



## REPORT FROM MANAGEMENT

The consolidated financial statements of Peak Energy Services Trust (the “Trust”), Management’s Discussion and Analysis (“MD&A”) and the related financial information presented in this annual report have been prepared by management, who are responsible for the integrity and fair presentation of the information presented. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 51-102 of the Canadian Securities Administrators.

The consolidated financial statements, MD&A and related financial information reflect amounts which must, of necessity, be based on informed estimates and judgments of management with appropriate consideration to materiality. The financial information presented elsewhere in this annual report is fairly presented and consistent with that in the consolidated financial statements.

Management has implemented and maintained an accounting system and related internal controls and supporting procedures to provide reasonable assurance that assets are safeguarded and financial records are complete and accurate to provide reliable financial information.

The Audit Committee, appointed by the Board of Directors of Peak Energy Services Ltd., Administrator of the Trust, is comprised entirely of independent directors who are not officers or employees of the Trust. The Audit Committee is responsible for reviewing the consolidated financial statements, MD&A and related financial information. Other key responsibilities of the Audit Committee include meetings with management and the external auditors to discuss the effectiveness of internal controls over the financial reporting process and the planning and results of the external audit. The Audit Committee also meets regularly with the external auditors without management present.

KPMG LLP, the external auditors appointed by the Unitholders of the Trust, have performed an audit of the consolidated financial statements and their report follows. The external auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.

The Audit Committee has reviewed the consolidated financial statements, MD&A, and the related financial information with management and KPMG LLP. The consolidated financial statements, MD&A and the related financial information have been approved by the Board of Directors on the recommendation of the Audit Committee.

Peak Energy Services Ltd., Administrator of Peak Energy Services Trust:



Curtis W. Whitteron, CET  
*President and Chief Executive Officer*  
*Peak Energy Services Ltd.*

*February 24, 2009, except as to Note 1 and*  
*Note 24 which are as of February 11, 2010*



Monty R. Balderston, CA  
*Chief Financial Officer*  
*Peak Energy Services Ltd.*

*February 24, 2009, except as to Note 1 and*  
*Note 24 which are as of February 11, 2010*

## AUDITORS' REPORT TO THE UNITHOLDERS

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

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

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



Chartered Accountants

*Calgary, Alberta, Canada*

*February 24, 2009, except as to Note 1 and Note 24 which are as of February 11, 2010*

## CONSOLIDATED BALANCE SHEETS

December 31 (in thousands of CAD)	2008	2007
	(restated – note 24(b))	(restated – note 24(b))
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,565	\$ 1,617
Accounts receivable	43,645	25,282
Prepaid expenses	2,175	1,477
Inventory	1,398	–
Assets of discontinued operations (note 24(b))	1,903	1,759
	57,686	30,135
Property and equipment (note 5)	218,306	186,692
Property held for sale (note 6)	3,580	–
Intangibles (notes 4 and 7)	3,113	3,147
Assets of discontinued operations (note 24(b))	18,528	20,938
	\$ 301,213	\$ 240,912
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 23,942	\$ 10,343
Income taxes payable	838	63
Current portion of long-term debt (note 10)	9,012	3,562
Current portion of deferred lease inducements	201	201
Liabilities of discontinued operations (note 24(b))	778	713
	34,771	14,882
Long-term debt (note 10 and 24(c))	79,955	67,188
Deferred lease inducements	1,923	2,124
Future income taxes (note 11)	10,747	17,981
Unitholders' equity:		
Trust Unit capital (note 12)	227,347	187,440
Contributed surplus	1,483	1,483
Deficit	(55,013)	(50,186)
	173,817	138,737
Basis of presentation (note 1)		
Liquidity risk (note 19(c))		
Contingencies (note 21)		
Subsequent events (note 24)		
	\$ 301,213	\$ 240,912

See accompanying notes to consolidated financial statements.

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



Christopher E. Haslam, CMA, CBV  
Chairman of the Board  
Peak Energy Services Ltd.

February 24, 2009, except as to Note 1 and  
Note 24 which are as of February 11, 2010



Frederick A. Moore  
Chairman of the Audit Committee  
Peak Energy Services Ltd.

February 24, 2009, except as to Note 1 and  
Note 24 which are as of February 11, 2010

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

Years ended December 31 (in thousands of CAD, except per Unit amounts)	2008	2007
	(restated – note 24(b))	(restated – note 24(b))
Revenue	\$ 144,174	\$ 96,656
Expenses:		
Operating	88,589	50,115
General and administrative	34,198	23,337
Depreciation and amortization (note 13)	16,217	15,425
Interest on long-term debt	5,168	4,419
	144,172	93,296
Income before other items from continuing operations	2	3,360
Other items:		
Loss on sale of equipment	619	2,177
Impairment loss on property held for sale (note 6)	220	–
Impairment loss on goodwill (note 8)	1,409	2,396
Foreign exchange (gain) loss	(1,109)	723
	1,139	5,296
Loss before income taxes from continuing operations	(1,137)	(1,936)
Provision for income taxes: (note 11)		
Current	913	604
Future (reduction)	1,134	(8,550)
	2,047	(7,946)
Net (loss) income from continuing operations	(3,184)	6,010
Net loss from discontinued operations (note 24(b))	(1,643)	(13,736)
Net loss and comprehensive loss	(4,827)	(7,726)
Deficit, beginning of period		
As previously reported	(50,186)	(25,192)
Change in method of accounting for deferred financing costs (note 3(c))	–	(372)
As restated	(50,186)	(25,564)
Distributions declared to Unitholders	–	(16,896)
Deficit, end of period	\$ (55,013)	\$ (50,186)
Earnings (loss) per Unit from continuing operations: (note 14)		
Basic	\$ (0.07)	\$ 0.22
Diluted	\$ (0.07)	\$ 0.22
Loss per Unit from discontinued operations: (note 14)		
Basic	\$ (0.04)	\$ (0.50)
Diluted	\$ (0.04)	\$ (0.50)
Loss per Unit: (note 14)		
Basic	\$ (0.11)	\$ (0.28)
Diluted	\$ (0.11)	\$ (0.28)

