



# PEAK ENERGY SERVICES TRUST

## 2010 FINANCIAL HIGHLIGHTS

| (in thousands of CAD,<br>except otherwise noted) | Three months ended June 30 |          |          | Six months ended June 30 |          |          |
|--|----------------------------|----------|----------|--------------------------|----------|----------|
|  | 2010                       | 2009     | % Change | 2010                     | 2009     | % Change |
| Revenue  | 27,757                     | 21,077   | 32       | 66,702                   | 68,542   | -3       |
| EBITDA <sup>(1)</sup>                            | 139                        | (3,083)  | 105      | 6,566                    | 9,226    | -29      |
| Per unit – diluted                               | –                          | (0.06)   | 100      | 0.05                     | 0.19     | -74      |
| As a percentage of revenue                       | 1%                         | -15%     |          | 10%                      | 13%      |          |
| Net loss from continuing operations              | (4,508)                    | (5,383)  | 16       | (5,726)                  | –        | N/C      |
| Per unit – diluted                               | (0.03)                     | (0.11)   | 73       | (0.04)                   | –        | N/C      |
| Net loss from discontinued operations            | –                          | (10,247) | 100      | –                        | (10,209) | 100      |
| Per unit – diluted                               | –                          | (0.21)   | 100      | –                        | (0.21)   | 100      |
| Net loss   | (4,508)                    | (15,630) | 71       | (5,726)                  | (10,209) | 44       |
| Per unit – diluted                               | (0.03)                     | (0.32)   | 91       | (0.04)                   | (0.21)   | 81       |
| Funds from operations <sup>(1)</sup>             | (1,060)                    | (3,335)  | 68       | 4,283                    | 7,546    | -43      |
| Per unit – diluted                               | (0.01)                     | (0.07)   | 86       | 0.03                     | 0.16     | -81      |
| Trust Units outstanding (thousands)              | 173,383                    | 48,398   | 256      | 173,383                  | 48,398   | 256      |
| Industry activity <sup>(2)</sup>                 |                            |          |          |                          |          |          |
| Drilling rig operating days                      | 14,918                     | 8,414    | 77       | 53,314                   | 36,655   | 45       |
| Drilling rig utilization                         | 20%                        | 11%      | 85       | 40%                      | 24%      | 67       |
| Wells drilled                                    | 1,197                      | 844      | 42       | 4,843                    | 3,833    | 26       |
| Service rig utilization                          | 42%                        | 28%      | 49       | 50%                      | 38%      | 31       |

(1) Refer to the "Non-GAAP Measures" section of this MD&A for further details.

(2) Sources: Canadian Association of Oilwell Drilling Contractors ("CAODC"), the Daily Oil Bulletin ("DOB") and Petroleum Services Association of Canada ("PSAC").



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS**

*For the three and six months ended June 30, 2010*

The following management's discussion and analysis ("MD&A") of financial condition, results of operations and cash flows for the three and six months ended June 30, 2010, should be read in conjunction with Peak Energy Services Trust's ("Peak" or the "Trust") interim consolidated financial statements for the three and six months ended June 30, 2010 and 2009 and the notes contained therein. Additional information relating to the Trust, including the Trust's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com). This MD&A was prepared effective August 10, 2010.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND NON-GAAP MEASURES**

*This MD&A contains forward-looking information within the meaning of applicable Canadian securities legislation regarding expected future events and financial and operating results of the Trust. By its nature, forward-looking information requires the Trust to make assumptions and is subject to numerous inherent risks and uncertainties. There is significant risk that assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking information as a number of factors could cause actual future results, conditions, actions or events to differ materially from expectations, estimations or intentions expressed in the forward-looking information. The Trust disclaims any intention or otherwise to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. It is the current policy of the Trust to evaluate its past forward-looking information and where it deems appropriate, provide updates subject to requirements by law. The forward-looking statements contained in this MD&A are made as of the date hereof. Additionally, the Trust undertakes no obligation to comment on expectations of, or statements made by, third parties in respect of this MD&A.*

*In particular, forward-looking information includes the following statements within this MD&A regarding the expectations of: oil and natural gas industry activity levels; type/orientation of drilling activities; completion and timing of and when the Trust will convert to a corporation; the geopolitical and global economic future; improvement in future oil and natural gas industry activity levels, hydrocarbon supply/demand balance and associated hydrocarbon commodity pricing; the cyclical and seasonal nature of activity within the oil and natural gas industry; the future provision of Peak's services and its impact on equipment utility, pricing, forecasted financial performance and ability to continue as a going concern; management's business plan and expectations for Peak's operations and cash flows provided by continuing operations; the Trust's ability to increase market share in various geographical regions; the future financial impact of Peak's cost restructuring initiatives; Peak's future capital expenditures; access to and affordability of debt, including the associated interest cost, and equity capital markets for Peak and its customers; the realignment of Peak's capital resources will improve liquidity and financial flexibility; the Trust's financing strategy*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

*and compliance with debt covenants; Peak's working capital changes; and management's financing strategy for managing Peak's liquidity and capital resources.*

*As a result, you are cautioned not to place undue reliance on these forward-looking statements. These statements are based on certain assumptions and analysis made by the Trust in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform to the Trust's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Trust's expectations. Such risks and uncertainties include, but are not limited to: fluctuations in the price and demand for oil and natural gas; currency fluctuations; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for oilfield services that the Trust provides; the effects of weather conditions on operations; the existence of competition from other oilfield service entities; general economic, market or business conditions including the consequences of the recent global economic recession; public market volatility and the related ability to access sufficient capital to fund activities; availability to access debt financing to fund activities; government policy changes; changes in laws or regulations, including taxation and environmental regulations; liabilities inherent in the oil and natural gas field services business; the lack of availability of qualified personnel or management; and other unforeseen conditions which could impact the use of services supplied by the Trust.*

*Consequently, all of the forward-looking information made in this document are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Trust will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Trust or its business or operations.*

*Throughout this MD&A certain measures are used that are not recognized measures under Canadian generally accepted accounting principles ("GAAP"). Specific measures used are earnings before interest, taxes, depreciation, amortization and other certain items ("EBITDA"), funds from operations, working capital, current ratio, funded debt, net debt and long-term debt to equity ratio. Please review the discussion of these measures in the "Non-GAAP Measures and Reconciliations" section of this MD&A.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

### INDUSTRY ACTIVITY

During the second quarter of 2010, industry activity levels were significantly higher than the same period of 2009 as increased activity levels followed the same trend from the first quarter of the year. Canadian drilling operating days for the second quarter were 77 percent higher than the prior year period and wells drilled increased by 42 percent to 1,197 wells. Year-to-date, Canadian drilling rig operating days were 45 percent higher than the prior year period and wells drilled increased by 26 percent to 4,843 wells. Wells drilled in Canada for 2010 has increased significantly, however it still compares very negatively with the ten year average of 8,132 wells. Meanwhile, Canadian service rig utility increased 49 percent to an average utility of 42 percent for the second quarter of 2010.

The general industry trend has seen a greater focus on particular oil and natural gas targets, as technology advancements and associated unitary costs to extract the natural resource are making these targets attractive. Although activity has improved quarter-over-quarter from 2009, activity levels are still significantly lower than the 10 year average. This has been the result of near-term weakness in natural gas pricing driven primarily by the larger than historical norm of natural gas inventory in North America. Near-term demand fundamentals have been negatively impacted by the recent economic recession and its lingering effects. Compounding this has been the increase in supply availability from the aggressive natural gas drilling activities that have occurred in the United States of America ("US") over the past few years. This has more than offset the decline in Canadian natural gas directed activities in recent years. US natural gas drilling activities materially declined during 2009, in response to natural gas pricing and the economic recession, however natural gas storage injections have been, to date, resilient. The Western Canadian Sedimentary Basin ("WCSB") recent years' drilling activity has been between 60 and 70 percent natural gas oriented, with the exception of 2009, where reduced natural gas drilling activity and an increase in oil directed drilling activity shifted this ratio to approximately 50 percent oil oriented. This shift is expected to continue in 2010 as producers focus on liquids rich targets as the relative recovery of oil prices has motivated some producers to focus their efforts towards oil related activities, partially offsetting the lack of intensity on natural gas related activities.

Analysts are forecasting that Canadian oil and natural gas drilling activity levels will increase in 2010 from 2009, with the current trend of a lower number of wells with a longer duration for each well being drilled, continuing. Analyst estimates now forecast a range of between 11,000 and 12,200 wells to be drilled this year in Canada. Based upon the results of the first six months of 2010, management is now estimating annual activity should reach levels of 11,000 wells. Although activity has rebounded from 2009 lows it is still significantly below historical levels for the past decade, hence it will be challenging for overall pricing to improve materially from 2009 for 2010, as there is excess rental equipment in several of the oilfield service industry segments that Peak competes in.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

Management believes the outlook for the oil and natural gas industry in North America remains positive over the longer term. Nonetheless, for at least the near to mid-term, we expect to continue to experience lower levels of activity as compared to the five year average, until the instability within the global economy subsides and the underlying oil and natural gas supply and demand fundamentals firm up over a sustained period of time.

### OVERALL PERFORMANCE

For the second quarter of 2010, Canadian drilling rig operating days were higher than the same period in 2009 at 14,918 days, representing an increase of 77 percent and Canadian service rig utility increased 49 percent to an average utility of 42 percent. Year-to-date, Canadian drilling rig operating days were also higher than the prior year period at 53,314 days, representing an increase of 45 percent and Canadian service rig utility increased 31 percent to an average utility of 50 percent.

For the first half of 2010, Alberta contributed 66 percent (Saskatchewan 27 percent; British Columbia 5 percent) of the overall increase as drilling rig operating days within the province increased 50 percent (Saskatchewan 102 percent; British Columbia 10 percent). Activity continues to be focused on longer wells as 4,843 wells were drilled (2009 – 3,833 wells) with the 2010 year-to-date average days/well being 11.0 days/well (2009 – 9.6 days/well). Following the same trend to a lesser degree, Canadian service rig utility was up 31 percent with overall average utilization of 50 percent (2009 – 38 percent).

For the three months ended June 30, 2010, Peak:

- generated revenue of \$27.8 million which was a 32 percent or \$6.7 million increase over the same prior year period revenue of \$21.1 million. The primary drivers of the increase were increased activity levels in both the US and Canadian markets. The positive variance would have been higher based upon the significant increase in activity levels, however revenue was negatively impacted by pricing pressure;
- realized EBITDA<sup>(1)</sup> of \$0.1 million (\$0.00 per Unit diluted or 1 percent of revenue), an increase of 105 percent or \$3.2 million over EBITDA for the prior year period of negative \$3.1 million (negative \$0.06 per Unit diluted or negative 15 percent of revenue). On a margin basis, the primary positive impact was the significant increase in industry activity levels;
- recognized a loss on sale of equipment of \$1.0 million. The loss was the result of the current negative market conditions for selling of used equipment;

*(1) Refer to the "Non-GAAP Measures and Reconciliations" section of this MD&A for further details.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

- realized a net loss from continuing operations of \$4.5 million (loss of \$0.03 per Unit diluted), which was a decrease of 16 percent or \$0.9 million as compared to a net loss for the same prior year period of \$5.4 million (loss of \$0.11 per Unit diluted); and
- had funds from operations<sup>(1)</sup> of negative \$1.1 million or negative \$0.01 per Unit diluted (2009 – negative \$3.3 million or negative \$0.07 per Unit diluted).

For the six months ended June 30, 2010, Peak:

- generated revenue of \$66.7 million which was a 3 percent or \$1.8 million decrease over the same prior year period revenue of \$68.5 million. The primary drivers of the decrease were significant pricing pressure and decreased activity levels in Peak's Oil Sands reporting segment;
- realized EBITDA<sup>(1)</sup> of \$6.6 million (\$0.05 per Unit diluted or 10 percent of revenue), a decrease of 29 percent or \$2.7 million over EBITDA for the prior year period of \$9.2 million (\$0.19 per Unit diluted or 13 percent of revenue). On a margin basis, the primary negative impact was the significant decrease across the board of overall pricing for services;
- recognized a loss on sale of equipment of \$4.1 million. The loss was the result of the current negative market conditions for selling of used equipment;
- realized a net loss from continuing operations of \$5.7 million (loss of \$0.04 per Unit diluted), which was a decrease of \$5.7 million as compared to a net income for the same prior year period of nil (\$0.00 per Unit diluted);
- generated funds from operations<sup>(1)</sup> of \$4.3 million or \$0.03 per Unit diluted (2009 – \$7.5 million or \$0.16 per Unit diluted);
- negotiated amendments to its long-term debt agreements resulting in total debt facility capacity of \$65.0 million; and
- issued 124.0 million Trust Units for net proceeds of \$23.6 million.

