



FOR IMMEDIATE RELEASE: October 16, 2009
TSX SYMBOL: PES.UN

Peak Energy Services Trust announces rights offering for \$22.0 million of 12 percent debentures and amendments to existing loan facilities

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CALGARY, Alberta – Peak Energy Services Trust ("Peak" or the "Trust") announces that it will grant rights to its unitholders to subscribe for up to \$22.0 million in principal amount of 12 percent debentures of the Trust. In addition, Peak has agreed with its existing senior lenders to amend certain financial covenants under its senior loan facilities and to reduce its aggregate senior loan facilities to \$55.0 million.

Background to the offering

Over the past 18 months, Peak has taken several steps to aggressively manage its balance sheet as oil and natural gas industry activity levels continued to deteriorate. These initiatives include:

- the rationalization of underperforming assets through the sale of Peak's wireline (cased hole and slick line) and access matting assets which generated gross proceeds of \$15.1 million;
- the internal restructuring of employee, facility and other major cost inputs which are expected to reduce operating, general and administrative expenses by approximately \$20.5 million on an annualized basis (estimated reduction of \$12.0 million in 2009); and
- the repayment of approximately \$40.0 million of senior indebtedness.

Despite these proactive steps, the protracted down-turn of industry activity combined with management's expectations of future industry activity levels, and its impact on Peak's financial performance, has precipitated the Trust to realign its capital resources. Management believes the rights offering and related amendments to its senior indebtedness are the best options available to Peak to weather the near-term lower than normal industry activity levels and to position the Trust to take advantage of any growth opportunities that may present themselves when industry activity levels improve over the longer term.

In particular, the Trust recently evaluated and determined that it was reasonably likely that it would not remain in compliance with certain debt covenants within its current senior loan facilities for the financial period ended September 30, 2009, as industry activity levels have lagged management's expectations. Accordingly, the Trust proactively approached its senior lenders for reasonable solutions and began negotiations to amend the senior loan facilities accordingly. Through these negotiations, Peak determined that the solution would, in part, require capital from an alternative source of financing which culminated with the rights offering for debentures to reduce the senior indebtedness outstanding. By enabling the Trust to reduce its

senior indebtedness and fulfill the conditions of the senior loan facilities, the rights offering will significantly improve the Trust's financial position.

“The entire North American oilfield services sector continues to experience very weak industry activity conditions and these measures will relieve some of the current pressure on Peak’s capital resources and in turn, gives us sufficient financial flexibility to execute on our business plan” said Mr. Curt Whitteron, President and Chief Executive Officer.

Management has forecasted Peak’s financial results, including the impact of the transactions, for the foreseeable future using its best estimates of industry activity levels and its associated operating conditions. Based on its forecast, Peak believes it will be able to continue as a going concern, despite this very challenging operating environment. However, a decrease from the forecasted industry activity could adversely impact Peak's liquidity and capital resources.

Rights offering

Under the terms of the rights offering, each holder of trust units on the record date will receive one right for each trust unit held. For every 219.9914 rights held, the holder of such rights will be entitled to subscribe for \$100 in principal amount of debentures. Unitholders who fully exercise their basic subscription privilege will be entitled to subscribe for additional debentures (on a pro rata basis) not subscribed for by the holders of rights.

The rights, debentures and trust units issuable upon the conversion or repayment of the debentures will be qualified for distribution in each Province of Canada (except Québec) by way of a short form prospectus. The rights are expected to be listed for trading on the Toronto Stock Exchange (“TSX”) and will be exercisable for a period not less than 21 days following the record date for the offering which will be disclosed in the final short form prospectus when filed. Completion of the offering is subject to the receipt of all required regulatory approvals, including the approval of the TSX.

Debentures

Net proceeds from the sale of the debentures is expected to be \$21.5 million and will be used to reduce senior indebtedness outstanding under Peak's syndicated credit facilities. The debentures will pay interest at a rate of 12 percent per annum (\$2.6 million per annum) payable quarterly in arrears.

