



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Deepwell Energy Services Trust (the "Trust") has been prepared taking into consideration information available to May 13, 2009 and should be read in conjunction with the Trust's unaudited consolidated financial statements as at and for the three months ended March 31, 2009 and the audited consolidated financial statements as at and for the year ended December 31, 2008. This MD&A discusses operations and events for the quarter ending March 31, 2009 and unless otherwise noted, references to "first quarter of 2009 or the "quarter" in this MD&A refer to the three months ended March 31, 2009 and references to "first quarter of 2008 or 2008" refer to the three months ended March 31, 2008.

The Trust is an unincorporated investment trust governed by the laws of the Province of Alberta. The business of the Trust is conducted through its direct and indirect wholly owned subsidiaries, Deepwell Energy Services Commercial Trust, Deepwell Energy Services Ltd., and Deepwell Energy Services LP ("Deepwell LP") and through its 50 percent joint interest in Palko Energy Ltd. ("Palko"), (collectively "Deepwell"). The Trust and its subsidiaries are based in Calgary, Alberta and Palko is based in Midale, Saskatchewan, and were established to acquire and operate businesses that engage in oilfield waste management services. The principal undertaking of Deepwell is to provide a variety of upstream oilfield water disposal and waste management services to oil and natural gas exploration and production companies in western Canada.

Forward-looking statements

Certain statements in this MD&A constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Trust or Deepwell, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements use such words as "may", "will", "intend", "should", "expect", "believe", "plan", "anticipate", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar terminology are intended to identify forward-looking statements. Such forward looking statements include that Deepwell's facilities, including Palko, will continue to add increased value. This statement is based on the assumptions that current activity by Palko's customers will continue and that Palko will be able to capitalize on such activity. The risks are that drilling and production activity will not continue at current levels or that Palko will not be providing the required oilfield water disposal and waste management services, associated with such activity. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this document. The Trust's ability to continue as a going concern is

dependent upon its future performance in light of these risks, many of which are beyond its control. It is also dependent upon its ability to renew its financing arrangements or obtain alternative financing.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements.

Although the forward-looking statements contained in this document are based upon what management believes are reasonable assumptions, the Trust cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this document and the Trust does not assume any obligation to update or revise any forward-looking statements used in this document to reflect new events or circumstances, except as required by applicable securities legislation.

Non-GAAP measures

The financial information within the MD&A has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain supplementary information and measures not recognized under GAAP are also provided where management believes they assist the reader in understanding the Trust's results. These measures include:

- EBITDA, which refers to earnings before restructuring charges, unit-based compensation, interest & financing costs, taxes, depreciation, amortization, impairment of goodwill and taxes; and EBITDA per unit is calculated as EBITDA for the period divided by the weighted average trust units outstanding over the period; and
- Funds from operations, which refers to cash flow from operating activities before changes in non-cash working capital; and funds from operations per unit is calculated as funds from operations for the period divided by the weighted average trust units outstanding over the period.

These measures are identified and presented. Readers should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of the Trust's performance. The Trust's method of calculating these measures may differ from that of other organizations and, accordingly, may not be comparable with measures of other organizations.

Strategy

Deepwell is committed to building value for its unitholders through disciplined management and the implementation of its long-term strategy. The core principles of Deepwell's strategy are summarized below.

- Focus on oilfield waste management: Deepwell currently operates exclusively in the upstream oilfield waste management business. The oilfield waste management business in western Canada has significant barriers to entry, which support the long-term cash flow of current and future facilities.
- Operational efficiency: A key objective is to attain and maintain efficient operations and a high standard of customer service within a safe working environment.
- Environmental stewardship: Deepwell intends to meet or exceed regulatory requirements and industry standards. Deepwell's facilities are audited annually by regulatory bodies, and voluntarily by an industry safety association, and periodically by exploration and production companies. Deepwell has developed innovations to enhance environmental stewardship at existing facilities.

First quarter 2009 overview

The first quarter of 2009 has been spent reviewing operational efficiencies which will ultimately lead to financial reductions. With the downturn in the industry, Deepwell's focus has been to review its business strategy and culture to better position it to move forward with the best alternative.

Revenue decreased in the first quarter of 2009 to \$3.2 million from \$5.1 million in the 2008 quarter, primarily as a result of decreased volumes directly related to the depressed activity in the oil and gas sector, and associated lower market pricing. Since the majority of the operating expenses associated with the plants are fixed, this reduced the operating margin to 29% from 47% in the comparative 2008 quarter.

Capital expenditures were kept to a minimum in the quarter. The disposal well at the Grande Cache facility was re-completed and some expansion work was undertaken on the Palko facility.

Ongoing negotiations with Deepwell's banker are still underway. As covenants of the facility were breached at both December 2008 and March 2009, the facility has been capped at its existing level; however the bank is continuing to allow draws on the facility due to ongoing negotiations.