As compared to December 31, 2009, Peak:

- increased working capital<sup>(1)</sup> by \$15.9 million to \$26.1 million;
- decreased tangible capital assets by \$10.3 million to \$195.2 million;
- decreased funded debt<sup>(1)</sup> by \$22.2 million to \$38.4 million; and
- increased Unitholders' equity by \$18.2 million to \$168.9 million.

(1) Refer to the "Non-GAAP Measures and Reconciliations" section of this MD&A for further details.

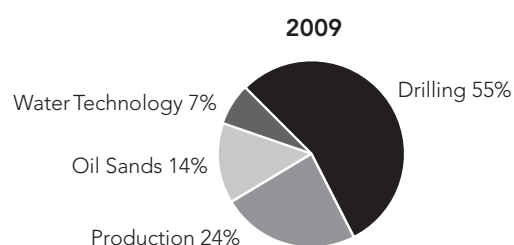
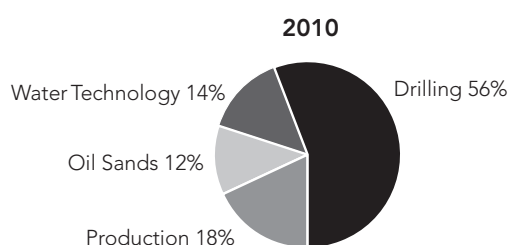
# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

## RESULTS OF OPERATIONS

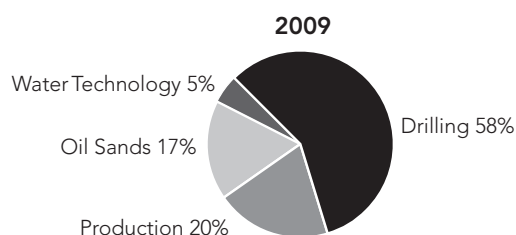
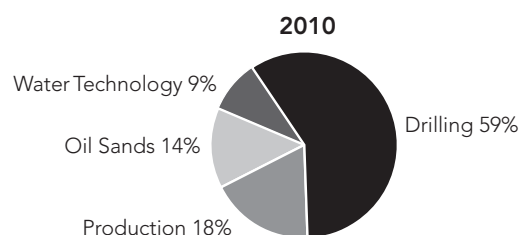
### REVENUE

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010   | 2009   | \$ Change | % Change |
|--|--------|--------|-----------|----------|
| Drilling Services revenue  | 15,533 | 11,558 | 3,975     | 34       |
| Production Services revenue  | 5,106  | 5,175  | (69)      | -1       |
| Oil Sands revenue  | 3,333  | 2,949  | 384       | 13       |
| Water Technology revenue   | 3,785  | 1,395  | 2,390     | 171      |
| Total revenue  | 27,757 | 21,077 | 6,680     | 32       |



For the three months ended June 30, 2010, Peak generated revenue of \$27.8 million compared to \$21.1 million for the same prior year period, representing an increase of 32 percent compared to a 77 percent increase in Canadian drilling rig operating days and a 49 percent increase in Canadian service rig activity. Total Canadian drilling rig operating days for the second quarter of 2010 were 14,918 days compared to 8,414 days for the second quarter of 2009. Meanwhile Canadian service rig utilization was 42 percent for the second quarter of 2010, compared to 28 percent for the prior year.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010   | 2009   | \$ Change | % Change |
|--|--------|--------|-----------|----------|
| Drilling Services revenue  | 39,362 | 39,766 | (404)     | -1       |
| Production Services revenue  | 12,252 | 13,364 | (1,112)   | -8       |
| Oil Sands revenue  | 9,364  | 11,779 | (2,415)   | -21      |
| Water Technology revenue   | 5,724  | 3,633  | 2,091     | 58       |
| Total revenue  | 66,702 | 68,542 | (1,840)   | -3       |



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

For the six months ended June 30, 2010, Peak generated revenue of \$66.7 million compared to \$68.5 million for the same prior year period, representing a decrease of 3 percent compared to a 45 percent increase in Canadian drilling rig operating days and a 31 percent increase in Canadian service rig activity. Total Canadian drilling rig operating days for the first six months of 2010 were 53,314 days compared to 36,655 days for the first six months of 2009. Meanwhile Canadian service rig utilization was 50 percent for the first two quarters of 2010, compared to 38 percent for the prior year period.

Price discounts has had a dramatic negative impact on Peak's revenue. Management estimates that if pricing in the first six months of 2010 was at 2009 levels, the Trust would have generated approximately \$74.4 million in revenue, representing an increase of 9 percent over the same period of 2009.

**Drilling Services'** revenue increased by \$4.0 million or 34 percent as it generated \$15.5 million in revenue or 56 percent of the Trust's total revenue for the three months ending June 30, 2010, compared to \$11.6 million or 55 percent for the prior year period. Peak did experience expected equipment utilization consistent with the increase in drilling rig operating days but the increased utilization produced lower revenue as a result of significant pricing pressure. Compared to the first six months of 2009, pricing was down as much as 30 percent for certain products.

As a percentage of total Drilling Services revenue, US based revenue increased 381 percent quarter-over-quarter contributing \$7.7 million or 50 percent of revenue as compared to \$1.6 million or 14 percent for the same prior year period. Peak has had success in gaining market share in the mid-west Rockies (Wyoming and Colorado) and Pennsylvania regions, particularly with its integrated solids control solutions. Peak intends to capitalize and build on this success by gaining further market share in these and potential other areas within the US.

Year-to-date, revenue decreased by \$0.4 million or 1 percent as it generated \$39.4 million in revenue or 59 percent of the Trust's total revenue for the six months ended June 30, 2010, compared to \$39.8 million or 58 percent for the prior period. Peak did experience expected equipment utilization consistent with the increase in drilling rig operating days but the increased utilization produced lower revenue as a result of significant pricing pressure. Management estimates that if pricing in the first six months of 2010 was at 2009 levels, the Trust would have generated approximately \$45.8 million in revenue, representing an increase of 15 percent over the same period of 2009.

**Production Services'** revenue decreased by \$0.1 million or 1 percent as it generated \$5.1 million in revenue or 18 percent of the Trust's total revenue for the second quarter of 2010, compared to \$5.2 million or 24 percent for the prior year period. The revenue decrease was the result of lower pricing experienced during the first six months of 2010 as well as reduced activity in south-eastern Alberta for related services. Compared to 2009, pricing was down as much as 20 percent for certain products.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

Year-to-date, revenue decreased by \$1.1 million or 8 percent as it generated \$12.3 million in revenue or 18 percent of the Trust's total revenue for the six months ended June 30, 2010, compared to \$13.4 million or 20 percent for the prior period. The revenue decrease was the result of lower pricing experienced during the first six months of 2010 as well as reduced activity in south-eastern Alberta for related services. Management estimates that if pricing in the first six months of 2010 was at 2009 levels, the Trust would have generated approximately \$13.3 million in revenue which is consistent with the same period of 2009.

**Oil Sands'** revenue increased by \$0.4 million or 13 percent as it generated \$3.3 million in revenue or 12 percent of the Trust's total revenue for the three months ended June 30, 2010, compared to \$2.9 million or 14 percent for the prior year period. Consistent with the other reporting segments, revenues were negatively impacted by lower pricing. Compared to 2009, pricing was down as much as 30 percent for certain products.

Year-to-date, revenue decreased by \$2.4 million or 21 percent as it generated \$9.4 million in revenue or 14 percent of the Trust's total revenue for the six months ended June 30, 2010, compared to \$11.8 million or 17 percent for the prior period. Compared to 2009, pricing was down as much as 30 percent for certain products. Additionally, certain Oil Sands related projects were downsized by a few of Peak's key customers due to economic and capital constraints. This decrease in activity adversely impacted the utilization of Camps and Catering within the Oil Sands region.

**Water Technology** revenue increased by \$2.4 million or 171 percent as it generated \$3.8 million in revenue or 14 percent of the Trust's total revenue for the three months ended June 30, 2010, compared to \$1.4 million or 7 percent for the same period of 2009. The revenue increase is directly related to the number of additional fabrication projects, either new or delayed from 2009 due to economic conditions, that have reached distinct milestones.

Year-to-date, revenue increased by \$2.1 million or 58 percent as it generated \$5.7 million in revenue or 9 percent of the Trust's total revenue for the six months ended June 30, 2010, compared to \$3.6 million or 5 percent for the prior period. The revenue increase is directly related to the number of additional fabrication projects, either new or delayed from 2009 due to economic conditions, that have reached distinct milestones.

### OPERATING EXPENSES

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010   | 2009   | \$ Change | % Change |
|--|--------|--------|-----------|----------|
| Operating expenses   | 20,388 | 15,943 | (4,445)   | -28      |
| As a percentage of total revenue   | 73%    | 76%    |           |          |

For the three months ended June 30, 2010, operating expenses were higher than the same prior year period by \$4.4 million or 28 percent. As a percentage of revenue, operating expenses were 73 percent compared to the prior year period at 76 percent.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

The primary drivers impacting operating expenses as a percentage of revenue were:

- Peak's Water Technology activity levels increased significantly in the second quarter of 2010 contributing additional operating margin off-setting fixed operating expenses;
- pricing discounts which increased significantly compared to the same period of prior year, as a direct result of 2009 lower oil and natural gas industry activity levels. Pricing discounts did have a positive impact on equipment utilization, however the discounts were more significant than operating cost reductions in specific product lines, adversely impacting operating margins; and
- Peak's Drilling Services (solids control) activity levels increased in the US, however most of this activity involved projects where Peak provided direct personnel as part of the integrated solution which has lower overall operating margins.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010   | 2009   | \$ Change | % Change |
|--|--------|--------|-----------|----------|
| Operating expenses   | 44,594 | 42,750 | (1,844)   | -4       |
| As a percentage of total revenue   | 67%    | 62%    |           |          |

For the six months ended June 30, 2010, operating expenses were lower than the same prior year period by \$1.8 million or 4 percent. As a percentage of revenue, operating expenses were 67 percent compared to the prior year period at 62 percent.

The primary drivers impacting operating expenses as a percentage of revenue were:

- pricing discounts which increased significantly compared to the same period of prior year, as a direct result of 2009 lower oil and natural gas industry activity levels. Pricing discounts did have a positive impact on equipment utilization, however the discounts were more significant than operating cost reductions in specific product lines, adversely impacting operating margins;
- Peak's Drilling Services (solids control) activity levels increased in the US, however most of this activity involved projects where Peak provided direct personnel as part of the integrated solution which has lower overall operating margins; and
- an increase in repairs and maintenance ("R&M") costs, as a percentage of revenue, as equipment utilization increased for the period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

### GENERAL AND ADMINISTRATIVE EXPENSES

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009  | \$ Change | % Change |
|--|-------|-------|-----------|----------|
| General and administrative expenses  | 7,472 | 7,919 | 447       | 6        |
| As a percentage of total revenue   | 27%   | 38%   |           |          |

The primary factors impacting G&A were:

- a \$0.1 million increase in accounting project costs associated with Peak's IFRS conversion;
- a \$0.3 million decrease in amortization of long-term debt financing costs; and
- a \$0.2 million decrease in the allowance for doubtful customer accounts.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010   | 2009   | \$ Change | % Change |
|--|--------|--------|-----------|----------|
| General and administrative expenses  | 15,689 | 16,363 | 674       | 4        |
| As a percentage of total revenue   | 24%    | 24%    |           |          |

The primary factors impacting G&A were:

- a \$0.2 million increase in accounting project costs associated with Peak's IFRS conversion;
- a \$0.4 million decrease in communication costs resulting from a review and restructuring of Peak's communication program and associated contracts;
- a \$0.1 million decrease in amortization of long-term debt financing costs; and
- a \$0.1 million decrease in employee compensation costs reflecting restructuring implemented in 2009.

### FOREIGN EXCHANGE LOSS (GAIN)

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009 | \$ Change | % Change |
|--|-------|------|-----------|----------|
| Foreign exchange loss (gain)   | (242) | 298  | 540       | 181      |

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009 | \$ Change | % Change |
|--|-------|------|-----------|----------|
| Foreign exchange loss (gain)   | (147) | 203  | 350       | 172      |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

For the three and six months ended June 30, 2010, the Trust realized a foreign exchange gain of \$0.2 million and \$0.1 million respectively. The gain primarily relates to the change in value, measured in Canadian dollars, of working capital within Peak's US operations due to the depreciation in value of the Canadian dollar against the American dollar during the period.