The debentures will mature on September 30, 2012 and are expected to be listed for trading on the TSX. The Trust has the option to repay the debentures at maturity by paying cash or issuing trust units of equivalent value using 95 percent of the volume weighted average trading price of trust units for the 20 trading days that is immediately preceding 5 trading days prior to the maturity date. The debentures will be convertible at the holder's option into trust units at anytime prior to the maturity date at a conversion price of \$0.59 per trust unit (169 trust units for each \$100 in principal amount of debenture), subject to any adjustments to the conversion price in accordance with their terms.

The Trust will have the right to redeem the debentures at anytime prior to the maturity date if the volume weighted average price of trust units exceeds \$1.18 per trust unit for 60 consecutive trading days ending 3 days before the redemption notice is given, subject to any adjustments to the conversion price in accordance with their terms.

All payments in respect of the debentures will be secured and subordinate in right of payment up to \$59.0 million in principal (plus all other sums owing from time to time) of senior indebtedness of Peak (on a consolidated basis). Peak has agreed that the available principal amount of senior indebtedness will not exceed \$59.0 million and that the outstanding principal amount of the senior indebtedness less consolidated cash shall not exceed \$47.5 million without the consent of the holders of debentures.

Dilution and controlling interest

If all debenture holders exercise their option to convert or the Trust exercises its right to redeem the debentures for trust units prior to the maturity date, 37.2 million additional trust units would be issued representing 76.8 percent of the 48.4 million currently outstanding trust units.

Deans Knight Capital Management Ltd. (“Deans Knight”), who currently controls 8.7 million trust units representing 18.0 percent of the outstanding trust units, has entered into a standby purchase commitment agreement pursuant to which Deans Knight has agreed, subject to certain conditions customary for transactions of this nature, to subscribe for all debentures to which it is entitled under the rights offering and all remaining debentures not subscribed for by holders of rights under the offering. If none of the rights are exercised by the rights holders and the debentures purchased by Deans Knight are converted into trust units, Deans Knight would control approximately 53.6 percent of the then outstanding trust units.

Amendments to senior indebtedness

Subject to the successful completion of the offering and payment of \$0.35 million in amendment fees and other customary conditions, all of Peak’s existing senior lenders have agreed to amend their respective senior loan facilities as follows:

- for September 30, 2009, the senior lenders will accept a pro forma calculation for the funded net debt⁽¹⁾ to 12 month trailing EBITDA⁽¹⁾ financial covenant (2.75 to 1.00) to reflect a successful \$22.0 million debenture financing;
- for the following financial reporting dates, amend the funded net debt to 12 month trailing EBITDA financial covenant which is currently set at 2.50 to 1.00 as follows:
 - December 31, 2009 – 3.00 to 1.00
 - March 31, 2010 – 3.00 to 1.00
 - June 30, 2010 – 2.75 to 1.00
 - September 30, 2010 and onward – 2.50 to 1.00
- The syndicated extendable term revolving acquisition loan facility agreement dated August 27, 2008, as amended May 26, 2009 of \$65.0 million (of which \$20.0 million is currently outstanding) will be paid down with the net proceeds of the debenture financing and the facility will be reduced to \$15.0 million. Grid interest rates on the facility will remain consistent with the previous agreement and standby fee savings on the reduced facility will be approximately \$0.7 million per annum;
- interest on the \$30.0 million term loan agreement dated August 31, 2005 will increase by 1.48 percent (\$0.4 million per annum) to 7.77 percent per annum (\$2.3 million per annum); and
- interest on the \$10.0 million term loan agreement dated June 26, 2006 will increase by 1.48 percent (\$0.2 million per annum) to 8.69 percent per annum (\$0.9 million per annum).

(1) Refer to the “Non-GAAP Measures” section for further details.

Fairness opinion

Dundee Securities Corporation is acting as financial advisor to Peak and has provided a verbal opinion to the board of directors of Peak that the transactions are fair, from a financial point of view, to the unitholders of Peak as a whole.