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (in thousands of CAD)	2008	2007
	<i>(restated – note 24(b))</i>	<i>(restated – note 24(b))</i>
Operating activities:		
Net (loss) income from continuing operations	\$ (3,184)	\$ 6,010
Add (deduct) items not affecting cash:		
Depreciation and amortization	16,217	15,425
Loss on sale of equipment	619	2,177
Impairment loss on property held for sale	220	–
Impairment loss on goodwill	1,409	2,396
Unrealized foreign exchange (gain) loss	(216)	409
Future income taxes (reduction)	1,134	(8,550)
	16,199	17,867
Changes in non-cash working capital items (note 15(a))	17,621	5,776
	33,820	23,643
Discontinued operations: (note 24(b))		
Funds provided by discontinued operations	326	1,096
Changes in non-cash working capital items of discontinued operations	(79)	2,090
	247	3,186
	34,067	26,829
Investing activities:		
Business acquisitions (note 4)	(8,740)	–
Purchase of equipment	(17,847)	(16,250)
Proceeds on sale of equipment	14,418	5,826
	(12,169)	(10,424)
Changes in non-cash working capital items (note 15(b))	482	(2,295)
	(11,687)	(12,719)
Discontinued operations: (note 24(b))		
Funds used in discontinued operations	(106)	(904)
	(106)	(904)
	(11,793)	(13,623)
Financing activities:		
Increase in long-term debt	76,591	3,000
Repayment of long-term debt	(101,832)	–
Repayment of obligations under capital lease	–	(103)
Issuance of Trust Units, net of costs	9,923	1,041
Distributions paid to Unitholders (note 9)	–	(19,368)
	(15,318)	(15,430)
Foreign exchange loss on cash held in foreign currency	(8)	(15)
Increase (decrease) in cash and cash equivalents	6,948	(2,239)
Cash and cash equivalents, beginning of period	1,617	3,856
Cash and cash equivalents, end of period	\$ 8,565	\$ 1,617

See accompanying notes to consolidated financial statements.

Supplemental information (note 16)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

Peak Energy Services Trust (the "Trust") is a diversified energy services organization operating in western Canada and the mid-west United States of America. Through its various operating divisions, the Trust provides drilling and production services to its customers both in the conventional oil and natural gas industry as well as the oil sands regions of western Canada. The Trust also provides water technology solutions to a variety of customers throughout North America.

The Trust is an unincorporated open-end investment trust governed by the laws of the Province of Alberta, Canada, pursuant to a Trust Indenture between Peak Energy Services Ltd. ("PESL") and Valiant Trust Company ("Valiant" or the "Trustee").

All of the operating assets of the Trust are held indirectly by PESL. The Trust owns 100 percent of the shares of PESL. PESL's activities are financed through inter-entity investment by the Trust and third party interest bearing debt. The business of PESL is carried on by Peak Energy Services Partnership ("PESP"), Peak Energy Services USA, Inc. ("Peak USA") and Sanitherm Inc. ("Sanitherm"). PESL directly and indirectly owns 100 percent of the partnership interest in PESP and 100 percent of the common shares of Peak USA and Sanitherm. PESP, Peak USA and Sanitherm's activities are financed directly or indirectly through inter-entity interest bearing notes, inter-entity non-interest bearing accounts, inter-entity investment in common shares and inter-entity investment in partnership interest.

The Trustee may declare payable to Unitholders all or any part of the Distributable Cash of the Trust. Distributable Cash, as defined in the Trust Indenture, is calculated as all of the interest, distributions, dividends and principal repayments from Peak Commercial Trust ("PCT") and other permitted investments less all expenses and liabilities of the Trust. Furthermore, all of Net Income and Net Realized Capital Gains, as defined in the Trust Indenture, in accordance with the provisions of the Income Tax Act shall be payable to Unitholders in cash or Trust Units so that the Trust will not have any liability for tax under the Income Tax Act. In addition to any amounts otherwise payable to Unitholders, as defined in the Trust Indenture, any amount may be declared payable by the Trustee upon recommendation of the Administrator (PESL) of the Trust. PESL may, in its sole discretion, withhold reasonable reserves including Capital Expenditure Reserves, in declaring payable the Distributable Cash, as defined in the PCT Indenture.

### 1. BASIS OF PRESENTATION

The recent negative economic environment and its impact on the financial markets, lending institutions, commodity prices and oil and natural gas industry activity levels is presenting a very challenging operating environment for the oil and natural gas services industry. The Trust has responded to these conditions by aligning its cost structure, where feasible, to be consistent with expected industry activity levels and associated pricing for oilfield services, realigning its capital resources, and renegotiating certain terms of its long-term debt. Refer to subsequent events in note 24(c)(d).

The Trust has forecasted its financial results using its best estimates of industry activity levels and its associated operating conditions. Based on its forecast, the Trust believes it will be able to continue as a going concern, subject to an appropriate resolution of the matters identified in subsequent events

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

note 24(c)(d), in light of this very challenging operating environment. However, a decrease from the forecasted industry activity and/or the Trust's forecasted financial performance could adversely impact the Trust's liquidity.

The accompanying consolidated financial statements have been prepared on the basis that the Trust will continue as a going concern, which assumes that the Trust will be able to realize its assets and satisfy its liabilities in the normal course of business for the foreseeable future. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that would be necessary should the Trust be unable to continue as a going concern.

The Trust's continuation as a going concern is ultimately dependent upon its future financial performance, which will be affected by general economic conditions, hydrocarbon commodity prices, industry activity levels, availability of debt and/or equity to finance operations and other factors, many of which are beyond the Trust's control.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Trust and its subsidiaries and partnership, all of which are wholly-owned.

#### (b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available as of the date of the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses for the years reported. The most significant of these are the estimated valuation of accounts receivable, valuation of goodwill, impairment loss on equipment and estimates of various taxation matters. Actual results could differ from these estimates.

#### (c) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with maturities of less than three months.

#### (d) Accounts receivable

Accounts receivable are recorded based on the revenue recognition policy [see note 2 (l)] and are presented net of allowance for doubtful accounts. Allowance for doubtful accounts is adjusted by management based on specific doubtful receivables.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the following methods and rates:

	Methods	Rates
Vehicles, equipment and rental equipment	Declining balance	20%
Vehicles, equipment and rental equipment	Straight-line	5 years
Machinery, equipment and rental equipment	Declining balance	10 to 20%
Machinery, equipment and rental equipment	Straight-line	3 to 10 years
Buildings	Straight-line	5 to 25 years
Office and computer equipment	Declining balance	10 to 30%
Leasehold improvements	Straight-line	up to 12 years

Depreciation on certain rental equipment is provided on a utilization method based upon estimated useful lives of up to 5,475 rental days.

(f) Long-lived assets

Management assesses the carrying value of long-lived assets on a periodic basis for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, a test for impairment is carried out by comparing whether the carrying value of the asset exceeds the sum of the non discounted cash flows expected to result from its use and eventual disposition ("Fair Value"). If the carrying amount is greater than the Fair Value, the asset would be considered impaired and an impairment loss would be realized to reduce the asset's carrying value to its estimated Fair Value.