### EBITDA

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010 | 2009    | \$ Change | % Change |
|--|------|---------|-----------|----------|
| EBITDA <sup>(1)</sup>  | 139  | (3,083) | 3,222     | 105      |
| Per unit – diluted   | -    | (0.06)  | 0.06      | 100      |
| As a percentage of total revenue   | 1%   | -15%    |           |          |

EBITDA<sup>(1)</sup> as a percentage of revenue, was 1 percent for the current quarter as compared to negative 15 percent for the prior year quarter. The primary drivers of the quarter-over-quarter increase are detailed above.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009  | \$ Change | % Change |
|--|-------|-------|-----------|----------|
| EBITDA <sup>(1)</sup>  | 6,566 | 9,226 | (2,660)   | -29      |
| Per unit – diluted   | 0.05  | 0.19  | (0.14)    | -74      |
| As a percentage of total revenue   | 10%   | 13%   |           |          |

EBITDA<sup>(1)</sup> decreased \$2.7 million or 29 percent to \$6.6 million for the six months ended June 30, 2010. As discussed in the "Results of Operations – Revenue" section of this MD&A, price discounts has had a dramatic negative impact on revenue and consequently EBITDA. Management estimates that if pricing in 2010 was at 2009 levels, the Trust would have generated approximately \$14.3 million in EBITDA, representing an increase of 55 percent over the first six months of 2009 and an EBITDA margin of 19 percent compared to the actual EBITDA margin of 10 percent for the first half of 2010 and 13 percent for the first half of 2009. This demonstrates the success of the cost reduction achieved period-over-period, unfortunately significant negative pricing pressure has more than offset cost savings achieved on a margin basis.

### UNIT-BASED COMPENSATION EXPENSE

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010 | 2009 | \$ Change | % Change |
|--|------|------|-----------|----------|
| Unit-based compensation expense  | 246  | 252  | 6         | 2        |

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010 | 2009 | \$ Change | % Change |
|--|------|------|-----------|----------|
| Unit-based compensation expense  | 304  | 252  | (52)      | -21      |

(1) Refer to the "Non-GAAP Measures and Reconciliations" section of this MD&A for further details.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

For the three and six months ended June 30, 2010, the unit-based compensation expense recognized was \$0.2 million and \$0.3 million respectively. The expense recognized was based on the Black-Scholes option pricing model for the options issued and outstanding during the period.

On April 21, 2010, the Trust re-priced and issued additional options related to the 1,642,500 options that were outstanding on this date. The re-pricing and additional options issued resulted in the recognition of approximately \$0.1 million of additional stock based compensation. The modification, which is in accordance with the original option agreements, is a result of the dilution impact of Peak's equity rights offering which closed on March 30, 2010. After modification 2,205,221 options were outstanding with an exercise price of \$0.97.

On April 21, 2010, the Trust issued an additional 2,495,000 options at a exercise price of \$0.23 and recognized \$0.1 million in stock based compensation expense.

### DEPRECIATION AND AMORTIZATION EXPENSES

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009  | \$ Change | % Change |
|--|-------|-------|-----------|----------|
| Depreciation and amortization expenses   | 3,222 | 3,266 | 44        | 1        |

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009  | \$ Change | % Change |
|--|-------|-------|-----------|----------|
| Depreciation and amortization expenses                                       | 6,970 | 7,009 | 39        | 1        |

For the three and six months ended June 30, 2010, depreciation and amortization expenses were consistent with the prior year period.

### INTEREST EXPENSE ON LONG-TERM DEBT

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009 | \$ Change | % Change |
|--|-------|------|-----------|----------|
| Interest expense on long-term debt   | 1,112 | 968  | (144)     | -15      |

Interest expense on long-term debt increased to \$1.1 million for the three months ended June 30, 2010, representing an increase of \$0.1 million or 15 percent over the same prior year period. The interest cost (expressed as a percentage of the average long-term debt outstanding during the period) was 9.06 percent for the second quarter of 2010, compared to 5.56 percent for the same period in 2009. As detailed in the "Capital Resources – Long-term Debt" section of this MD&A, the long-term debt facilities were amended and included higher interest rates, which contributed to the overall increased rate.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009  | \$ Change | % Change |
|--|-------|-------|-----------|----------|
| Interest expense on long-term debt   | 2,377 | 2,101 | (276)     | -13      |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

Interest expense on long-term debt increased to \$2.4 million for the six months ended June 30, 2010, representing an increase of \$0.3 million or 13 percent over the same prior year period. The interest cost (expressed as a percentage of the average long-term debt outstanding during the period) was 9.25 percent for the second quarter of 2010, compared to 5.45 percent for the same period in 2009.

Of the debt facilities outstanding at June 30, 2010, \$30.0 million is at a fixed rate of 7.77 percent, \$10.0 million is at a fixed rate of 8.69 percent with the remaining \$10.0 million at a floating rate tied to the bank prime lending rate plus 5.00 percent.

### LOSS ON SALE OF EQUIPMENT

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009 | \$ Change | % Change |
|--|-------|------|-----------|----------|
| Loss on sale of equipment  | 1,027 | 70   | (957)     | -1,367   |

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009 | \$ Change | % Change |
|--|-------|------|-----------|----------|
| Loss on sale of equipment  | 4,084 | 94   | (3,990)   | -4,245   |

For the three and six months ended June 30, 2010, the loss on sale of equipment amounted to \$1.0 million and \$4.1 million respectively. Included in the current quarter loss was the disposition of a portion of Peak's well-site accommodation fleet as well as a wide variety of other miscellaneous assets. As previously disclosed, the Trust has continued with its asset rationalization program, whereby equipment identified during the period as not generating an appropriate rate of return is disposed of with the proceeds being used to reduce indebtedness outstanding.

### PROVISION FOR INCOME TAXES

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010  | 2009    | \$ Change | % Change |
|--|-------|---------|-----------|----------|
| Provision for income taxes (recovery)  | (960) | (2,256) | (1,296)   | -57      |
| Effective income tax rate  | 18%   | 30%     |           |          |

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010    | 2009  | \$ Change | % Change |
|--|---------|-------|-----------|----------|
| Provision for income taxes (recovery)  | (1,443) | (230) | 1,213     | 527      |
| Effective income tax rate  | 20%     | 100%  |           |          |

The current tax expense of nil and future tax recovery of \$1.0 million, resulted in a net income tax recovery of \$1.0 million and an effective income tax rate of 18 percent for the three months ended June 30, 2010. Meanwhile, the current tax expense of nil and future tax recovery of \$1.4 million, resulted in a net income tax recovery of \$1.4 million and an effective income tax rate of 20 percent for the six months ended June 30, 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

The effective income tax rate differs from the statutory corporate rate of 28 percent as a result of the Trust's legal structure. As a mutual fund trust for purposes of the *Income Tax Act* (Canada), the Trust is only subject to statutory income taxes on taxable income not distributed to Unitholders.

### NET LOSS FROM CONTINUING OPERATIONS

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010    | 2009    | \$ Change | % Change |
|--|---------|---------|-----------|----------|
| Net loss from continuing operations  | (4,508) | (5,383) | 875       | 16       |
| Loss per Unit – diluted  | (0.03)  | (0.11)  | 0.08      | 73       |

For the three months ended June 30, 2010, the net loss from continuing operations decreased 16 percent to a loss of \$4.5 million (loss of \$0.03 per Unit diluted) compared to a net loss from continuing operations of \$5.4 million (\$0.11 per Unit diluted) for the same prior year period.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010    | 2009 | \$ Change | % Change |
|--|---------|------|-----------|----------|
| Net loss from continuing operations  | (5,726) | –    | (5,726)   | N/C      |
| Loss per Unit – diluted  | (0.04)  | –    | (0.04)    | N/C      |

For the six months ended June 30, 2010, the net loss from continuing operations decreased to a loss of \$5.7 million (loss of \$0.04 per Unit diluted) compared to a net income from continuing operations of nil (\$0.00 per Unit diluted) for the same prior year period.

### NET LOSS FROM DISCONTINUED OPERATIONS

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010 | 2009     | \$ Change | % Change |
|--|------|----------|-----------|----------|
| Net loss from discontinued operations  | –    | (10,247) | 10,247    | 100      |
| Loss per Unit – diluted  | –    | (0.21)   | 0.21      | 100      |

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010 | 2009     | \$ Change | % Change |
|--|------|----------|-----------|----------|
| Net loss from discontinued operations  | –    | (10,209) | 10,209    | 100      |
| Loss per Unit – diluted  | –    | (0.21)   | 0.21      | 100      |

For the six months ended June 30, 2010, net loss from discontinued operations decreased 100 percent to nil (\$0.00 per Unit diluted) compared to a net loss of \$10.2 million (loss of \$0.21 per Unit diluted) for the same prior year period. During fiscal 2009, management identified that the Wireline operating division included in the Production Services reporting segment, be disposed of in order for Peak to focus on its core business operations. This was part of management's ongoing asset rationalization program, whereby equipment identified during the period as not generating an appropriate rate of return are earmarked for potential disposal. Peak completed the sale of the Wireline operating division on July 14, 2009, for gross cash proceeds of \$5.8 million. The proceeds

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

generated from the sale were significantly less than the book value of the assets for the division and an impairment loss of \$12.3 million was realized in the second quarter of 2009.

### NET LOSS AND COMPREHENSIVE LOSS

| Three months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010    | 2009     | \$ Change | % Change |
|--|---------|----------|-----------|----------|
| Net loss and comprehensive loss  | (4,508) | (15,630) | 11,122    | 71       |
| Loss per Unit – diluted  | (0.03)  | (0.32)   | 0.29      | 91       |

For the three months ended June 30, 2010, the net loss and comprehensive loss decreased 71 percent to a loss of \$4.5 million (a loss of \$0.03 per Unit diluted) compared to a net loss and comprehensive loss of \$15.6 million (\$0.32 per Unit diluted) for the same prior year period.

| Six months ended June 30<br>(in thousands of CAD, except as otherwise noted) | 2010    | 2009     | \$ Change | % Change |
|--|---------|----------|-----------|----------|
| Net loss and comprehensive loss  | (5,726) | (10,209) | 4,483     | 44       |
| Loss per Unit – diluted  | (0.04)  | (0.21)   | 0.17      | 81       |

For the six months ended June 30, 2010, the net loss and comprehensive loss decreased 44 percent to \$5.7 million (a loss of \$0.04 per Unit diluted) compared to a net loss and comprehensive loss of \$10.2 million (\$0.21 per Unit diluted) for the same prior year period.

### SUMMARY OF QUARTERLY RESULTS

| (in thousands of CAD, except as otherwise noted) | Q1 - 2010 | Q2 - 2010 | Q3 - 2009 | Q4 - 2009 | Total    |
|--|-----------|-----------|-----------|-----------|----------|
| Revenue  | 38,945    | 27,757    | 21,107    | 25,513    | 113,322  |
| Net loss from continuing operations              | (1,218)   | (4,508)   | (4,284)   | (8,571)   | (18,581) |
| Loss per Unit – basic and diluted                | (0.01)    | (0.03)    | (0.09)    | (0.18)    | (0.31)   |
| Net loss from discontinued operations            | –         | –         | (411)     | –         | (411)    |
| Loss per Unit – basic and diluted                | –         | –         | (0.01)    | –         | (0.01)   |
| Net loss and comprehensive loss                  | (1,218)   | (4,508)   | (4,695)   | (8,571)   | (18,992) |
| Loss per Unit – basic and diluted                | (0.01)    | (0.03)    | (0.10)    | (0.18)    | (0.32)   |

| (in thousands of CAD, except as otherwise noted)  | Q1 - 2009 | Q2 - 2009 | Q3 - 2008 | Q4 - 2008 | Total    |
|---|-----------|-----------|-----------|-----------|----------|
| Revenue   | 47,465    | 21,077    | 39,465    | 44,533    | 152,540  |
| Net income (loss) from continuing operations      | 5,384     | (5,383)   | 1,721     | (419)     | 1,303    |
| Earnings (loss) per Unit – basic and diluted      | 0.11      | (0.11)    | 0.04      | (0.01)    | 0.03     |
| Net income (loss) from discontinued operations    | 38        | (10,247)  | (387)     | (176)     | (10,772) |
| Earnings (loss) per Unit – basic and diluted      | –         | (0.21)    | (0.01)    | –         | (0.22)   |
| Net income (loss) and comprehensive income (loss) | 5,421     | (15,630)  | 1,334     | (595)     | (9,470)  |
| Earnings (loss) per Unit – basic and diluted      | 0.11      | (0.32)    | 0.03      | (0.01)    | (0.19)   |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

### 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, areas in the more northern parts of Canada are accessible only in winter months where the ground is frozen deep enough to support the weight of the equipment. As a result, the Trust's activity generally follows along with this seasonality, demonstrated by the Trust's quarterly revenue fluctuations, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters of the year.