Summary

Mr. Whitteron summarized the transactions by stating that “proactively shifting the Trust’s capital resources through reducing senior debt by \$21.5 million is the prudent action for Peak to take in order to position us adequately to weather the lower levels of industry activity that are anticipated for the foreseeable future. It also gives Peak the financial flexibility it requires to continue to increase its market share in various geographical regions, including several resource plays in the United States and western Canada.”

Additional details regarding the rights offering will be found in the short form prospectus that will be filed on SEDAR at www.sedar.com. Furthermore, a follow up press release will be issued in due course outlining definitive dates and additional details for the rights offering once they are determined.

About Peak Energy Services Trust

Peak Energy Services Trust is a diversified energy services organization operating in western Canada and the United States. Through its various operating divisions, Peak 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. Peak’s units are listed on the TSX under the symbol “PES.UN”.

Non-GAAP measures

Funded debt is defined as senior long-term debt including current portion of senior long-term debt (exclusive of the debentures) less cash and cash equivalents. Funded debt is not a recognized measure under Canadian Generally Accepted Accounting Principles (“GAAP”). Management believes funded debt provides an indication of the Trust’s senior debt position after consideration of cash that could be used to reduce the senior indebtedness outstanding. The Trust’s method of calculating funded debt may differ from those used by other entities and, accordingly, may not be comparable to measures used by other entities. The definition of funded net debt within the senior loan facilities is materially consistent with funded debt already defined, however there are certain other potential adjustment provisions with the senior loan facilities.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization and other items (non-cash expenses and gains / losses). 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 companies and, accordingly, EBITDA may not be comparable to measures used by other companies. The definition of EBITDA within the senior loan facilities is materially consistent

with EBITDA already defined, however there are certain other potential adjustment provisions with the senior loan facilities.

Forward-looking information

This press release 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 press release are made as of October 16, 2009. Additionally, Peak undertakes no obligation to comment on expectations of, or statements made by, third parties in respect of these transactions.

Specifically, this press release contains forward-looking statements relating to: successful issuance of the rights offering; successful completion of the financing for debentures; successful amendments to senior loan facilities; the future financial impact of the Trust's cost restructuring initiatives; expectations of future oil and natural gas industry activity levels; the ultimate results of transaction options other than disclosed in this press release to realign the Trust's capital resources; future growth opportunities of the Trust; expectations of improvement in oil and natural gas industry activity levels; expectations of non-compliance with certain debt covenants; expectations that the rights offering will significantly improve the Trust's financial position; forecasted financial results of the Trust; ability of the Trust to continue as a going concern; the intention for the rights and debentures to be listed on the TSX; expectation that the short form prospectus will be filed and receive regulatory approval, including the TSX; that the debenture financing will be used to reduce senior indebtedness; that the Trust will be able to pay interest to the debenture holders; that the Trust will be able to comply with the covenants of the senior indebtedness and/or debentures; assumptions regarding the dilution to trust units outstanding if options under the debenture terms are exercised; Deans Knight control percentage if rights are not exercised; and the Trust's ability to increase market share in various geographical regions. Such forward-looking statements are subject to important risks, uncertainties and assumptions. The results or events predicated in these forward-looking statements may differ materially from actual results or events.

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: the obligations committed to by all parties involved with the transactions are not fulfilled; necessary approvals by regulatory bodies are not obtained; the transactions are not completed in the contemplated time period required; the assumptions relating to all parties entering into definitive agreements in respect to the transactions; 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 current 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; the lack of availability of qualified personnel or management; and other unforeseen conditions which could impact 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.

For further information please contact:

Peak Energy Services Trust
Mr. Curtis W. Whitteron
President and Chief Executive Officer
(403) 543-7325
(403) 543-7335 (FAX)

or

Peak Energy Services Trust
Mr. Matthew J. Huber
Executive Vice President
(403) 543-7325
(403) 543-7335 (FAX)

or

Peak Energy Services Trust
Mr. Monty R. Balderston
Chief Financial Officer
(403) 543-7325
(403) 543-7335 (FAX)

The TSX have neither approved nor disapproved the information contained herein.