(g) Intangibles

Intangibles, consisting of customer relationships, non-compete covenants and patents, are recorded at cost and are amortized using the straight-line method over their terms of three to 10 years. Amortization is included in depreciation and amortization expenses.

(h) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

the reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill is determined in a business combination described in the previous paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(i) Leases

Leases are classified as either capital or operating. Leases that effectively transfer substantially all of the risks and rewards of ownership to the Trust are capital leases and are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured as the present value of minimum lease payments. The asset is amortized on a straight-line basis over the term of the lease but not in excess of its useful life. Obligations recorded under capital leases are reduced by the lease payments, net of imputed interest. All other leases are accounted for as operating leases and rental payments are recorded as expenses on a straight-line basis over the term of the related lease.

(j) Income taxes

The Trust is a mutual fund trust for purposes of the Income Tax Act (Canada), and is only subject to statutory income taxes on taxable income not distributed to the Unitholders. Changes to Canadian tax legislation during 2007 impose a new tax on distributions from publicly traded income trusts which is to apply to the Trust on January 1, 2011. This has resulted in the recognition of future income taxes at the trust level.

The Trust's corporate subsidiaries are subject to statutory corporate income taxes, certain provincial capital taxes ("PC taxes") and certain state taxes and they follow the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences", and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Provision for income taxes is the sum of the Trust's corporate subsidiaries' corporate income taxes, PC taxes, state taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

(k) Per Unit amounts

Basic and diluted per Unit amounts are calculated using the weighted average number of Trust Units outstanding during the period. Diluted per unit amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of equity based compensation arrangements would be used to purchase Trust units at the average market price during the period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

The weighted average number of units outstanding is then adjusted by the difference between the number of units issued from the exercise of equity based compensation arrangements and units repurchased from the related proceeds.

(l) Revenue recognition

The Trust's services are provided based upon orders and contracts with its customers that include fixed or determinable prices on the basis of services rendered method, with agreed upon monthly, daily, hourly or job rates. Revenue under the services rendered method is recognized as revenue over the term of the contract as the service is provided.

(m) Market based compensation

The Trust has a market based compensation plan (the "Market Plan") which is described in note 17.

Compensation expense for rights ("Rights") granted under the Market Plan is calculated and recognized over the period vested. The Trust measures the compensation cost related to the Rights as the amount by which the quoted market value of the Units of the Trust plus distributions declared during the period covered by the vested Rights exceeds the value specified at the time of granting. Changes, either increases or decreases, in the quoted market value of the Units between the date of grant and the measurement date result in a change in the measure of compensation for the Rights. Compensation cost accrued during the service period is not adjusted below zero. The offsetting adjustment for compensation cost of the period is recorded in the period in which the changes in the market value occur. The accrued compensation cost for a Right that is forfeited or cancelled is adjusted by decreasing compensation cost in the period of forfeiture or cancellation.

(n) Foreign exchange

Accounts of the Trust's integrated foreign operations are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are exchanged at the year-end current exchange rate and non-monetary assets and liabilities are translated using the historical exchange rate. Gains or losses resulting from these translation adjustments are included in the determination of net income.

(o) Business acquisitions

Business acquisitions are accounted for using the purchase method with the results of operations of the acquired business being included in the consolidated financial statements from the date of acquisition. The purchase price of a business acquisition is allocated to its identifiable net assets, including identifiable intangible assets, on the basis of estimated fair market values at the date of acquisition, with any excess of the purchase price allocated to goodwill. Goodwill arising on business acquisitions is allocated to the reporting unit to which it relates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

(p) Comparative figures

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

### 3. CHANGES IN ACCOUNTING POLICY

#### For the year ended December 31, 2008

Effective January 1, 2008, the Trust adopted new Canadian accounting standards regarding inventories, capital disclosures and financial instruments, retroactively without restatement. The adoption of these standards did not have a material impact on the consolidated financial statements.

(a) Inventories

Under the new standard, inventories are required to be measured at the lower of cost or net realizable value and the reversal of previously recorded write downs to realizable value are required when the circumstances that caused the write down no longer exist. This standard did not have an impact on the Trust's financial statements.

(b) Capital disclosures

Under the new standard, the Trust is required to disclose additional information about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding the Trust's objectives, policies and processes for managing capital. As a result of adopting this new standard, the Trust now discloses details about capital management in note 18.

(c) Financial instruments

Under the new standard, the Trust is required to disclose both qualitative and quantitative information that enables the users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Trust is exposed. As a result of adopting this new standard, the Trust expanded its financial risks and financial instruments disclosure in note 19.

#### For the year ended December 31, 2007

Effective January 1, 2007, the Trust adopted new Canadian accounting standards regarding financial instruments, hedges and comprehensive income, retroactively without restatement. The adoption of these standards did not have a material impact on the consolidated financial statements. The new standards have been applied to the carrying amounts of assets and liabilities as at January 1, 2007, with a corresponding adjustment to deficit as of that date. Prior year comparative figures have not been restated.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

(a) Financial instruments

All financial assets are classified as one of the following: held for trading, available-for-sale, held-to-maturity or loans and receivables. All financial liabilities are classified as held for trading or other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses being recognized in net income during the period they occur. Financial assets available-for-sale are measured at fair value with gains and losses, net of tax, being recognized in other comprehensive income until the asset is sold, or if an unrealized loss is considered other than temporary, the unrealized loss is recognized in net income. Financial assets held-to-maturity and loans and receivables and other liabilities are measured at cost and all transaction costs incurred related to these assets or liabilities are recognized in net income when incurred. At January 1, 2007, the Trust designated its cash and cash equivalents as held-for-trading. Accounts receivable were designated as loans and receivables. Accounts payable and accrued liabilities and long-term debt were designated as other liabilities. The Trust did not have any available-for-sale or held-to-maturity instruments for the years ended December 31, 2008 and 2007.

The Trust has evaluated and determined that its method for accounting of deferred financing costs was impacted by these standards. Prior to adopting the new standards, financing costs were deferred and amortized over the term of the long-term debt. As of January 1, 2007, financing costs associated with long-term debt are expensed in the period they are incurred and are included in general and administrative expenses.

An embedded derivative is a component of a hybrid (combined) instrument or another contract that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Embedded derivatives are separated from the host contract and recognized at its fair value in the balance sheet if certain predetermined conditions are met.

The Trust has evaluated and determined that it has no contracts with embedded derivatives.