### DISTRIBUTABLE CASH

The Trust has not declared any distributions in fiscal 2008, 2009 or 2010 and it does not have any intentions of making any distributions in the future. Furthermore, recent long-term debt agreement amendments prohibit the Trust from declaring any distributions without lender approval.

Subsequent to ceasing distributions, Peak internally reorganized its legal structure that effectively resulted in the Trust having the equivalent tax attributes of a corporation. Management intends on converting the Trust to a corporation when the timing of the associated conversion expenditure is feasible.

### LIQUIDITY

#### OPERATING ACTIVITIES

For the second quarter of 2010, cash provided by operating activities was \$2.3 million or \$0.01 per Unit diluted (2009 – cash provided by operating activities was \$11.0 million or \$0.23 per Unit diluted). Meanwhile, year-to-date, cash provided by operating activities was nil or \$0.00 per Unit diluted (2009 – cash provided by operating activities \$16.2 million or \$0.34 per Unit diluted). Net cash provided by operating activities is heavily dependent on the level of oil and natural gas industry activity and Peak's associated financial performance. Significant declines in industry activity, such as experienced in fiscal 2009, will have an adverse affect on cash provided from operating activities. Given the high fixed cost structure necessary to conduct Peak's business, the negative affect will be significant. Funds from operations<sup>(1)</sup> for the second quarter of 2010 were negative \$1.1 million or negative \$0.01 per Unit diluted (2009 – funds from operations were negative \$3.3 million or negative \$0.07 per Unit diluted). For the first six months of 2010 funds from operations<sup>(1)</sup> were \$4.3 million or \$0.03 per Unit diluted (2009 – funds from operations were \$7.5 million or \$0.16 per Unit diluted).

(1) Refer to the "Non-GAAP Measures and Reconciliations" section of this MD&A for further details.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

### INVESTING ACTIVITIES

Net cash used in investing activities for the second quarter of 2010 was \$1.0 million (2009 – net cash used of \$1.2 million). Year-to-date, net cash used in investing activities was \$0.3 million (2009 – net cash provided of \$0.8 million).

For the six months ended June 30, 2010, the activities were the result of:

- \$3.2 million of gross equipment purchases and net equipment purchases of \$0.4 million, including proceeds on sale of equipment of \$2.7 million. Further information regarding the capital additions is detailed in the "Capital Resources – Capital Expenditures" section of this MD&A; and
- \$0.1 million increase in non-cash working capital associated with the purchase of equipment.

### FINANCING ACTIVITIES

Net cash provided by financing activities for the second quarter of 2010, was nil (2009 – net cash used of \$14.6 million) and year-to-date net cash provided was \$11.1 million (2009 – net cash used of \$23.6 million).

For the six months ended June 30, 2010, the activities were the result of:

- the net repayment of \$1.0 million on Peak's bridge loan facility;
- the net repayment on long-term debt of \$10.9 million towards the Trust's syndicated extendable term revolving acquisition loan facility;
- the payment of \$0.7 million in costs associated with the renegotiation of the Trust's long-term debt agreements;
- gross proceeds of \$24.8 million from the issuance of 124.0 million Trust Units; and
- the payment of \$1.2 million in costs associated with the issuance of Trust Units.

Additional information regarding Peak's debt facilities is provided in the "Capital Resources – Long-term Debt" section of this MD&A.

### WORKING CAPITAL

The Trust had net working capital<sup>(1)</sup> of \$26.1 million at June 30, 2010, compared to \$10.2 million at December 31, 2009. The Trust's current ratio<sup>(1)</sup> continued to trend up over the first six months of 2010 to 2.78 to 1.00 at June 30, 2010, from 1.58 to 1.00 at December 31, 2009. The significant decrease in overall oil and natural gas industry activity in 2009 and Peak's associated weaker financial performance has presented additional challenges for Peak in managing its working capital. During

(1) Refer to the "Non-GAAP Measures and Reconciliations" section of this MD&A for further details.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

the first quarter of 2010, the Trust was in breach of its financial covenants under its long-term debt agreements (refer to the "Capital Resources – Long-term Debt" section of this MD&A) and although Peak was successful in obtaining waivers and subsequently amended agreements from its lenders, Peak required a bridge loan to meet short-term working capital requirements during the first quarter of 2010.

The Trust utilized \$2.0 million of the \$3.0 million available under the bridge loan facility. The bridge loan was a senior secured non-revolving term loan that ranked prior to all senior debt and other security of the Trust. The terms included an interest rate of 18 percent per annum on amounts drawn from escrow, an interest rate of 7.5 percent per annum on amounts held in escrow, a 3.5 percent draw down fee and a commitment fee of \$45,000. On February 16, 2010, the Trust repaid and retired the bridge loan.

On January 28, 2010, Peak successfully renegotiated its long-term debt facilities. Part of the amended facilities includes a \$15.0 million revolving credit facility with a maturity date of February 28, 2011, to meet near-term working capital needs. Working capital requirements vary throughout the year. Working capital needs typically grow through the fourth and first quarters of the year when industry activity levels are typically stronger. Historically, Peak has relied on a revolving credit facility to meet the variable nature of its working capital needs. If the revolving credit facility is not renewed, it will adversely impact the Trust's liquidity and could limit the ability of the Trust to meet its obligations as they come due.

### CONTRACTUAL OBLIGATIONS

The following are the Trust's contractual obligations as at June 30, 2010:

| (in thousands of CAD)         | Less than<br>one year | 1 to 3<br>years | 4 to 5<br>years | After<br>5 years | Total   |
|-------------------------------|-----------------------|-----------------|-----------------|------------------|---------|
| Long-term debt                | –                     | 50,000          | –               | –                | 50,000  |
| Operating leases              | 14,678                | 23,960          | 18,804          | 30,043           | 87,485  |
| Total contractual obligations | 14,678                | 73,960          | 18,804          | 30,043           | 137,485 |

The Trust intends to fund its operating lease contractual obligations through cash flow generated by operating activities. Although Peak was successful in amending its debt facilities, the current debt facilities have limitations on availability for future growth initiatives (refer to the "Capital Resources" section of this MD&A for potential restrictions).

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

### CAPITAL RESOURCES

#### CAPITAL EXPENDITURES

During the first six months of 2010, the Trust expended a total of \$3.2 million on gross tangible assets and \$0.4 million on net tangible asset purchases (includes purchase of equipment, net of proceeds on sale of equipment) compared to \$2.2 million and \$1.9 million (net purchases), respectively, for the same prior year period.

By reporting segment, the expenditures were:

| (in thousands of CAD)         | Drilling Services | Production Services | Oil Sands | Water Technology | Total   |
|-------------------------------|-------------------|---------------------|-----------|------------------|---------|
| Growth                        | 1,813             | 491                 | 40        | –                | 2,344   |
| Maintenance Infrastructure    | 336               | 183                 | 4         | –                | 523     |
|                               |                   |                     |           |                  | 299     |
|                               | 2,149             | 674                 | 44        | –                | 3,166   |
| Proceeds on sale of equipment |                   |                     |           |                  | (2,744) |
| Net tangible asset additions  |                   |                     |           |                  | 422     |

Peak's capital expenditure program for fiscal 2010 will be relatively consistent with 2009, as expected oil and natural gas industry activity levels do not warrant and current debt facility levels will limit the Trust from materially increasing its capital expenditure program in the near-term. The Trust plans to primarily use cash generated from operating activities to fund its capital expenditures for 2010.

#### LONG-TERM DEBT

The Trust's long-term debt (including current portion) decreased to \$49.2 million at June 30, 2010, as compared to \$60.5 million at December 31, 2009. Funded debt<sup>(1)</sup> was \$38.4 million at June 30, 2010, as compared to \$60.5 million at December 31, 2009. Meanwhile, net debt<sup>(1)</sup> was \$23.1 million at June 30, 2010, as compared to \$50.4 million at December 31, 2009. The long-term debt to equity ratio<sup>(1)</sup> decreased to 0.29 to 1.00 at June 30, 2010 (December 31, 2009 – 0.40 to 1.00).

The impact of the recent negative economic environment and its impact on the financial markets, lending institutions, hydrocarbon commodity prices, and oil and natural gas industry activity levels and pricing for services is providing a very challenging operating environment for the oil and natural gas services industry. Management has taken several steps to proactively manage its cash flow and related funded debt level through these uncertain times. As previously discussed, Peak ceased making distributions to Unitholders to focus cash flows towards debt repayment. Furthermore, during 2009 management implemented a significant restructuring plan which has reduced Peak's cost structure to be commensurate with activity and pricing levels, has a minimal capital expenditure program and is aggressively pursuing its asset rationalization program, with a primary focus on

(1) Refer to the "Non-GAAP Measures and Reconciliations" section of this MD&A for further details.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

further reducing the funded debt outstanding, in light of expected near-term lower industry activity levels.

As at December 31, 2009, and through a portion of the first quarter of 2010, the Trust was in breach of the funded net debt to 12 month trailing EBITDA and current ratio financial covenants under its long-term debt agreements. The financial covenant breaches gave the lenders the right to do any one or more of the following:

- by written notice to the Trust, terminate the existing debt agreements;
- by written notice to the Trust, declare all obligations under the debt agreements to be due and payable;
- realize upon the security documents and any other security which secures any secured obligations; and
- exercise any other action, suit, remedy or proceeding authorized or permitted by the debt agreements or applicable law.

The lenders agreed to waive all existing defaults and events of default under the long-term debt agreements and during the first quarter of 2010 the lenders agreed to amend their respective agreements. As at June 30, 2010, the Trust is in compliance with its financial covenants.

The Trust has forecasted its financial results using its best estimates of the oil and natural gas industry activity levels and its associated operating conditions. Based on its forecast and restructured capital resources, Peak believes it will be able 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, government legislation, hydrocarbon commodity prices, oil and natural gas industry activity levels, availability of debt and/or equity to finance operations, execution of management's business plan and other factors, many of which are beyond the Trust's control. There are no absolute assurances that the Trust will be able to continue as a going concern. Furthermore, it should be noted that given the current economic environment and the impact on oil and natural gas industry activity and forecasted results that the Trust would likely experience significant difficulty expanding its funded debt materially above current levels and if required for operations this would adversely impact the Trust's liquidity, capital resources and going concern assumption.

The Trust's available and utilized long-term debt facilities consist of:

- Pursuant to an agreement dated August 27, 2008, renewed May 26, 2009, amended October 16, 2009, and January 28, 2010, the Trust's has a senior secured \$10.0 million term loan facility with a maturity date of August 15, 2012, and a senior secured \$15.0 million revolving credit facility (nil drawn at June 30, 2010) with a maturity date of February 28, 2011. Both facilities

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

have no set principal payments during the term, bearing interest at bank prime rate plus 5.0 percent.

- Pursuant to an agreement dated August 31, 2005, amended November 6, 2009, and January 28, 2010, the Trust has a senior secured term debt facility of \$30.0 million with a maturity of August 31, 2012, and terms of no set principal payments during the seven year term bearing interest at 7.77 percent.
- Pursuant to an agreement dated June 26, 2006, amended November 6, 2009 and January 28, 2010, the Trust has a senior secured term debt facility of \$10.0 million with a maturity of June 26, 2013, and terms of no set principal payments during the seven year term bearing interest at 8.69 percent.

Financial covenants within the long-term debt agreements have also been amended. 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 the period April 1, 2010 to February 28, 2011, where the ratio varies between 0.75 to 1.00 and 2.25 to 1.00.

### UNITHOLDERS' EQUITY

Unitholders' equity increased \$18.2 million to \$168.9 million at June 30, 2010, from \$150.7 million at December 31, 2009. The increase over the prior year-end was the result of a net loss of \$5.7 million incurred and 124.0 million Trust Units issued for net proceeds of \$23.6 million.

On February 16, 2010, the Trust closed a \$16.0 million private placement financing for 80.0 million Trust Units at \$0.20 per Unit. This transaction involved related parties, see "Transactions with Related Parties" in this MD&A for details. Net proceeds of the private placement financing were first used to repay and retire the bridge loan of which \$2.0 million was outstanding on closing, with the residual proceeds being used to reduce the syndicated extendable term revolving acquisition loan facility amount outstanding. Management recognized that the private placement financing was very dilutive to existing Unitholders and therefore believed a follow-on rights offering was the most appropriate vehicle to provide existing Unitholders with the opportunity to participate in the realignment of the Trust's capital resources. On March 30, 2010, the Trust closed the rights offering financing generating \$8.8 million in proceeds by issuing 44.0 million Trust Units at \$0.20 per Unit. Unitholders who participated in the private placement were not permitted to participate in the rights offering. Net proceeds of the rights offering financing, will be used for general purposes of the Trust, which may include prepayment of existing secured indebtedness of the Trust and/or to fund future growth opportunities.

