,761
Prepaid expenses and other	**2,158**	**72**	**2,230**	1,196
Inventory	**3,984**	**-**	**3,984**	5,476
Accounts payable and accrued liabilities	**(11,689)**	**(11)**	**(11,700)**	(18,355)
Current portion of revolving bank term loan	**(67,950)**	**-**	**(67,950)**	(83,500)
Current portion of obligations under capital leases	**(544)**	**-**	**(544)**	(661)
Working capital	**(46,049)**	**163**	**(45,886)**	(45,735)
(Cash) bank overdraft	**270**	**-**	**270**	(2,348)
Current portion of revolving bank term loan	**67,950**	**-**	**67,950**	83,500
Adjusted working capital	**22,171**	**163**	**22,334**	35,417

Working capital as at December 31, 2009 was effectively in line with the amount as at December 31, 2008. During 2009 there was a reduction in the revolving bank term loan of $12.9 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 $13.1 million. The major changes during this period were a decrease in accounts receivable of $19.4 million and a decrease in accounts payable and accrued liabilities of $6.7 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.

The Trust's revolving bank term loan required 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, 2009 is 2.76 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 December 31, 2009 is 11.63 to 1.
- Fixed charge coverage of not less than 1 to 1. The Trust's ratio at December 31, 2009 is 0.35 to 1.
- Funded debt to capitalization of not more than 0.50 to 1. The Trust's ratio at December 31, 2009 is 0.70 to 1.

As at December 31, 2009, $68.2 million was outstanding under the Trust's revolving bank term loan (including bank overdraft), a reduction of $12.9 million from the $81.1 million (net of cash) that was outstanding as at December 31, 2008. The term of the credit facility expired on December 14, 2009 and the banking syndicate has not extended this date. As a result, the Trust is required to repay 1/12 of the amount outstanding at the end of each financial quarter following such date until December 14, 2011 at which time the remaining amount would be due and payable.

In addition, the Trust was not in compliance with three financial covenants contained in the credit facility as at December 31, 2009 and obtained waivers of these breaches of covenants from the banking syndicate until January 15, 2010. Furthermore, there were scheduled reductions and cancellations of commitments due September 30, 2009 and December 31, 2009 in the aggregate amount of $9.5 million which the banking syndicate provided a deferral until January 15, 2010. The waivers and deferrals above have not been extended by the banking syndicate, and as a result the Trust is in default under the credit facility which is effectively due on demand.

The Trust's ability to continue operations is dependent on the continued support of the banking syndicate or the ability to refinance the existing bank credit facility. Currently, the Trust is negotiating with the banking syndicate on a new credit facility, but the outcome of such negotiations cannot be predicted at this time. Management and the Board are reviewing all debt and equity alternatives available. There is no assurance that the negotiations with the banking syndicate will result in a new credit facility acceptable to both the Trust and the banking syndicate or that the Trust will be successful in procuring alternate financing.

CONTRACTUAL OBLIGATIONS

	As at December 31, 2009				
(thousands of dollars)	< 1 year	1 – 3 Years	4 – 6 Years	Thereafter	Total
Bank overdraft	270	-	-	-	270
Revolving bank term loan	67,950	-	-	-	67,950
Obligations under capital leases	545	331	-	-	876
Operating leases on equipment	5,571	2,684	-	-	8,255
Operating leases on offices, shop and yards	2,688	3,704	2,028	732	9,152
TOTAL	77,024	6,719	2,028	732	86,503

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2009, the Trust had no off-balance sheet arrangements except for contractual commitments disclosed in Note 17 in the notes to the audited financial statements.

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 10, 2010 there were 32,946,308 units outstanding.

	As at December 31, 2009		As at December 31, 2008	
	Units	**Amount**	Units	Amount
Balance, beginning of period	**31,766,308**	**291,107**	31,756,308	291,144
Acquired units in purchase of acquired companies	**-**	**-**	-	(56)
Issued for services rendered	**20,000**	**6**	10,000	19
	31,786,308	**291,113**	31,766,308	291,107
Subordinated units, beginning of period	**1,160,000**	**1,385**	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
	1,160,000	**1,385**	1,160,000	1,385
Balance, end of period	**32,946,308**	**292,498**	32,926,308	292,492
Weighted average units for period – basic	**32,940,116**		33,159,077	
Weighted average units for period – diluted	**35,356,830**		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 December 31, 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 were 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.

RELATED PARTY TRANSACTIONS

Petrowest paid rent, supplies, and services for the year ended December 31, 2009 for office and shop space under leases entered into with certain employees who were former owners of businesses acquired in the amount of $2,864,579 (2008 - $3,176,612). Transactions were recorded at the agreed upon amount. The Trust has payables of $296,675 (2008 - $416,952) and receivables of $61,374 (2008 – $96,599) 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 audited consolidated financial statements for the three and twelve months ended December 31, 2009 have been prepared in accordance with the accounting policies described in the notes to the 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 audited 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 audited consolidated financial statements.