(b) Hedges

Derivatives that qualify as accounting hedges are recorded at fair value with gains and losses attributable to the hedged risk being recorded in either net income for fair value hedges and other comprehensive income for cash flow hedges.

The Trust had no accounting hedges for the years ended December 31, 2008 and 2007.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

(c) Comprehensive income

Unrealized gains and losses on financial instruments that are held as available-for-sale, changes in the fair value of cash flow hedging instruments and currency translation adjustments relating to self-sustaining foreign operations are recognized in other comprehensive income and accumulated other comprehensive income, net of tax, until recognized in net income.

The Trust had no other comprehensive income for the years ended December 31, 2008 and 2007 and no opening balance for accumulated other comprehensive income.

Upon implementation and initial measurement under the new recommendations at January 1, 2007, the following adjustments were made to the balance sheet:

Balance sheet January 1, 2007	Opening balance	Adoption of new accounting policies	As restated
Future income taxes	\$ 26,897	\$ (175)	\$ 26,722
Deficit	\$ (25,192)	\$ (372)	\$ (25,564)

### Future accounting standards

(a) Goodwill and intangible assets

A new Canadian accounting standard has been issued which addresses the recognition, measurement and disclosure of goodwill and intangible assets commencing January 1, 2009. It is not anticipated that the adoption of this new accounting standards will have a material impact on the Trust's financial statements.

(b) International financial reporting standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the requirement for all publicly accountable enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011. IFRS will replace Canada's current generally accepted accounting principles ("GAAP") for these enterprises. Effective January 1, 2011, the Trust will be required to report its interim and annual consolidated financial statements in accordance with IFRS including information for the comparative 2010 period.

The Trust is currently in the process of evaluating the potential impact of IFRS to its consolidated financial statements and does not intend to early adopt IFRS. The Trust's consolidated financial performance and financial position as disclosed in the Trust's current GAAP financial statements may be significantly different when presented in accordance with IFRS.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

### 4. BUSINESS ACQUISITIONS

#### For the year ended December 31, 2008

##### (a) Wellco Energy Services Trust

On March 12, 2008, the Trust acquired all of the issued and outstanding units of Wellco Energy Services Trust ("Wellco") for total consideration of \$31,567. This transaction was comprised of \$1,583 in cash and the issuance of 16,565,851 Trust Units with a fair market value of \$29,984. Wellco is a diversified Canadian energy services organization operating in western Canada, offering various services to the oil and natural gas industry. These services include camps & catering, wellsites, remote waste water systems, water technology and production rentals. These assets are classified as Drilling Services, Production Services, Oil Sands and Water Technology for segmented information purposes.

##### (b) Amwest Group

On August 15, 2008, the Trust acquired all of the issued and outstanding shares of 942857 Alberta Ltd., 942859 Alberta Ltd., and Amwest Transport Ltd. (collectively referred to as "Amwest") for total consideration of \$7,366. Based in Calgary, Alberta, Canada, Amwest provides fluid handling services throughout central and southern Alberta. These assets are classified as Production Services for segmented information purposes.

The allocation of the purchase prices are as follows:

	Wellco	Amwest	Total
Equipment	\$ 41,517	\$ 1,901	\$ 43,418
Property	–	3,800	3,800
Intangibles			
Customer relationships	–	340	340
Non-compete covenants	–	80	80
Proprietary technology	1,000	–	1,000
Goodwill	–	1,409	1,409
Working capital	24,024	500	24,524
Future income taxes	8,483	(664)	7,819
Debt assumed	(43,457)	–	(43,457)
Total consideration	31,567	7,366	38,933
Fair value of Trust Units issued	(29,984)	–	(29,984)
Cash included in working capital	–	(209)	(209)
Total cash consideration	\$ 1,583	\$ 7,157	\$ 8,740

The final determination of the cost of the acquisitions and the allocation thereof for the fair value of the net assets is still pending and is subject to change.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
(amounts in thousands of CAD, number of Units and per Unit amounts)

### 5. PROPERTY AND EQUIPMENT

2008	Cost	Accumulated depreciation	Net book value
Rental equipment	\$ 239,256	\$ 41,684	\$ 197,572
Vehicles and equipment	5,496	1,696	3,800
Machinery and equipment	3,962	1,146	2,816
Land, buildings and leasehold improvements	10,025	1,490	8,535
Office and computer equipment	8,843	3,260	5,583
	\$ 267,582	\$ 49,276	\$ 218,306

  

2007	Cost	Accumulated depreciation	Net book value
Rental equipment	\$ 189,177	\$ 32,256	\$ 156,921
Vehicles and equipment	18,977	6,070	12,907
Machinery and equipment	3,104	984	2,120
Land, buildings and leasehold improvements	9,772	680	9,092
Office and computer equipment	8,449	2,797	5,652
	\$ 229,479	\$ 42,787	\$ 186,692

### 6. PROPERTY HELD FOR SALE

As of December 31, 2008, management committed to a plan to dispose of property the Trust acquired through the Amwest acquisition and this asset has been classified as property held for sale. For the year ended December 31, 2008, management evaluated and determined that the carrying value of the property exceeded its fair value, based on the negotiated selling price with an independent third party, which closed subsequent to year end. The Trust accordingly recognized an impairment loss of \$220 to reduce the asset's carrying value to management's estimate of its fair value. The estimated fair value of the property is the same as its carrying value on the balance sheet. The Trust disposed of the property via a sale transaction subsequent to December 31, 2008, see Subsequent Events note 24 (a).

2008	Cost	Accumulated depreciation	Net book value
Production Services			
Property held for sale	\$ 3,580	\$ –	\$ 3,580

  

2007	Cost	Accumulated depreciation	Net book value
Production Services			
Property held for sale	\$ –	\$ –	\$ –

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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### 7. INTANGIBLES

2008	Cost	Accumulated amortization	Net book value
Non-compete covenants	\$ 5,180	\$ 4,123	\$ 1,057
Customer relationships	1,540	578	962
Other intangibles	1,500	406	1,094
Total	\$ 8,220	\$ 5,107	\$ 3,113

  

2007	Cost	Accumulated amortization	Net book value
Non-compete covenants	\$ 6,725	\$ 4,751	\$ 1,974
Customer relationships	1,200	369	831
Other intangibles	500	158	342
Total	\$ 8,425	\$ 5,278	\$ 3,147

### 8. IMPAIRMENT LOSS ON GOODWILL

Goodwill impairment tests were performed as required. The results of the tests showed that the carrying amount of the Production Services (2007 – Production Services) reporting unit exceeded its fair value. The conditions which precipitated the 2008 impairment of goodwill was the current negative economic environment and its impact on the financial markets, lending institutions, hydrocarbon commodity prices and oil and natural gas industry activity levels. (2007 - the announcement of the federal government's intentions to adversely impact the after tax cash flows of trusts, near-term commodity price weakness of natural gas negatively impacting expectations of industry activity levels and upward cost pressure experienced by the industry adversely impacting operating margins.) The culmination of these conditions has decreased the fair value of the Trust, which was reflected in the market value of the Trust at December 31, 2008 and September 30, 2007. Accordingly, a goodwill impairment loss of \$1,409 (2007 – \$2,396) was recognized in the Production Services reporting unit as an impairment loss on goodwill and was included in the determination of net loss from continuing operations.