The Trust relied on the Toronto Stock Exchange's ("TSX") financial hardship exemption rules to obtain all necessary regulatory approvals to complete the equity financing. Reliance on the financial

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS**

*For the three and six months ended June 30, 2010*

hardship exemption rules automatically result in a TSX de-listing review to confirm that the Trust continues to meet TSX listing requirements. On January 29, 2010, the Trust received notice that the TSX is reviewing the Trust's eligibility for continued listing on the TSX pursuant to Part VII of the TSX Company Manual. On May 26, 2010, the Trust was advised by the Listing Committee of the TSX that they had completed their delisting review concluding that Peak satisfies the TSX's continued listing requirements.

Peak had 172,383,175 Trust Units outstanding at June 30, 2010, and 48,398,097 Trust Units at December 31, 2009. As of August 10, 2010, the number of Trust Units outstanding were 172,383,175.

### **OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2010, with the exception of operating leases for which the contractual obligation is detailed in the "Liquidity – Contractual Obligations" section of this MD&A, the Trust had no off-balance sheet arrangements.

### **TRANSACTIONS WITH RELATED PARTIES**

The private placement as disclosed in the "Capital Resources – Unitholders' Equity" section of this MD&A included certain Peak Energy Services Ltd. ("PESL") Board of Director members who are related parties to the Trust. The private placement was considered by PESL's Board of Directors, exclusive of the related Board of Director members to be reasonable given the circumstances and approved the transaction. This transaction was completed on equivalent terms as the equity rights offering completed during the first quarter of 2010.

At June 30, 2010, the Trust had one related party agreement that it considers to be made at fair market values. This agreement is an office space sublease ("Sublease") with Altus Energy Services Ltd. ("Altus"). The Sublease is for a five year term, commencing September 1, 2007, for a portion of Peak's head office space that it does not currently require. The terms of the Sublease are structured on a 100 percent cost recovery basis, as the terms of Peak's lease ("Lease") restrict Peak from profiting through subleasing and the Lease rate was significantly below current market rates for equivalent space. Two members of PESL's Board of Directors are also members of Altus' Board of Directors. The Sublease was considered by management and PESL's Board of Directors, exclusive of the two related Board members, to be reasonable as the Sublease rate agreed to is the maximum permitted by the Lease.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS**

*For the three and six months ended June 30, 2010*

### **PROPOSED TRANSACTIONS**

Currently, there are no proposed material transactions pending as of the date of this MD&A.

### **CRITICAL ACCOUNTING ESTIMATES**

This MD&A of Peak's financial condition, results of operations and cash flows is based on its interim consolidated financial statements which are prepared in accordance with Canadian GAAP. The Trust's significant accounting policies are described in the consolidated financial statements of the Trust's 2009 Annual Report. In preparation of the Trust's interim consolidated financial statements, management is required to make estimates and assumptions based on information available as of the date of the preparation of the interim consolidated financial statements that affect the reported amounts of assets, liabilities, revenue, expenses and the disclosure of contingent assets and liabilities for the periods reported. These estimates and judgments are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these amounts. The most significant accounting estimates are detailed in the MD&A of the Trust's 2009 Annual Report.

### **FINANCIAL AND OTHER INSTRUMENTS**

The Trust's financial and other instruments have not changed materially from what was disclosed in the MD&A of the Trust's 2009 Annual Report with the exception of the carrying and estimated fair value of the Trust's long-term debt. At June 30, 2010, the estimated fair value of the Trust's long-term debt was \$48.4 million.

### **CONTROLS AND PROCEDURES**

#### **DISCLOSURE CONTROLS AND PROCEDURES**

Peak's disclosure controls and procedures ("DC&P") is disclosed in the MD&A of the Trust's 2009 Annual Report.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Peak's internal controls over financial reporting ("ICFR") is disclosed in the MD&A of the Trust's 2009 Annual Report. Management confirms that there have not been any changes to Peak's ICFR during the six months ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, its ICFR.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

### NON-GAAP MEASURES AND RECONCILIATIONS

#### EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation, amortization and other certain items. EBITDA is not a recognized measure under Canadian GAAP. Management believes, in addition to net income, EBITDA is a useful supplemental measure as it provides an indication of the results generated by Peak's principle business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions. Readers should be cautioned that EBITDA should not be construed as an alternative to net income determined in accordance with Canadian GAAP as an indicator of the Trust's performance. Peak's method of calculating EBITDA may differ from other entities and, accordingly, EBITDA may not be comparable to measures used by other entities.

The following is a reconciliation of EBITDA to net loss from continuing operations:

| (in thousands of CAD)                  | Three months ended June 30 |         | Six months ended June 30 |       |
|--|----------------------------|---------|--------------------------|-------|
|  | 2010                       | 2009    | 2010                     | 2009  |
| EBITDA                                 | 139                        | (3,083) | 6,566                    | 9,226 |
| Less:                                  |                            |         |                          |       |
| Unit-based compensation                | 246                        | 252     | 304                      | 252   |
| Depreciation and amortization          | 3,222                      | 3,266   | 6,970                    | 7,009 |
| Interest on long-term debt             | 1,112                      | 968     | 2,377                    | 2,101 |
| Loss on sale of equipment              | 1,027                      | 70      | 4,084                    | 94    |
|  | (5,468)                    | (7,639) | (7,169)                  | (230) |
| Provision for income taxes (reduction) | (960)                      | (2,256) | (1,443)                  | (230) |
| Net loss from continuing operations    | (4,508)                    | (5,383) | (5,726)                  | –     |

#### FUNDS FROM OPERATIONS

Funds from operations is defined as cash flow from operating activities, as reported in the Canadian GAAP financial statements, before non-cash changes in working capital and funds from discontinued operations. Funds from operations is not a recognized measure under Canadian GAAP. Management believes funds from operations is a useful supplemental measure as it provides an indication of the Trust's cash generating abilities from continuing operations before consideration of capital impacts. Readers should be cautioned that funds from operations should not be construed as an alternative to cash flow from operating activities, as an indicator of the Trust's performance. Peak's method of calculating funds from operations may differ from those used by other entities and, accordingly, may not be comparable to measures used by other entities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

The following is a reconciliation of funds from operations to cash flow from operating activities:

| (in thousands of CAD)               | Three months ended June 30 |         | Six months ended June 30 |        |
|-------------------------------------|----------------------------|---------|--------------------------|--------|
|                                     | 2010                       | 2009    | 2010                     | 2009   |
| Funds from operations               | (1,060)                    | (3,335) | 4,283                    | 7,546  |
| Non-cash changes in working capital | 3,310                      | 16,235  | (4,253)                  | 7,780  |
| Funds from discontinued operations  | –                          | (1,890) | –                        | 921    |
| Cash flow from operating activities | 2,250                      | 11,010  | 30                       | 16,247 |

### WORKING CAPITAL AND CURRENT RATIO

Working capital is defined as current assets less current liabilities excluding current portion of long-term debt. Current ratio is defined as current assets divided by current liabilities excluding current portion of long-term debt. Working capital and current ratio are not recognized measures under Canadian GAAP. Management believes working capital and current ratio provide an indication of the current liquidity available to the Trust before considering long-term debt facilities or equity financing considerations. The Trust's method of calculating working capital or current ratio may differ from those used by other entities and, accordingly, may not be comparable to measures used by other entities.

The calculation of working capital and inputs for the current ratio are as follows:

| (in thousands of CAD)             | June 30, 2010 | December 31, 2009 |
|-----------------------------------|---------------|-------------------|
| Current assets                    | 40,764        | 27,717            |
| Current liabilities               | (14,666)      | (28,392)          |
| Current portion of long-term debt | –             | (10,856)          |
| Net current liabilities           | (14,666)      | (17,536)          |
| Working capital                   | 26,098        | 10,181            |
| Current ratio                     | 2.78          | 1.58              |

### NET DEBT AND FUNDED DEBT

Net debt is defined as long-term debt including current portion of long-term debt less working capital. Funded debt is defined as long-term debt including current portion of long-term debt less cash and cash equivalents. Net debt and funded debt are not recognized measures under Canadian GAAP. Management believes net debt and funded debt provide an indication of the Trust's debt position after consideration for assets and liabilities that are considered relatively liquid in nature. Readers should be cautioned that net debt and funded debt should not be construed as an alternative to long-term debt (including current portion of long-term debt) determined in accordance with Canadian GAAP as an indicator of the Trust's performance. The Trust's method of calculating net debt and funded debt may differ from those used by other entities and, accordingly, may not be comparable to measures used by other entities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

For the three and six months ended June 30, 2010

The following is a reconciliation of net debt to funded debt to long-term debt (including current portion of long-term debt):

| (in thousands of CAD)  | June 30,<br>2010 | December 31,<br>2009 |
|--|------------------|----------------------|
| Net debt   | 23,054           | 50,367               |
| Less: cash and cash equivalents                                    | 10,763           | –                    |
|  | 12,291           | 50,367               |
| Add: working capital   | 26,098           | 10,181               |
| Funded debt  | 38,389           | 60,548               |
| Add: cash and cash equivalents                                     | 10,763           | –                    |
| Total long-term debt (including current portion of long-term debt) | 49,152           | 60,548               |

### LONG-TERM DEBT TO EQUITY RATIO

Long-term debt to equity ratio is defined as long-term debt including current portion of long-term debt divided by Unitholders' equity. Long-term debt to equity ratio is not a recognized measure under Canadian GAAP. Management believes the long-term debt to equity ratio provides an indication of how the Trust's operations are financed. The Trust's method of calculating long-term debt to equity ratio may differ from those used by other entities and, accordingly, may not be comparable to measures used by other entities.

The inputs for the long-term debt to equity ratio is as follows:

| (in thousands of CAD)             | June 30,<br>2010 | December 31,<br>2009 |
|-----------------------------------|------------------|----------------------|
| Current portion of long-term debt | –                | 10,856               |
| Long-term debt                    | 49,152           | 49,692               |
| Total long-term debt              | 49,152           | 60,548               |
| Unitholders' equity               | 168,914          | 150,713              |
| Long-term debt to equity ratio    | 0.29             | 0.40                 |

### FUTURE ACCOUNTING STANDARDS

The Canadian Accounting Standards Board ("AcSB") requires all publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. IFRS will replace Canada's current 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 in the process of preparing itself to present its financial statements under IFRS and does not intend to adopt IFRS early. The Trust's consolidated financial performance and financial position as disclosed in the Trust's current Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

The Trust commenced its IFRS transition project in late 2008. The project has been broken down into the following phases: Impact Assessment; Plan and Scope; Design and Build; and Implement. The Impact Assessment was completed by an independent accounting firm and involved a high level analysis of the potential impacts that IFRS will have on the Trust's current financial reporting. The analysis provided guidance as to the areas of significant difference, potential impacts and challenges to implementation.

With the Plan and Scope phase completed in 2009, Peak is now in the Design and Build phase of the project. Peak has two dedicated full-time internal resources and support from an independent accounting firm working on this phase.

As part of the Design and Build phase, the Trust is required to make accounting policy choices and the first-time adoption standard under IFRS allows optional and mandatory exceptions. Peak has prepared draft policy choices and financial statement formats that will be presented and vetted with the Trust's external auditors and Audit Committee during the third quarter. Peak plans on quantifying the impact of the transition to IFRS on its consolidated financial statements during 2010. Currently, no impacts have been fully quantified or determined. The transition to IFRS will also impact DC&P, ICFR, processes and systems.

Areas under IFRS that are expected to have a high or medium impact in terms of effort required and/or potential numerical change include:

- property and equipment – evaluation of componentization of assets and derecognition of assets is not expected to have a material impact to the financial statements, however because of the number of assets Peak owns this evaluation has required a significant amount of effort. Furthermore, the first-time adoption standard under IFRS allows for selective revaluation of property and equipment to fair value upon adoption of IFRS. Peak is evaluating certain assets which may result in adjustments to property and equipment balances;
- leases – evaluation of leases as to whether they are operating or financing leases (capital leases under Canadian GAAP) is likely to result in current operating leases being accounted for as financing leases under IFRS as the current "brightline" tests do not exist under IFRS. This will reduce operating expenses, increase depreciation expenses and increase interest expense. Furthermore, it will increase long-term assets and increase both short and long-term liabilities;
- impairment of assets – it is expected that it will be more difficult to meet impairment of asset tests under IFRS due to the requirement to use discounted cash flows in valuing future cash flows. Currently under Canadian GAAP the test uses undiscounted cash flows. This will likely result in more frequent asset impairments and recoveries

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

being recognized in the financial statements due to the cyclical nature of the oil and natural gas services industry and its impact on forecasted future cash flows;

- cash generating units – determination of cash generating units (“CGU’s”) under IFRS and ensuring internal financial reporting can be discerned at the determined CGU level has required a significant amount of effort. Furthermore, the impairment of assets testing under IFRS is done at the CGU level which is different than Canadian GAAP. This will likely result in more frequent asset impairments and recoveries being recognized in the financial statements;
- presentation of financial statements – it is expected that Peak’s financial statements will be significantly more detailed in nature as required by IFRS as compared to Canadian GAAP. Although this does not have a material impact on the actual results in the financial statements it has and will require a significant amount of effort to comply with.