Financial Instruments – Disclosure

In June 2009, the AcSB published amendments to CICA section 3862, "*Financial Instruments — Disclosures"*, to require improved and consistent disclosures about fair value measurements of financial instruments and liquidity risk. Section 3862 amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. In the first fiscal year of application, an entity need not provide comparative information for the disclosures required by the amendments.

The amendments are in response to market concerns about credit and liquidity risks. The enhanced disclosure requirements include:

- classifying and disclosing fair value measurements based on a three-level hierarchy;
- reconciling beginning balances to ending balances for Level 3 measurements;
- identifying and explaining movements between levels of the fair value hierarchy;
- providing a maturity analysis for derivative financial liabilities based on how the entity manage liquidity risk; and
- disclosing the remaining expected maturities of non-derivative financial liabilities if liquidity risk is managed on that basis.

The adoption of this standard did not have a material impact on the Trust's audited consolidated financial statements.

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. This transitional project consists of three phases: Phase 1 – Diagnostic; Phase 2 – Development; and Phase 3 – Implementation. The diagnostic phase, which involved a high level review of the major differences between current Canadian GAAP and IFRS and the set up of the project plan. The Trust has determined that the key areas of difference under IFRS financial reporting with the highest potential to impact Petrowest are:

- Property, plant and equipment
- IFRS 1 - first time adoption of IFRS
- Financial statement presentation and disclosures
- Asset impairments

A project plan with key milestones and significant activities for the above mentioned key areas has been prepared.

An IFRS committee has been established which consists of senior levels of management from accounting and finance, information technology, and operations. Regular feedback is provided to senior executive management and the audit committee of the Board of Directors. Training of key IFRS personnel has been completed during various stages of the project. The Trust has engaged external advisers to assist with the transition where there are insufficient resources at the Trust. The Trust is also engaged in ongoing discussions with its external auditors. The impact of disclosure controls and internal controls over financial reporting will also be determined.

During the fourth quarter of 2009, the Trust moved into the implementation phase of this transitional project and is working on the development of processes and systems to be in a position to report under IFRS in 2011.

"Issue specific" teams have been focusing on generating options and making recommendations in the identified areas. The Trust determined that accounting for property, plant and equipment will be impacted significantly by the conversion to IFRS. Expert resources have been assigned to focus on analyzing and developing implementation strategies and processes for this key IFRS transition issue. A list of capital asset components as required under IFRS has been identified and property, plant and equipment records are being established with these components for IFRS. The deemed cost IFRS 1 exemption allows an entity to use fair value as its deemed cost on transition date. This exemption will relieve entities from adjustments resulting from retrospective adoption of IFRS. The Trust utilized this exemption for a significant portion of property, plant and equipment. Petrowest has also evaluated other first-time adoption exemptions and elections available upon initial transition that provide relief from retrospective application of IFRS. A transition plan for implementation of the enterprise resource planning ("ERP") system changes has been developed. Changes to Petrowest's ERP have been identified and the system is in the process of being reconfigured to reflect and record the required changes. Cash generating units for purposes of assessing impairment have been identified. The Trust continues to perform preliminary accounting assessments on less critical IFRS transition issues and has commenced analysis of IFRS financial statement presentation and disclosure requirements. These assessments will need to be further analyzed and evaluated throughout the implementation phase of the Trust's project.

The Trust is monitoring the IASB's work plan for active projects and all changes to IFRS prior to January 1, 2011. On February 24, 2010, the Canadian Institute of Chartered Accountants released a memorandum indicating that the international standard-setters have delayed making some significant changes that had been anticipated.In addition the standards that will be mandatory for 2011 have been established with no further changes expected. This provides the Trust with a more stable platform on which to plan the IFRS transition. The Trust will remain current on the IASB's work plan, as a number of notable changes are expected to be published later this year and 2011 to take effect in 2012 or 2013. Petrowest will continue to monitor the IASB's work plan for opportunities to early adopt certain standards as part of the overall IFRS transition strategy. The changeover plan will be updated as necessary to incorporate some of these changes. The impact of IFRS on the Trust's consolidated financial statements is not reasonably determinable or estimable at this time.