### 9. DISTRIBUTIONS PAYABLE

During 2008, the Trust declared no distributions (2007 – \$0.610 per Unit for a total of \$16,896). \$2,472 was paid January 15, 2007 in respect of declared distributions to December 31, 2006.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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### 10. LONG-TERM DEBT

	2008	2007
Pursuant to an agreement dated August 27, 2008, the Trust has a syndicated extendable term revolving acquisition loan facility of \$75,000 (subject to certain conditions, may increase to \$100,000 at a future date) requiring no principal payments during the term, bearing interest at the bank prime rate plus up to 1.25 percent or at banker's acceptance rates plus a variable stamping fee of 1.25 percent to 2.50 percent. The facility expires on May 31, 2009 and can be renewed, at the lender's option, for an additional 364 day period. If not renewed, the loan is repayable over an amortized period of three years. The facility is secured by an unlimited guarantee, a general assignment of book debts, a demand debenture and a General Securities agreement.	\$ 48,967	\$ –
Pursuant to an agreement dated August 31, 2005, the Trust has a term loan with terms of no set principal payments during the seven year term, bearing interest at 6.29 percent. The facility is secured by a General Securities agreement and Inter-Lender agreement.	30,000	30,000
Pursuant to an agreement dated June 26, 2006, the Trust has a term loan with terms of no set principal payments during the seven year term, bearing interest at 7.21 percent. The facility is secured by a General Securities agreement and Inter-Lender agreement.	10,000	10,000
Pursuant to an agreement dated April 27, 2007, the Trust had an extendable term revolving acquisition loan facility of \$60,000 requiring no principal payments during the term, bearing interest at the bank prime rate plus up to 0.50 percent or at banker's acceptance rates plus a variable stamping fee of 1.25 percent to 2.00 percent. The facility was paid out on March 12, 2008 and replaced with the syndicated extendable term revolving acquisition facility.	–	30,750
	88,967	70,750
Less current portion	9,012	3,562
	\$ 79,955	\$ 67,188

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 11. INCOME TAXES

The income tax provision (reduction) differs from the amount that would be computed by applying statutory income tax rates of 29.50 percent (2007 – 32.12 percent) to income before income taxes.

The reconciliation of the differences is as follows:

	2008	2007
Loss before income taxes from continuing operations	\$ (1,137)	\$ (1,936)
Statutory income tax rate	29.50%	32.12%
Expected income tax provision	(335)	(622)
Amounts included in Trust income	–	(5,308)
Non-deductible impairment loss on goodwill	352	193
Effect of foreign exchange on taxes	535	–
Amendments from tax filings	236	–
Effective tax rate adjustments	555	(2,192)
Non-deductible items	596	199
Other	108	(216)
	\$ 2,047	\$ (7,946)

The net future income tax liability is comprised of the following temporary differences:

	2008	2007
Future income tax assets:		
Non-capital losses	\$ 15,798	\$ 12,409
Share issue costs	320	71
Other	(245)	210
	15,873	12,690
Future income tax liabilities:		
Property and equipment	(26,443)	(30,512)
Intangibles and goodwill	(177)	(159)
	(26,620)	(30,671)
	\$ (10,747)	\$ (17,981)

At December 31, 2008, the Trust had accumulated losses for income tax purposes of \$62,143 (2007 – \$40,381) available as a deduction against future taxable income. These losses expire primarily during the years 2010 to 2028.

The federal government's announced intentions to require income trusts to pay income taxes at rates consistent with corporations was enacted into law during 2007. Commencing in fiscal 2011, Peak will be required to pay a tax of 26.5 percent on distributions it makes to Unitholders.

To March 31, 2007, the Trust had not recognized any future income tax assets or liabilities on its temporary differences in the Trust. As a result of the new enacted trust distribution tax, the Trust is required to recognize future income tax assets and liabilities on temporary differences at the effective rate expected to be enacted when the temporary difference reverses. Management has assessed the impact of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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the Trust's temporary differences and the expected period that they will reverse and has recognized the associated future income tax assets and liabilities at the appropriate effective tax rate.

### 12. TRUST UNIT CAPITAL

(a) Authorized

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

(b) Trust Unit capital issued

	Number of Units	Amount
Balance, December 31, 2006	27,462,177	\$ 186,399
Units issued for cash under Distribution Reinvestment Plan	236,210	1,041
Balance, December 31, 2007	27,698,387	\$ 187,440
Units issued for consideration in business acquisition (note 4(a))	16,565,851	29,984
Units issued for cash, net of costs	4,133,859	9,923
Balance, December 31, 2008	48,398,097	\$ 227,347

### 13. DEPRECIATION AND AMORTIZATION

	2008	2007
Property and equipment	\$ 14,762	\$ 14,140
Intangibles	1,455	1,285
	\$ 16,217	\$ 15,425

### 14. WEIGHTED AVERAGE UNITS

	2008	2007
Weighted average basic Units	44,371,578	27,689,303
Weighted average diluted Units	44,371,578	27,689,303

### 15. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

(a) Operating activities:

	2008	2007
Accounts receivable	\$ 16,319	\$ 1,451
Income taxes payable	832	346
Prepaid expenses	(21)	(605)
Inventory	(142)	–
Accounts payable and accrued liabilities	834	2,259
Deferred lease inducement	(201)	2,325
	\$ 17,621	\$ 5,776

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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(b) Investing activities:

	2008	2007
Accounts payable for capital expenditures	\$ 482	\$ (2,295)
	\$ 482	\$ (2,295)

### 16. SUPPLEMENTAL INFORMATION

	2008	2007
Interest paid	\$ 5,168	\$ 4,419
Income taxes paid	\$ 81	\$ 259

### 17. MARKET BASED COMPENSATION

The Trust has a market based incentive plan. Under the Market Plan, Rights with a three year vesting period are allocated to certain employees and key consultants. The number of Rights outstanding at any time is not to exceed 10 percent of the total number of Trust Units outstanding. At the end of each 12 month period, all vested Rights are automatically cancelled and, if applicable, paid out in cash. The payout is calculated as the number of vested Rights multiplied by the total of the market appreciation (defined as the differential between the market price of Trust Units at the vesting date and the market price of Trust Units at the date of grant ("Base Price") of the Right) and associated distributions of a Trust Unit for that period. The Base Price of each unvested Right automatically changes to the market price of the Trust Units on the start of the 12 month period that the Right vests. A tax factor of 1.33 is then applied to determine the amount of the payout.