The Trust will be required to adopt the new Canadian accounting standards for business combinations and consolidated financial statements which will harmonize the Canadian accounting standards with IFRS. These standards are effective beginning January 1, 2011, and will be applied on a prospective basis at that time.

### OUTLOOK

The industry experienced a relatively typical second quarter break-up with Canadian drilling rig utilization declining materially from the first quarter. Wet conditions held back some activities in the later part of the quarter, however Canadian drilling rig activity was substantially better than the second quarter of last year at 20 percent utility. While the increased level of drilling activity during the first half of 2010 was not unexpected, activity has been higher than what Peak had originally forecast, year-to-date. Furthermore, activity year-to-date, interaction with our customers and industry contacts suggests that industry activity will improve from Peak’s original forecasted activity levels which has precipitated us to increase our forecast to 11,000 wells for 2010 which would represent an increase in activity of approximately 30 percent over 2009.

Peak expects to see the continuation of more activity in oil focused resource plays, such as the Cardium (Alberta), Bakken (Saskatchewan and North Dakota) and the Oil Sands (Alberta) regions as confidence grows that oil prices will be sustainable above \$75 per barrel. The number of opportunities to bid on project work within these regions is starting to increase fairly significantly. Peak has taken advantage of these more active oil related areas by re-deploying assets into these oil focused regions.

The propensity to continue to drill prolific shale natural gas resource plays throughout certain areas of North America has facilitated market share growth into new geographic

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

*For the three and six months ended June 30, 2010*

regions for Peak, as evidenced by our significant growth in market share in the US where our revenue has more than tripled in 2010 year-to-date versus the same period in 2009. The majority of this growth was realized in the Marcellus shale region of Pennsylvania and other US regions are currently being explored as possible growth areas for several of Peak's product offerings during the current fiscal year. With this expected growth profile and our current run rate, Peak expects to see our US operation to more than triple in size, to more than \$30.0 million in revenue for 2010 as compared to 2009.

With Peak's recently completed equity financing of \$23.6 million, combined with our more flexible debt structure and re-negotiated bank covenants, management believes that Peak is in a much improved position of strength in that it has satisfied all of the requirements of the Trust's senior lenders and improved its financial position. The Trust's operating line is currently undrawn putting Peak in a net positive cash position. Post closing of the equity financing, Peak has a net debt of approximately \$23.1 million. This debt level is backed by a tangible asset base of approximately \$195.2 million. The reduced and more flexible debt structure will allow management to increase its focus on looking for further opportunities of growth including the addition of new assets in select products offerings and regions along with the continued re-deployment of under-utilized assets to regions of higher levels of activity.

Financial discipline remains at the forefront of priorities for the management of the Trust during 2010. Peak continues to look for opportunities to further reduce its infrastructure cost to augment the significant reductions already achieved over the past 18 months. Management is implementing a sound pricing strategy, whereby increased pricing will allow the Trust to take advantage of the significant leverage that it will enjoy when the combination of reduced costs and higher pricing gains traction. We are currently making some progress with increased pricing in certain markets and expect this trend to continue during the second half of the year.

Management is cautiously optimistic at this time that both the global economy and the oil and natural gas industry are starting to show some signs of a recovery. We believe that at the very least we are on the back side of the bottom of this cycle and that we now have the resources and opportunities to once again prosper and grow as the climate in our industry continues to improve.

On behalf of the Board of Directors of Peak Energy Services Ltd., Administrator of Peak Energy Services Trust:



Curtis W. Whitteron, CET  
*President and Chief Executive Officer*  
*Peak Energy Services Ltd.*  
*August 10, 2010*



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SECOND QUARTER  
FINANCIAL STATEMENTS 2010



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## CONSOLIDATED BALANCE SHEETS

| (in thousands of CAD) (unaudited)             | June 30,<br>2010 | December 31,<br>2009 |
|---|------------------|----------------------|
| <b>ASSETS</b>                                 |                  |                      |
| Current assets:                               |                  |                      |
| Cash and cash equivalents                     | \$ 10,763        | \$ –                 |
| Accounts receivable                           | 26,041           | 23,394               |
| Income taxes recoverable                      | 482              | 726                  |
| Prepaid expenses                              | 2,412            | 2,172                |
| Inventory                                     | 1,066            | 1,425                |
|   | 40,764           | 27,717               |
| Property and equipment                        | 195,201          | 205,524              |
| Intangible assets                             | 1,621            | 1,943                |
|   | \$ 237,586       | \$ 235,184           |
| <b>LIABILITIES AND UNITHOLDERS' EQUITY</b>    |                  |                      |
| Current liabilities:                          |                  |                      |
| Accounts payable and accrued liabilities      | \$ 14,465        | \$ 16,335            |
| Bridge loan (note 4)                          | –                | 1,000                |
| Current portion of long-term debt (note 6)    | –                | 10,856               |
| Current portion of deferred lease inducements | 201              | 201                  |
|   | 14,666           | 28,392               |
| Long-term debt (note 6)                       | 49,152           | 49,692               |
| Deferred lease inducements                    | 1,622            | 1,723                |
| Future income taxes                           | 3,232            | 4,664                |
| Unitholders' equity:                          |                  |                      |
| Trust Unit capital (note 7)                   | 250,970          | 227,347              |
| Contributed surplus (note 7)                  | 2,158            | 1,854                |
| Deficit                                       | (84,214)         | (78,488)             |
|   | 168,914          | 150,713              |
| Going concern (note 2)                        |                  |                      |
|   | \$ 237,586       | \$ 235,184           |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

| (in thousands of CAD, except<br>per Unit amounts) (unaudited) | Three months ended June 30 |             | Six months ended June 30 |             |
|---|----------------------------|-------------|--------------------------|-------------|
|   | 2010                       | 2009        | 2010                     | 2009        |
| Revenue   | \$ 27,757                  | \$ 21,077   | \$ 66,702                | \$ 68,542   |
| Expenses:   |                            |             |                          |             |
| Operating   | 20,388                     | 15,943      | 44,594                   | 42,750      |
| General and administrative                                    | 7,472                      | 7,919       | 15,689                   | 16,363      |
| Unit-based compensation (note 7(d))                           | 246                        | 252         | 304                      | 252         |
| Depreciation and amortization                                 | 3,222                      | 3,266       | 6,970                    | 7,009       |
| Interest on long-term debt                                    | 1,112                      | 968         | 2,377                    | 2,101       |
| Foreign exchange loss (gain)                                  | (242)                      | 298         | (147)                    | 203         |
|   | 32,198                     | 28,646      | 69,787                   | 68,678      |
| Loss before other items from continuing<br>operations         | (4,441)                    | (7,569)     | (3,085)                  | (136)       |
| Other Items:  |                            |             |                          |             |
| Loss on sale of equipment                                     | 1,027                      | 70          | 4,084                    | 94          |
|   | 1,027                      | 70          | 4,084                    | 94          |
| Loss before income taxes from<br>continuing operations        | (5,468)                    | (7,639)     | (7,169)                  | (230)       |
| Provision for income taxes:                                   |                            |             |                          |             |
| Current (recovery)  | (2)                        | (720)       | –                        | (715)       |
| Future expense (reduction)                                    | (958)                      | (1,536)     | (1,443)                  | 485         |
|   | (960)                      | (2,256)     | (1,443)                  | (230)       |
| Net loss from continuing operations                           | (4,508)                    | (5,383)     | (5,726)                  | –           |
| Net loss from discontinued operations (note 13)               | –                          | (10,247)    | –                        | (10,209)    |
| Net loss and comprehensive loss                               | (4,508)                    | (15,630)    | (5,726)                  | (10,209)    |
| Deficit, beginning of period                                  | (79,706)                   | (49,592)    | (78,488)                 | (55,013)    |
| Deficit, end of period  | \$ (84,214)                | \$ (65,222) | \$ (84,214)              | \$ (65,222) |
| Loss per Unit from continuing<br>operations: (note 8)         |                            |             |                          |             |
| Basic   | \$ (0.03)                  | \$ (0.11)   | \$ (0.04)                | \$ –        |
| Diluted   | \$ (0.03)                  | \$ (0.11)   | \$ (0.04)                | \$ –        |
| Loss per Unit from discontinued<br>operations: (note 8)       |                            |             |                          |             |
| Basic   | \$ –                       | \$ (0.21)   | \$ –                     | \$ (0.21)   |
| Diluted   | \$ –                       | \$ (0.21)   | \$ –                     | \$ (0.21)   |
| Loss per Unit: (note 8)                                       |                            |             |                          |             |
| Basic   | \$ (0.03)                  | \$ (0.32)   | \$ (0.04)                | \$ (0.21)   |
| Diluted   | \$ (0.03)                  | \$ (0.32)   | \$ (0.04)                | \$ (0.21)   |

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands of CAD) (unaudited)                                    | Three months ended June 30 |            | Six months ended June 30 |          |
|--|----------------------------|------------|--------------------------|----------|
|  | 2010                       | 2009       | 2010                     | 2009     |
| <b>Operating activities:</b>   |                            |            |                          |          |
| Net loss from continuing operations                                  | \$ (4,508)                 | \$ (5,383) | \$ (5,726)               | \$ –     |
| Add (deduct) items not affecting cash:                               |                            |            |                          |          |
| Unit-based compensation  | 246                        | 252        | 304                      | 252      |
| Depreciation and amortization  | 3,222                      | 3,266      | 6,970                    | 7,009    |
| Amortization of long-term debt financing fees                        | 81                         | –          | 153                      | –        |
| Unrealized foreign exchange gain                                     | (170)                      | (4)        | (59)                     | (294)    |
| Loss on sale of equipment  | 1,027                      | 70         | 4,084                    | 94       |
| Future income taxes (reduction)                                      | (958)                      | (1,536)    | (1,443)                  | 485      |
|  | (1,060)                    | (3,335)    | 4,283                    | 7,546    |
| Changes in non-cash working capital items (note 9(a))                | 3,310                      | 16,235     | (4,253)                  | 7,780    |
|  | 2,250                      | 12,900     | 30                       | 15,326   |
| <b>Discontinued operations: (note 13)</b>                            |                            |            |                          |          |
| Funds used in discontinued operations                                | –                          | (855)      | –                        | (235)    |
| Changes of non-cash working capital items of discontinued operations | –                          | (1,035)    | –                        | 1,156    |
|  | –                          | (1,890)    | –                        | 921      |
|  | 2,250                      | 11,010     | 30                       | 16,247   |
| <b>Investing activities:</b>   |                            |            |                          |          |
| Purchase of equipment  | (2,234)                    | (1,268)    | (3,166)                  | (2,240)  |
| Proceeds on sale of equipment  | 1,412                      | 253        | 2,744                    | 563      |
| Proceeds on sale of property held for sale                           | –                          | –          | –                        | 3,580    |
|  | (822)                      | (1,015)    | (422)                    | 1,903    |
| Changes in non-cash working capital items (note 9(b))                | (168)                      | (114)      | 81                       | (966)    |
|  | (990)                      | (1,129)    | (341)                    | 937      |
| <b>Discontinued operations: (note 13)</b>                            |                            |            |                          |          |
| Funds used in discontinued operations                                | –                          | (71)       | –                        | (168)    |
|  | –                          | (71)       | –                        | (168)    |
|  | (990)                      | (1,200)    | (341)                    | 769      |
| <b>Financing activities:</b>   |                            |            |                          |          |
| Increase in bridge loan  | –                          | –          | 1,000                    | –        |
| Repayment of bridge loan   | –                          | –          | (2,000)                  | –        |
| Repayment of long-term debt  | –                          | (14,550)   | (10,856)                 | (23,567) |
| Long-term debt financing fees  | 1                          | –          | (693)                    | –        |
| Issuance of Trust Units  | –                          | –          | 24,797                   | –        |
| Trust Units issue costs  | –                          | –          | (1,175)                  | –        |
|  | 1                          | (14,550)   | 11,073                   | (23,567) |
| Foreign exchange loss on cash held in foreign currency               | 19                         | 100        | 1                        | 62       |
| Increase (decrease) in cash and cash equivalents                     | 1,280                      | (4,640)    | 10,763                   | (6,489)  |
| Cash and cash equivalents, beginning of period                       | 9,483                      | 6,716      | –                        | 8,565    |
| Cash and cash equivalents, end of period                             | \$ 10,763                  | \$ 2,076   | \$ 10,763                | \$ 2,076 |

The accompanying notes are an integral part of the consolidated financial statements.