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except per unit amounts)	2009 Dec.31	2009 Sep.30	2009 Jun.30	2009 Mar.31	2008 Dec. 31	2008 Sep. 30	2008 Jun. 30	2008 Mar.31
Revenue by segment								
Construction	15,847	14,196	5,563	18,888	26,490	24,915	9,552	24,091
Transportation	6,777	4,454	2,616	8,415	8,492	5,679	4,928	10,134
Civil	8,947	12,928	8,526	10,156	16,019	21,184	17,567	16,231
Rentals	774	560	298	678	1,236	1,684	787	1,313
Corporate	-	-	-	-	1	4	-	-
Total revenue	32,345	32,138	17,003	38,137	52,238	53,466	32,834	51,769
Operating expenses by segment								
Construction	13,390	10,556	6,932	14,116	18,616	17,974	9,372	17,033
Transportation	5,981	4,837	2,751	6,939	8,108	5,536	5,029	8,818
Civil	9,176	9,196	8,324	9,324	12,050	15,344	12,968	13,050
Rentals	1,044	1,135	1,058	1,118	1,231	1,210	1,235	1,096
Total operating expenses	29,591	25,724	19,065	31,497	40,005	40,064	28,604	39,997
Administrative expenses	1,411	2,230	1,409	1,848	2,218	2,534	1,698	2,054
EBITDA [(1)]	1,343	4,184	(3,471)	4,792	10,015	10,868	2,532	9,718
Gain (loss) on disposal of assets	(31)	175	-	(19)	(24)	(37)	(2,097)	(38)
Interest income	(17)	73	-	2	-	-	34	(24)
Net earnings (loss) before other items	1,391	4,432	(3,471)	4,775	9,991	10,831	469	9,656
Future income tax (recovery) expense	(2,269)	(6,526)	(6)	(2,935)	4,133	(1,621)	(934)	117
Amortization of property and equipment	5,358	5,361	5,261	5,022	6,677	6,330	6,405	6,361
Amortization of intangible assets	904	904	984	973	1,105	1,106	1,210	1,211
Impairment of goodwill and intangible assets	182	-	35,446	-	19,397	-	1,874	-
Impairment of property and equipment	-	5,301	-	-	-	-	-	-
Interest	1,245	1,269	1,312	1,027	1,777	1,472	1,509	1,935
Net earnings (loss) from continuing operations	(4,029)	(1,877)	(46,468)	688	(23,098)	3,544	(9,595)	32
Discontinued operations	45	(85)	(2,170)	(5,334)	(1,416)	(768)	(1,628)	353
Net earnings (loss)	(3,984)	(1,962)	(48,638)	(4,646)	(24,514)	2,776	(11,223)	385
Net earnings (loss) per unit basic and diluted from continuing operations	**($0.12)**	**($0.06)**	**($1.41)**	**$0.02**	**($0.70)**	**$0.11**	**($0.29)**	**$0.00**
Net earnings (loss) per unit basic and diluted from discontinued operations	**($0.00)**	**($0.00)**	**($0.07)**	**($0.16)**	**($0.04)**	**($0.03)**	**($0.05)**	**$0.01**
Net earnings (loss) per unit basic and diluted	**($0.12)**	**($0.06)**	**($1.48)**	**($0.14)**	**($0.74)**	**$0.08**	**($0.34)**	**$0.01**
Adjusted working capital[(2)]	22,334	27,128	25,215	29,621	35,417	43,655	31,573	31,187

[(1)] See *"Non-GAAP Measures"*

[(2)] 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

Going Concern Risk

The Trust does not have control over conditions in the financial markets. As a result of the global credit crisis there was 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 bank term loan will be restructured or that alternative financing could be arranged. The Trust would not have sufficient resources to repay the entire loan balance if the loan is demanded. See Notes 2 and 9 of the 2009 consolidated financial statements for further details.

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. There is a relationship between drilling exploration activity and the price of commodities. The global crisis 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. In 2009 the average price of West Texas Intermediate (“WTI”) crude oil and the near-month natural gas price quoted on the New York Mercantile Exchange were significantly lower than 2008. However, the fourth quarter of 2009 experienced an increase in the price of oil compared to the same period in 2008. 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.

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.

Financial Covenants

The Trust is in default under the credit facility which is effectively due on demand. The Trust’s ability to continue operations is dependent on the continued support of the banking syndicate or the ability to refinance the existing bank credit facility. Currently, the Trust is negotiating with the banking syndicate on a new credit facility, but the outcome of such negotiations cannot be predicted at this time. Management and the Board are reviewing all debt and equity alternatives available. There is no assurance that the negotiations with the banking syndicate will result in a new credit facility acceptable to both the Trust and the banking syndicate or that the Trust will be successful in procuring alternate financing.

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.

DISCLOSURE AND INTERNAL CONTROLS

Disclosure controls and procedures ("DCP") are designed to provide reasonable assurance that information required to be disclosed in annual 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 ("ICFR") 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. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as at December 31, 2009, 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.There were no changes in the Trust's internal control over financial reporting during the year ended December 31, 2009 that have materially affected or are reasonable likely to materially affect the Trust's internal controls over financial reporting.

It should be noted that while Petrowest's CEO and CFO 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.

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.*