At December 31, 2008, 900,833 non-vested Rights are outstanding with a collective Base Price of \$0.40. At December 31, 2007, 945,000 non-vested Rights were outstanding with a collective Base Price of \$1.84.

Compensation costs included in general and administrative expenses are as follows:

	2008	2007
Total compensation costs	\$ -	\$ -
Non-cash provision for future compensation expense	\$ -	\$ -
Rights outstanding, beginning of period	945,000	1,788,333
Rights issued	1,140,000	-
Rights vested and cancelled	(1,184,167)	(843,333)
Non-vested Rights outstanding, end of period	900,833	945,000

### 18. CAPITAL MANAGEMENT

The Trust's objectives are to safeguard the Trust's ability to continue as a going concern, so that it can continue to provide returns for its Unitholders; and to carry a capital base to maintain investor, creditor, and market confidence and to sustain future development of the business. The Trust seeks to maintain a

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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balance between the level of long-term debt and Unitholders' equity to ensure access to capital markets to fund growth and working capital given the cyclical nature of the oilfield services sector. The Trust may occasionally need to adjust these levels to facilitate acquisition or expansionary activities.

	2008	2007
Long-term debt	\$ 88,967	\$ 70,750
Unitholders' equity	\$ 173,817	\$ 138,737
Long-term debt to equity ratio	0.51	0.51

The Trust has several covenants associated with its loan facilities. Of the covenants, currently the most sensitive is the net funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") which is in breach if the ratio exceeds 3.00:1.00. The definition of the above ratio is subject to several potential adjustment provisions within the loan facilities agreements.

Financial covenants associated with the Trust's debt agreements are reviewed regularly and controls are in place to monitor compliance with these covenants. The Trust is in compliance with all its covenants at December 31, 2008, including net funded debt to EBITDA, which is 2.72:1.00.

Commencing with the December 2007 distribution period, the Trust ceased distributions for an indefinite period. Management's current financing strategy is to use its cash flow from operating activities to reduce the Trust's core long-term debt to create additional facilities to be available for when future business acquisitions and growth capital expenditure opportunities present themselves.

There were no changes in the Trust's approach to capital management for the year ended December 31, 2008.

### 19. FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

#### Financial risks

The Trust is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in interest rates and foreign currency exchange rates, as well as credit and liquidity risks. The nature of the financial risks and the Trust's strategy for managing these risks has not changed significantly for the year ended December 31, 2008.

#### (a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Trust's income or the value of its holdings of financial instruments. The objective of management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Through its use of long-term debt, the Trust is exposed to interest rate risk as its debt has fixed and floating rates. An increase of two percent in the interest rate at December 31, 2008 would result in

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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the fair value of the debt being reduced to \$86,869. A decrease of two percent in the interest rate at December 31, 2008 would have an equal, but opposite effect.

The Trust has an exposure to foreign currency exchange rates, primarily because of its operations in the United States of America, where both carrying values and earnings are subject to foreign exchange risk. A five percent strengthening of the Canadian dollar against the U.S. dollar at December 31, 2008 would have decreased equity and net income by approximately \$341, net of tax. This analysis assumes that all other variables, in particular interest rates, remain constant. A five percent weakening of the Canadian dollar against the above currency at December 31, 2008 would have an equal, but opposite effect.

(b) Credit risk

The Trust is exposed to credit risk from its customers' abilities to fulfill their obligations to the Trust. The Trust manages this risk through various internal processes including credit policies and limits, credit checks, special conditions applied to customers based on historical experience and management of accounts receivable exposure to any one customer during any one period. The Trust does not have a significant exposure to any individual customer or other parties for the year ended December 31, 2008.

2008	Gross	Allowance	Net
Not past due	\$ 17,740	\$ -	\$ 17,740
Past due 0-30 days	13,518	-	13,518
Past due 31-60 days	4,896	-	4,896
More than 61 days	2,888	(201)	2,687
Unbilled revenue	6,707	-	6,707
Less: Discontinued operations	1,903	-	1,903
<b>Total</b>	<b>\$ 43,846</b>	<b>\$ (201)</b>	<b>\$ 43,645</b>

The Trust establishes an allowance for doubtful accounts that represents its estimate of potential losses in respect of trade and other receivables. This allowance consists of specific provisions that relate to individually significant exposures and includes an estimate of a provision based on a number of factors. At December 31, 2008, the Trust's allowance for doubtful accounts totalled \$201.

(c) Liquidity risk

The Trust is exposed to liquidity risk from the potential inability to generate or obtain sufficient cash and cash equivalents in a timely manner to satisfy its financial liabilities as they come due. The Trust manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. Any debt issued by the Trust is managed in accordance with specified liquidity and maturity profiles.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following are the Trust's contractual obligations as at December 31, 2008:

	Less than one year	1 to 3 years	4 to 5 years	After 5 years	Total
Long-term debt	\$ 9,012	\$ 32,852	\$ 47,103	\$ –	\$ 88,967
Operating leases	17,509	25,394	19,702	40,220	102,825
Total contractual obligations	\$ 26,521	\$ 58,246	\$ 66,805	\$ 40,220	\$ 191,792

### Financial instruments

#### (d) Fair values

The Trust's financial instruments as at December 31, 2008 include cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short terms to maturity. The fair value of the long-term debt is determined by discounting the future contractual cash flows under current financing arrangements at a discount rate which represents borrowing rates presently available to the Trust for loans with similar terms and maturity.

2008	Carrying amount	Fair value
Cash and cash equivalents	\$ 8,565	\$ 8,565
Accounts receivable	43,645	43,645
Accounts payable	(23,942)	(23,942)
Long-term debt	(88,967)	(90,227)
	\$ (60,699)	\$ (61,959)

## 20. SEGMENTED INFORMATION

The Trust has determined that it operates in four reporting segments: Drilling Services, Production Services, Oil Sands and Water Technology. Within the Trust's four reporting segments, it has six operating divisions that provide services to one or more of its reporting segments. These operating divisions are Surface Rentals, Camps and Catering, Remote Waste Water Systems, Fluids Handling, Peak USA and Water Technology.