Supplemental information (note 10)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the three and six months ended June 30, 2010 and 2009  
(amounts in thousands of CAD, except for number of Units and per Unit amounts)*

The unaudited interim consolidated financial statements of Peak Energy Services Trust (the "Trust") have been prepared by management in accordance with accounting principles generally accepted in Canada. These interim consolidated financial statements have been prepared following the same accounting policies and methods of application as the consolidated financial statements of the Trust for the fiscal year ended December 31, 2009. The disclosures provided herein are incremental to those included within the Trust's annual consolidated financial statements. The interim consolidated financial statements and the related notes should be read in conjunction with the consolidated financial statements and the related note disclosure in the Trust's annual report for the year ended December 31, 2009.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these financial statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying interim consolidated financial statements include all adjustments necessary to present fairly the consolidated result of the Trust's operations and cash flows for the three and six months ended June 30, 2010 and 2009.

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

### 1. NATURE OF OPERATIONS AND CORPORATE STRUCTURE

The Trust is a diversified energy services organization operating in western Canada and the 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the three and six months ended June 30, 2010 and 2009*

*(amounts in thousands of CAD, except for number of Units and per Unit amounts)*

### 2. GOING CONCERN

These 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 on its assets and satisfy its liabilities in the normal course of business for the foreseeable future.

In recent years, the Trust has incurred losses of \$23,475 and \$4,827 for fiscal 2009 and 2008, respectively, has incurred a loss of \$5,726 year to date for fiscal 2010 and has a deficit of \$84,214 at June 30, 2010. Although the Trust has historically generated positive cash flow from operations over these same fiscal periods, it has decreased significantly on an absolute and percentage of revenue basis. Furthermore, at December 31, 2009, the Trust was in breach of its financial covenants under its long-term debt agreements. The lenders agreed to waive all existing defaults and events of default under the long-term debt agreements and amend their respective agreements. The amended terms of the long-term debt agreements are disclosed in note 6.

The Trust relied on the Toronto Stock Exchange's ("TSX") financial hardship exemption rules to obtain all necessary regulatory approvals to complete the equity financing associated with the lenders amending their respective agreements. Reliance on the financial hardship exemption rules automatically result in a TSX delisting review to confirm that the Trust continues to meet TSX listing requirements. On May 26, 2010, Peak was advised by the TSX that Peak satisfies the TSX's continued listing requirements.

The Trust has realigned its cost structure, where feasible, to be consistent with expected oil and natural gas industry activity levels, the Trust's associated revenue generating assets' utility levels and pricing for its services. Management has forecasted its financial results using its best estimates of the oil and natural gas industry activity levels and its associated operating conditions. Based on its forecast and restructured capital resources, management believes the Trust will be able 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, government legislation, hydrocarbon commodity prices, oil and natural gas industry activity levels, availability of debt and/or equity to finance operations, execution of management's business plan and other factors, many of which are beyond the Trust's control. There are no absolute assurances that the Trust will be able to continue as a going concern.

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. These adjustments would adversely differ materially from the current consolidated financial statements presentation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

### 3. CHANGES IN ACCOUNTING POLICY

#### Future accounting standards

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

The Canadian Accounting Standards Board ("AcSB") requires all publicly accountable enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011. IFRS will replace Canada's current GAAP for these enterprises. Effective January 1, 2011, the Trust will be required to report its future interim and annual consolidated financial statements in accordance with IFRS including information for the comparative 2010 period. The Trust is in the process of preparing itself to present its financial statements under IFRS and does not intend to early adopt IFRS. The Trust's consolidated financial performance and financial position as disclosed in the Trust's current Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

(b) Business combinations and consolidated financial statements

The Trust will be required to adopt the new Canadian accounting standards for business combinations, consolidated financial statements and non-controlling interests which will harmonize the Canadian accounting standards with IFRS. These standards are effective beginning January 1, 2011, and will be applied on a prospective basis at that time.

### 4. BRIDGE LOAN

Pursuant to an agreement dated December 20, 2009, the Trust had a bridge loan facility of \$3,000 to fund the Trust's near-term working capital requirements, which was repaid and retired on February 16, 2010. The bridge loan was a senior secured non-revolving term loan that ranked prior to all senior debt and other security of the Trust and its subsidiaries. The bridge loan terms included an interest rate of 18 percent per annum on amounts drawn from escrow, an interest rate of 7.5 percent per annum on amounts held in escrow, a 3.5 percent draw down fee and a commitment fee of \$45.

### 5. REVOLVING CREDIT FACILITY

Pursuant to an agreement dated August 27, 2008, renewed May 26, 2009, amended October 16, 2009, and January 28, 2010, the Trust has a revolving credit facility ("ALF") of \$15,000 requiring no principal payments during the term, bearing interest at the bank prime rate plus up to 5.00 percent per annum or at banker's acceptance rates plus a variable stamping fee of 6.25 percent per annum. The facility matures on February 28, 2011, and is repayable in full on that date. The facility is secured by an unlimited guarantee, a general assignment of book debts, a demand debenture and a General Securities agreement. The carrying value of the facility approximates its fair value as interest rates are floating with the bank's prime rate.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

### 6. LONG-TERM DEBT

Pursuant to an agreement dated August 31, 2005, amended on November 6, 2009, and January 28, 2010, the Trust has a term loan facility ("TLF 2005") with terms of no set principal payments until maturity on August 31, 2012, bearing interest at 7.77 percent per annum. The facility is secured by a General Securities agreement and Inter-Lender agreement. The fair value of the facility as determined by discounting the future contractual cash flows under current financing arrangements at a discount rate estimated for loans with similar conditions, terms and maturity is \$29,044.

Pursuant to an agreement dated June 26, 2006, amended on November 6, 2009, and January 28, 2010, the Trust has a term loan facility ("TLF 2006") with terms of no set principal payments until maturity on June 26, 2013, bearing interest at 8.69 percent per annum. The facility is secured by a General Securities agreement and Inter-Lender agreement. The fair value of the facility as determined by discounting the future contractual cash flows under current financing arrangements at a discount rate estimated for loans with similar conditions, terms and maturity is \$9,677.

Pursuant to an agreement dated January 28, 2010, the Trust has a term loan facility ("TLF 2010") with terms of no set principal payments until maturity on August 15, 2012, bearing interest at prime plus 5.00 percent per annum. The facility is secured by a General Securities agreement and Inter-Lender agreement. The fair value of the facility as determined by discounting the future contractual cash flows under current financing arrangements at a discount rate estimated for loans with similar conditions, terms and maturity is \$9,699.

| June 30, 2010        | ALF  | TLF 2005  | TLF 2006  | TLF 2010  | Total     |
|----------------------|------|-----------|-----------|-----------|-----------|
| Long-term debt       | \$ – | \$ 30,000 | \$ 10,000 | \$ 10,000 | \$ 50,000 |
| Less current portion | –    | –         | –         | –         | –         |
|                      | –    | 30,000    | 10,000    | 10,000    | 50,000    |
| Unamortized costs    | –    | (472)     | (167)     | (209)     | (848)     |
|                      | \$ – | \$ 29,528 | \$ 9,833  | \$ 9,791  | \$ 49,152 |

| December 31, 2009    | ALF       | TLF 2005  | TLF 2006  | TLF 2010 | Total     |
|----------------------|-----------|-----------|-----------|----------|-----------|
| Long-term debt       | \$ 20,856 | \$ 30,000 | \$ 10,000 | \$ –     | \$ 60,856 |
| Less current portion | 10,856    | –         | –         | –        | 10,856    |
|                      | 10,000    | 30,000    | 10,000    | –        | 50,000    |
| Unamortized costs    | –         | (230)     | (78)      | –        | (308)     |
|                      | \$ 10,000 | \$ 29,770 | \$ 9,922  | \$ –     | \$ 49,692 |

The Trust has several covenants associated with its long-term debt and revolving credit facility. At December 31, 2009 and during the first quarter of 2010, the Trust was in breach of its funded net debt to 12 month trailing earnings before interest, taxes, depreciation and amortization ("EBITDA") and current ratio financial covenants. The financial covenant breaches give the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

lenders the right under the long-term debt agreements, among other things, to terminate the agreements, demand indebtedness outstanding as due and payable, realize on all of the Trust's assets secured as collateral and pursue other remedies as permitted in the agreements or applicable law. The lenders agreed to waive all existing defaults and events of default under the long-term debt agreements and amend their respective agreements. 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 the period April 1, 2010 to February 28, 2011, where the ratio varies between 0.75 to 1.00 and 2.25 to 1.00. As at June 30, 2010, the Trust is in compliance with its financial covenants.

The Trust's existing long-term debt agreements do not specifically address potential changes in 2011 for the Trust's financial reporting under IFRS, which could be significant. Although there is a risk that the Trust's financial reporting under IFRS could result in a breach of an existing financial covenant, the Trust expects that it will be able to amend the existing long-term debt agreements to make any changes covenant neutral, however no absolute assurances can be made in this regard.

### 7. 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<br>Units | Amount     |
|-------------------------------------|--------------------|------------|
| Balance, December 31, 2008          | 48,398,097         | \$ 227,347 |
| Balance, December 31, 2009          | 48,398,097         | 227,347    |
| Units issued for cash, net of costs | 123,985,078        | 23,623     |
| Balance, June 30, 2010              | 172,383,175        | \$ 250,970 |

#### (c) Trust Unit option plan

The Trust adopted a Trust Unit option plan on June 3, 2009, for its directors, officers and key employees whereby options to a maximum of ten percent of the issued and outstanding Trust Units may be granted subject to certain terms and conditions. Under this plan, the exercise price of each option is equal or greater than the market value of the Trust Units on the date of grant and an option's maximum term is five years. Vesting is at the Board of Directors' discretion, however Trust Unit options normally vest over three years from the date of grant as employees or directors render continuous services to the Trust. Changes in the number of Trust Units under option during the six months ended June 30, 2010 and 2009 are summarized as follows:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

|                              | 2010              |                                 | 2009              |                                 |
|------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                              | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance, beginning of period | 1,696,500         | \$ 1.67                         | –                 | \$ –                            |
| Granted                      | 2,495,000         | 0.23                            | 1,738,500         | 1.67                            |
| Modified                     | 562,721           | (0.70)                          | –                 | –                               |
| Forfeited                    | (120,042)         | 0.92                            | –                 | –                               |
| Balance, end of period       | 4,634,179         | 0.58                            | 1,738,500         | 1.67                            |
| Options exercisable          | 3,010,846         | \$ 0.77                         | 869,250           | \$ 1.67                         |

On April 21, 2010, the Trust re-priced and issued additional options related to 1,642,500 options that were outstanding. These options had an original exercise price of \$1.67 and were re-priced to have an exercise price of \$0.97 and 562,721 additional options were granted on a pro-rata basis to the existing option holders. The re-pricing and additional options issued resulted in the recognition of approximately \$62 of additional stock based compensation. The modification, which is in accordance with the original option agreements, is a result of the dilution impact of the equity rights offering which closed on March 30, 2010.

The following table summarizes information about the Trust Unit options outstanding at June 30, 2010:

| Exercise price    | Options outstanding |   |                                 | Options exercisable |                                 |
|-------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                   | Number of options   | Weighted average remaining contractual life (years) | Weighted average exercise price | Number of options   | Weighted average exercise price |
| \$ 0.97           | 2,199,179           | 3.92  | \$ 0.97                         | 2,199,179           | \$ 0.97                         |
| \$ 0.23 - \$ 0.28 | 2,435,000           | 4.79  | \$ 0.23                         | 811,667             | \$ 0.23                         |

The fair value of Trust Unit options issued is estimated as at the grant date using the Black-Scholes option pricing model, with the following assumptions:

|                              | 2010     | 2009     |
|------------------------------|----------|----------|
| Balance, beginning of period | \$ 1,854 | \$ 1,483 |
| Risk free interest rate (%)  | 3.2%     | 2.4%     |
| Expected lives (years)       | 5        | 5        |
| Expected volatility (%)      | 72%      | 61%      |
| Distribution per unit        | –        | –        |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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The weighted average fair value of the options issued during the first six months of 2010 is \$0.14 (2009 – \$0.28). For the six months ended June 30, 2010, unit-based compensation costs included in net earnings totaled \$304.

(d) Contributed surplus

Contributed surplus represents the cost of the Trust Unit options granted to employees, directors and officers. The following table summarizes the information regarding contributed surplus:

|                                 | 2010 |       | 2009 |       |
|---------------------------------|------|-------|------|-------|
| Balance, beginning of period    | \$   | 1,854 | \$   | 1,483 |
| Unit-based compensation expense |      | 304   |      | 252   |
| Balance, end of period          | \$   | 2,158 | \$   | 1,735 |

### 8. WEIGHTED AVERAGE UNITS

|                                | Three months ended June 30 |            | Six months ended June 30 |            |
|--------------------------------|----------------------------|------------|--------------------------|------------|
|                                | 2010                       | 2009       | 2010                     | 2009       |
| Weighted average basic Units   | 172,383,175                | 48,398,097 | 130,434,914              | 48,398,097 |
| Weighted average diluted Units | 172,383,175                | 48,398,097 | 130,434,914              | 48,398,097 |

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

(a) Operating activities:

|   | Three months ended June 30 |           | Six months ended June 30 |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | 2010                       | 2009      | 2010                     | 2009      |
| Accounts receivable                         | \$ 9,661                   | \$ 29,780 | \$ (2,576)               | \$ 21,904 |
| Income taxes payable<br>(recoverable)       | (7)                        | (719)     | 244                      | (796)     |
| Prepaid expenses                            | 137                        | 10        | (240)                    | (214)     |
| Inventory                                   | (37)                       | 246       | 359                      | 208       |
| Accounts payable and<br>accrued liabilities | (6,395)                    | (13,032)  | (1,940)                  | (13,222)  |
| Deferred lease inducements                  | (49)                       | (50)      | (100)                    | (100)     |
|   | \$ 3,310                   | \$ 16,235 | \$ (4,253)               | \$ 7,780  |

(b) Investing activities:

|  | Three months ended June 30 |          | Six months ended June 30 |          |
|--|----------------------------|----------|--------------------------|----------|
|  | 2010                       | 2009     | 2010                     | 2009     |
| Accounts payable for<br>capital expenditures | \$ (168)                   | \$ (114) | \$ 81                    | \$ (966) |
|  | \$ (168)                   | \$ (114) | \$ 81                    | \$ (966) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

### 10. SUPPLEMENTAL INFORMATION

|                   | Three months ended June 30 |        | Six months ended June 30 |          |
|-------------------|----------------------------|--------|--------------------------|----------|
|                   | 2010                       | 2009   | 2010                     | 2009     |
| Interest paid     | \$ 937                     | \$ 969 | \$ 2,129                 | \$ 2,074 |
| Income taxes paid | \$ 5                       | \$ (1) | \$ 6                     | \$ 81    |

### 11. COMMITMENTS

The following are the Trust's contractual obligations as at June 30, 2010:

|                               | Less than<br>one year | 1 to 3<br>years | 4 to 5<br>years | After<br>5 years | Total      |
|-------------------------------|-----------------------|-----------------|-----------------|------------------|------------|
| Long-term debt                | \$ –                  | \$ 50,000       | \$ –            | \$ –             | \$ 50,000  |
| Operating leases              | 14,678                | 23,960          | 18,804          | 30,043           | 87,485     |
| Total contractual obligations | \$ 14,678             | \$ 73,960       | \$ 18,804       | \$ 30,043        | \$ 137,485 |

### 12. 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.

#### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

### 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 13.

| Three months ended<br>June 30, 2010 | Drilling<br>Services | Production<br>Services | Oil Sands | Water<br>Technology | Total     |
|-------------------------------------|----------------------|------------------------|-----------|---------------------|-----------|
| Revenue                             | \$ 15,533            | \$ 5,106               | \$ 3,333  | \$ 3,785            | \$ 27,757 |
| Depreciation and amortization       | 2,577                | 451                    | 191       | 3                   | 3,222     |
| Interest on long-term debt          | 890                  | 156                    | 65        | 1                   | 1,112     |
| Income (loss) before other items    | (6,817)              | 474                    | 980       | 922                 | (4,441)   |
| Net income (loss)                   | (6,870)              | 463                    | 977       | 922                 | (4,508)   |
| Total assets (as at 6/30/2010)      | 189,641              | 33,225                 | 14,036    | 684                 | 237,586   |
| Capital expenditures                | 2,051                | 134                    | 49        | –                   | 2,234     |

| Three months ended<br>June 30, 2009 | Drilling<br>Services | Production<br>Services | Oil Sands | Water<br>Technology | Total     |
|-------------------------------------|----------------------|------------------------|-----------|---------------------|-----------|
| Revenue                             | \$ 11,558            | \$ 5,175               | \$ 2,949  | \$ 1,395            | \$ 21,077 |
| Depreciation and amortization       | 2,559                | 502                    | 201       | 4                   | 3,266     |
| Interest on long-term debt          | 644                  | 272                    | 51        | 1                   | 968       |
| Income (loss) before other items    | (6,745)              | (756)                  | (220)     | 152                 | (7,569)   |
| Net income (loss)                   | (5,011)              | (442)                  | (85)      | 155                 | (5,383)   |
| Capital expenditures                | 76                   | 1,083                  | 109       | –                   | 1,268     |

| Six months ended<br>June 30, 2010 | Drilling<br>Services | Production<br>Services | Oil Sands | Water<br>Technology | Total     |
|-----------------------------------|----------------------|------------------------|-----------|---------------------|-----------|
| Revenue                           | \$ 39,362            | \$ 12,252              | \$ 9,364  | \$ 5,724            | \$ 66,702 |
| Depreciation and amortization     | 5,575                | 973                    | 415       | 7                   | 6,970     |
| Interest on long-term debt        | 1,902                | 332                    | 141       | 2                   | 2,377     |
| Income (loss) before other items  | (8,021)              | 1,924                  | 1,772     | 1,240               | (3,085)   |
| Net income (loss)                 | (10,133)             | 1,555                  | 1,615     | 1,237               | (5,726)   |
| Capital expenditures              | 2,373                | 744                    | 49        | –                   | 3,166     |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

| Six months ended<br>June 30, 2009 | Drilling<br>Services | Production<br>Services | Oil Sands | Water<br>Technology | Total     |
|-----------------------------------|----------------------|------------------------|-----------|---------------------|-----------|
| Revenue                           | \$ 39,766            | \$ 13,364              | \$ 11,779 | \$ 3,633            | \$ 68,542 |
| Depreciation and amortization     | 5,500                | 1,070                  | 430       | 9                   | 7,009     |
| Interest on long-term debt        | 1,414                | 574                    | 111       | 2                   | 2,101     |
| Income (loss) before other items  | (4,073)              | 319                    | 3,104     | 514                 | (136)     |
| Net income (loss)                 | (3,728)              | 82                     | 3,131     | 515                 | –         |
| Capital expenditures              | 232                  | 1,333                  | 675       | –                   | 2,240     |

| Year ended<br>December 31, 2009 | Drilling<br>Services | Production<br>Services | Oil Sands | Water<br>Technology | Total      |
|---------------------------------|----------------------|------------------------|-----------|---------------------|------------|
| Total assets                    | \$ 188,879           | \$ 31,809              | \$ 13,687 | \$ 809              | \$ 235,184 |
| Capital expenditures            | 1,654                | 3,406                  | 851       | –                   | 5,911      |

### 13. DISCONTINUED OPERATIONS

During the year ended December 31, 2009, management identified that the Wireline operating division included in the Production Services reporting segment, be disposed of 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 Trust completed the sale of the Wireline operating division on July 14, 2009, for gross cash proceeds of \$5,750.

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

|   | Three months ended June 30 |             | Six months ended June 30 |             |
|---|----------------------------|-------------|--------------------------|-------------|
|   | 2010                       | 2009        | 2010                     | 2009        |
| Revenue   | \$ –                       | \$ 732      | \$ –                     | \$ 3,739    |
| Net loss before impairment loss on assets and taxes | –                          | (1,410)     | –                        | (1,359)     |
| Impairment loss on equipment                        | –                          | 8,073       | –                        | 8,073       |
| Impairment loss on intangible assets                | –                          | 4,180       | –                        | 4,180       |
| Net loss before taxes                               | –                          | (13,663)    | –                        | (13,162)    |
| Income taxes – future (reduction)                   | –                          | (3,416)     | –                        | (3,403)     |
| Net loss from discontinued operations               | \$ –                       | \$ (10,247) | \$ –                     | \$ (10,209) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

(amounts in thousands of CAD, except for number of Units and per Unit amounts)

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

|   | Three months ended June 30 |             | Six months ended June 30 |             |
|---|----------------------------|-------------|--------------------------|-------------|
|   | 2010                       | 2009        | 2010                     | 2009        |
| Net loss from discontinued operations     | \$ –                       | \$ (10,247) | \$ –                     | \$ (10,209) |
| Items not affecting cash:                 |                            |             |                          |             |
| Depreciation and amortization             | –                          | 573         | –                        | 1,161       |
| Gain on disposal of net assets            | –                          | (18)        | –                        | (37)        |
| Impairment loss on equipment              | –                          | 8,073       | –                        | 8,073       |
| Impairment loss on intangible assets      | –                          | 4,180       | –                        | 4,180       |
| Future income taxes (reduction)           | –                          | (3,416)     | –                        | (3,403)     |
| Funds provided by discontinued operations | \$ –                       | \$ (855)    | \$ –                     | \$ (235)    |

|   | Three months ended June 30 |            | Six months ended June 30 |          |
|---|----------------------------|------------|--------------------------|----------|
|   | 2010                       | 2009       | 2010                     | 2009     |
| Components of change in non-cash working capital balance: |                            |            |                          |          |
| Accounts receivable                                       | \$ –                       | \$ 209     | –                        | \$ 1,467 |
| Accounts payable and accrued liabilities                  | –                          | (1,244)    | –                        | (311)    |
| Funds provided by (used in) discontinued operations       | \$ –                       | \$ (1,035) | –                        | \$ 1,156 |

|                                       | Three months ended June 30 |          | Six months ended June 30 |          |
|---------------------------------------|----------------------------|----------|--------------------------|----------|
|                                       | 2010                       | 2009     | 2010                     | 2009     |
| Investing activities:                 |                            |          |                          |          |
| Purchase of equipment                 | \$ –                       | \$ (101) | –                        | \$ (229) |
| Net proceeds on sale of equipment     | –                          | 30       | –                        | 61       |
| Funds used in discontinued operations | \$ –                       | \$ (71)  | –                        | \$ (168) |

### 14. RELATED PARTY TRANSACTIONS

#### For the six months ended June 30, 2010

On February 16, 2010, the Trust closed a \$16,000 private placement financing for 80,000,000 Trust Units. The subscribers to the private placement, which included certain PESL Board of Director members, are related parties to the Trust. The private placement was considered by PESL's Board of Directors, exclusive of the related Board of Director members to be reasonable given the circumstances and approved the transaction. This transaction was completed on equivalent terms as the equity rights offering completed during the first quarter of 2010 and is measured at the exchange amount, which was deemed the amount of consideration established and agreed to by the related parties.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the three and six months ended June 30, 2010 and 2009*

*(amounts in thousands of CAD, except for number of Units and per Unit amounts)*

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 six months ended June 30, 2010, \$341 was included as an offset to the Trust's operating expenses. This agreement is considered in the normal course of business and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. At June 30, 2010, the amounts due to and from the related entity was nil.

### **For the six months ended June 30, 2009**

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 six months ended June 30, 2009, \$340 was included as an offset to the Trust's operating expenses. This agreement is considered in the normal course of business and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. At June 30, 2009, the amounts due to and from the related entities were nil.

## **15. 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.



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

**CHRISTOPHER E. HASLAM**  
Chairman of the Board  
Chairman and Chief Executive Officer  
Altus Energy Services Ltd.

**RICHARD A. GRAFTON**  
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Grafton Capital Corporation

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President  
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**CURTIS W. WHITTERON**  
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**MANAGEMENT OF  
PEAK ENERGY SERVICES LTD.**

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Human Resources and Administration

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Vice President, Health, Safety, Environment  
and Risk Management

**MARION M. JEROME**  
Risk Manager and Corporate Secretary

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**STOCK EXCHANGE LISTING**

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

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AND TRUSTEE**

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**NATIONAL BANK OF CANADA**  
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PEAK ENERGY SERVICES