### Drilling services

The Trust's Drilling Services reporting segment provides a broad range of equipment and services that play a key role in the drilling phase of a well bore. The objective of this reporting segment is to continue to foster customer relationships and to provide a high level of service and quality equipment that will ultimately help the Trust's customers enhance their drilling programs and reduce costs at the wellhead. The four operating divisions within this reporting segment are Surface Rentals, Camps and Catering, Remote Waste Water Systems and Peak USA.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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### Production services

The Trust's Production Services reporting segment provides a broad range of equipment and services that play a key role in the production and completion phases of a well bore. The objective of this reporting segment is to continue to foster customer relationships and to provide a high level of service and quality equipment that will ultimately help Peak's customers enhance their production programs and reduce costs at the wellhead. The two major divisions within this reporting segment are Fluids Handling and Surface Rentals.

### Oil sands

The Trust's Oil Sands reporting segment provides services supporting customers' activities focused on the extraction of hydrocarbons from the oil sands. The three major divisions within this reporting segment are Camps and Catering, Remote Waste Water Systems and Fluids Handling. In addition, certain Surface Rentals operating division activities are associated with the oil sands, however this currently is not a major source of revenue for the Trust.

### Water technology

The Water Technology reporting segment operates under the Sanitherm trade name and is engaged in the design and assembly of both permanent and portable water and waste water treatment systems.

Expenses other than direct expenses are allocated to the reporting segments based on percentage of assets. The tables below exclude discontinued operations disclosed in note 24(b).

2008	Drilling Services	Production Services	Oil Sands	Water Technology	Total
Revenue	\$ 94,144	\$ 29,537	\$ 15,744	\$ 4,749	\$ 144,174
Depreciation and amortization	11,478	3,783	880	76	16,217
Interest on long-term debt	3,658	1,206	280	24	5,168
Income (loss) before other items from continuing operations	995	(2,717)	1,497	227	2
Net income (loss) from continuing operations	(106)	(4,710)	1,412	220	(3,184)
Total assets	198,728	65,503	15,238	1,313	280,782
Capital expenditures <sup>(1)</sup>	4,695	3,622	9,530	–	17,847

(1) Excludes business acquisitions disclosed in note 4.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2007	Drilling Services	Production Services	Oil Sands	Water Technology	Total
Revenue	\$ 64,901	\$ 23,895	\$ 7,860	\$ –	\$ 96,656
Depreciation and amortization	10,794	4,232	399	–	15,425
Interest on long-term debt	3,093	1,212	114	–	4,419
Income (loss) before other items from continuing operations	6,653	(4,221)	928	–	3,360
Net income (loss) from continuing operations	8,507	(3,494)	997	–	6,010
Total assets	152,695	59,869	5,651	–	218,215
Capital expenditures	6,067	10,183	–	–	16,250

### 21. CONTINGENCIES

The Trust is involved in litigation matters arising out of the ordinary course and conduct of its business. The likelihood of contingent liabilities resulting from these matters is not determinable and related potential losses cannot be reasonably estimated. No accrual of loss has been made to the consolidated financial statements.

### 22. RELATED PARTY TRANSACTIONS

These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### For the year ended December 31, 2008

The Trust has a Sublease Agreement with a company related through two members of PESL's Board of Directors also being directors of the related party. For the year ended December 31, 2008, \$726 was included as an offset to the Trust's operating expenses. The Trust also secured a private placement of Trust Units through a related party of a member of PESL's Board of Directors. A member of PESL's Board of Directors is a director and officer of the related party. For the year ended December 31, 2008, \$500 was included as a cost offset to proceeds in trust unit capital on the Trust's balance sheet. These agreements are considered in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. At December 31, 2008, the amounts due to and from the related entities were nil.

#### For the year ended December 31, 2007

The Trust has a Sublease Agreement with a company related through two members of PESL's Board of Directors also being directors of the related party. For the year ended December 31, 2007, \$255 was included as an offset to the Trust's operating expenses. Both of these agreements are considered in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. At December 31, 2007, the amounts due to and from the related entities were nil.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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### 23. SEASONALITY OF OPERATIONS

A significant portion of the Trust's operations are carried out in western Canada. The ability to move heavy equipment in western Canadian oil and natural gas fields is dependant on weather conditions, whereby thawing in the spring renders many secondary roads incapable of supporting heavy equipment until the ground is dry. In addition, activity in more northern parts of Canada is accessible only in winter months where the ground is frozen deep enough to support the equipment. As a result, the Trust's activity generally follows along with this seasonality, whereby activity is traditionally higher in the first and fourth quarter and lower in the second and third quarter of the year.

### 24. SUBSEQUENT EVENTS

#### (a) Sale of property held for sale

As disclosed in note 6, the Trust disposed of its property held for sale via a sale transaction on January 31, 2009 for proceeds of \$3,580.

#### (b) Discontinued operations

On July 14, 2009, the Trust completed the sale of the Wireline operating division for gross cash proceeds of \$5,750. Management made the decision to dispose of the Wireline operating division, included in the Production Services reporting segment, in order for the Trust to focus on its core business operations. This was part of the Trust's ongoing asset rationalization program, whereby equipment identified during the period as not generating an appropriate rate of return is earmarked for potential disposal with the intention of generating proceeds to be positioned for reinvestment in equipment that is expected to generate improved returns on invested capital.

The following table provides additional information with respect to amounts included in the statement of operations as discontinued operations, and other impacted amounts presented throughout these consolidated financial statements and accompanying notes have been amended as appropriate:

	2008	2007
Revenue	\$ 11,415	\$ 12,301
Loss before impairment loss on assets and income taxes	\$ (2,192)	\$ (764)
Gain on sale of equipment	(1)	–
Impairment loss on goodwill	–	13,163
Loss before income taxes	(2,191)	(13,927)
Income taxes – future (reduction)	(548)	(191)
Net loss from discontinued operations	\$ (1,643)	\$ (13,736)

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The following table provides additional information with respect to amounts included in the balance sheet as discontinued operations:

	2008	2007
Accounts receivable	\$ 1,903	\$ 1,759
Property and equipment	13,858	15,288
Intangible assets	4,670	5,650
	18,528	20,938
Total assets of discontinued operations	\$ 20,431	\$ 22,697
Liabilities of discontinued operations	\$ 778	\$ 713

The following table provides additional information with respect to amounts included in the statement of cash flows as discontinued operations:

	2008	2007
Net loss from discontinued operations	\$ (1,643)	\$ (13,736)
Items not affecting cash:		
Depreciation and amortization	2,518	1,860
Gain on sale of equipment	(1)	–
Impairment loss on goodwill	–	13,163
Future income taxes (reduction)	(548)	(191)
Funds provided by discontinued operations	\$ 326	\$ 1,096

	2008	2007
Components of change in non-cash working capital balance of discontinued operations:		
Accounts receivable	\$ (144)	\$ 2,737
Accounts payable and accrued liabilities	65	(647)
	\$ (79)	\$ 2,090

	2008	2007
Investing activities:		
Purchase of equipment	\$ (292)	\$ (904)
Proceeds on sale of equipment	186	–
Funds used in discontinued operations	\$ (106)	\$ (904)

(c) Long-term debt amendments

Throughout 2009, the syndicated extendable term revolving acquisition loan facility limit was reduced from \$75,000 to \$65,000 on May 26, 2009 and was further reduced to \$25,000 on October 16, 2009.

(d) Basis of presentation

On October 16, 2009, the Trust announced a series of initiatives that were intended to impact the Trust's capital resources.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007 (restated)  
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These initiatives included:

- (i) completion of a 12 percent \$22,000 convertible secured subordinated debenture financing by December 17, 2009; and
- (ii) certain amendments to its existing long-term debt agreements.

The debenture financing did not close on December 17, 2009 and was terminated on January 11, 2010. As a result, certain amendments to the Trust's long-term debt agreements did not take effect as they were contingent on the completion of the debenture financing. Consequently, the Trust was in breach of the funded net debt to 12 month trailing EBITDA financial covenant under the long-term debt agreements at September 30, 2009 and it is reasonably certain that the Trust will continue to be in breach of said financial covenant and potentially others at December 31, 2009, once the financial statements are prepared. The senior lenders agreed to waive all existing defaults and events of default under the long-term debt agreements, subject to certain conditions, until January 29, 2010.

On December 24, 2009, the Trust obtained a bridge loan in the amount of \$3,000 to fund the Trust's near-term working capital requirements. The bridge loan is a senior secured non-revolving term loan that ranks prior to all senior debt and other security of the Trust and its subsidiaries. The bridge loan bears interest at a rate of 18 percent on amounts drawn from escrow, matures on March 31, 2010, subject to certain conditions, including waivers of the senior lenders continuing to be in effect as outlined below.

On January 29, 2010, the Trust announced a series of initiatives that are intended, once completed, to impact the Trust's capital resources.

These initiatives include:

- (i) Subject to regulatory approval, completion of a \$16,000 private placement financing for 80,000,000 Trust Units by February 16, 2010. Proceeds of the private placement financing will be used to repay existing secured indebtedness of the Trust;
- (ii) Subject to regulatory approval, completion of up to a \$25,000 rights offering financing for up to 125,000,000 Trust Units as soon as possible after the private placement financing, but no later than April 30, 2010. Depending on the ultimate proceeds of the rights offering financing, the proceeds will be used for general purposes of the Trust, which may include repayment of existing secured indebtedness of the Trust and/or to fund future growth opportunities; and
- (iii) In connection with the private placement financing, the Trust has negotiated certain amendments to its existing secured long-term debt agreements. Subject to the completion of the private placement financing, with proceeds being used to reduce a portion of the Trust's existing secured indebtedness outstanding and the completion of payments totaling \$1,100 in amendment / waiver fees by February 16, 2010 and completion of the rights offering financing by April 30, 2010 the senior lenders have agreed to waive all existing defaults and events of default under the secured

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Years ended December 31, 2008 and 2007 (restated)*  
*(amounts in thousands of CAD, number of Units and per Unit amounts)*

long-term debt agreements. Furthermore, the senior lenders have agreed to amend their respective secured long-term debt agreements as follows:

- The funded net debt to 12 month trailing EBITDA ratio has been waived until June 30, 2011 and the fixed charge coverage ratio which requires the Trust to maintain a specified cash flow to principal debt repayment ratio has been adjusted to be not less than 2.50 to 1.00, except during April 1, 2010 and February 28, 2011, where the ratio varies between 0.75 to 1.00 and 2.25 to 1.00;
- Syndicated extendable term revolving acquisition loan facility to be replaced by a \$10,000 term loan with an interest rate of bank prime rate plus 5.00 percent and a maturity date of August 15, 2012 and a \$15,000 revolving credit facility with an interest rate of bank prime rate plus 5.00 percent and a maturity date of February 28, 2011; and
- Interest rates on term loan agreements dated August 31, 2005 in the amount of \$30,000 and June 26, 2006 in the amount of \$10,000 to be amended to 7.77 percent and 8.69 percent, respectively.

## **BOARD OF DIRECTORS OF PEAK ENERGY SERVICES LTD.**

CHRISTOPHER E. HASLAM  
Chairman of the Board  
Independent Businessman

RICHARD A. GRAFTON  
President  
Grafton Capital Corporation

EDWARD H. KERNAGHAN  
Executive Vice President  
Kernaghan Securities Ltd.

FREDERICK A. MOORE  
Independent Businessman

DOUGLAS F. ROBINSON  
Independent Businessman

CURTIS W. WHITTERON  
President and Chief Executive Officer  
Peak Energy Services Ltd.

## **MANAGEMENT OF PEAK ENERGY SERVICES LTD.**

CURTIS W. WHITTERON  
President and Chief Executive Officer

MATTHEW J. HUBER  
Executive Vice President

DALE M. KAUFMANN  
Chief Operating Officer

MONTY R. BALDERSTON  
Chief Financial Officer

DEAN R. HERBERT  
Vice President,  
Human Resources and Administration

JOHN E. HUDSON  
Vice President, Health, Safety, Environment  
and Risk Management

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## **WEBSITE**

[www.peak-energy.com](http://www.peak-energy.com)

## **STOCK EXCHANGE LISTING**

TORONTO STOCK EXCHANGE  
Peak Energy Services Trust, Symbol "PES.UN"

## **AUDITORS**

KPMG LLP  
Calgary, Alberta, Canada

## **REGISTRAR, TRANSFER AGENCY AND TRUSTEE**

VALIANT TRUST COMPANY  
Calgary, Alberta, Canada

## **LEGAL COUNSEL**

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Calgary, Alberta, Canada

FRASER MILNER CASGRAIN LLP  
Calgary, Alberta, Canada

## **BANKER**

NATIONAL BANK OF CANADA  
Calgary, Alberta, Canada