Selected financial information

The following is a summary of selected financial information that has been derived from, and should be read in conjunction with, the unaudited consolidated financial statements of the Trust.

Financial Highlights	For the three months ended March 31,		
	2009	2008	2007
Revenue	\$ 3,266,126	\$ 5,127,690	\$ 4,427,510
Operating expenses	2,313,060	2,727,653	1,919,221
Operating Margin	953,066	2,400,037	2,508,289
General and administrative expenses	762,545	477,714	596,545
EBITDA	\$ 190,521	\$ 1,922,323	\$ 1,911,744
Per unit, basic and diluted	0.03	0.27	0.44
Net loss	\$ (949,753)	\$ 672,753	\$ 95,846
Per unit, basic and diluted	(0.13)	0.09	0.02
Funds from operations	\$ (30,469)	\$ 1,812,408	\$ 1,922,695
Per unit, basic and diluted	(0.00)	0.25	0.44
Distributions to Unitholders	\$ -	\$ 1,290,806	\$ 1,095,970
Per unit, basic and diluted	-	0.18	0.25
Capital expenditures	\$ 1,250,159	\$ 2,911,793	\$ 776,186
Total assets, end of period	\$ 58,644,114	\$ 63,191,756	\$ 54,110,875
Term loan, end of period	\$ 17,871,530	\$ 9,000,000	\$ 12,966,548
Total liabilities, end of period	\$ 22,662,220	\$ 13,858,993	\$ 16,750,935
Trust unit equity, end of period	\$ 56,386,571	\$ 56,281,748	\$ 40,440,860
Weighted average Trust units, basic and diluted	7,200,198	7,173,770	4,356,000

Included in the consolidated financial statements is Deepwell's 50 percent joint interest in Palko Energy Ltd. from the date of acquisition, which was September 25, 2008. Deepwell's proportionate share of revenue for the quarter was \$0.4 million and operating margin \$0.2 million (57 percent), respectively. EBITDA for the quarter was \$0.2 million (51 percent). Palko operations have not experienced the rapid decline in activity that has occurred in other parts of western Canada. There are no comparative figures for the first quarter of 2008 as the Palko joint venture was not entered into until September 2008.

Net loss for the quarter was \$0.13 per unit basic and diluted (Q1-2008 – net income of \$0.09 per unit basic and diluted) and funds from operations for the quarter was \$0.00 per unit basic and diluted (Q1-2008 – \$0.25 basic and diluted). There were no distributions paid to unitholders during the quarter, (Q1-2008 – \$1.3 million or \$0.18 per unit).

Results of operations

Revenue

Revenue for the first quarter of 2009 was \$3.2 million (Q1-2008 - \$ 5.1 million), comprised of approximately 70 percent processing and disposal fees (Q1-2008 – 57 percent), and 30 percent revenue from sale of recovered oil (Q1-2008 – 43 percent). In the first quarter of 2009 processing and disposal revenue decreased to \$2.3 million from \$2.9 million in the first quarter of 2008, due to reduced drilling activity as a result of the global downturn. During the first quarter of 2009, oil revenue fell to \$1.0 million from \$2.2 million in 2008 as a result of lower average oil prices and decreased volumes.

Expenses

Operating expenses

During the first quarter of 2009, operating expenses decreased to \$2.3 million from \$2.7 million in the same quarter of 2008, resulting in an operating margin of 29 percent for the quarter compared with 47 percent in 2008. The majority of the decrease results from oil credits repaid to customers decreasing to \$0.2 million (Q1-2008 - \$1.0 million) offset by an increase in operating costs in 2009 to reflect the operations of the Claresholm facility for the full quarter, as compared to one half of the first quarter of 2008.

General and administrative expenses

General and administrative expenses, comprised primarily of costs associated with the Trust's corporate office, including senior management and public company costs, were \$0.8 million or 23 percent of revenue for the first quarter compared to \$0.5 million or 9 percent for the same quarter in 2008.

Depreciation, amortization and accretion

Depreciation expense was \$1.1 million for the first quarter of 2009, an increase of \$0.2 million over 2008 of \$0.9 million primarily as a result of depreciation expense relating to the Claresholm and Palko facilities. Amortization of intangibles assets consists of the amortization of completions and contracts, customer relationships, and non-competition agreements that were acquired with the Producers Oilfield assets in 2006.

Interest and financing costs

Financing charges include interest on short term and long term borrowings and fees incurred to refinance the Trust's credit facility with its bank. Financing charges increased substantially for the first quarter of 2009 to \$0.2 million (Q1-2008 - \$0.1 million). Interest rates are floating at the lender's prime rate plus 0.125 percent to 1.625 percent, based on the funded debt to EBITDA ratio, with any unused amounts subject to standby fees.

Funds from operations

Funds from operations, defined as cash flow from operations before changes in non-cash working capital, were \$0.0 million for the first quarter of 2009 compared to \$1.8 million for the same quarter of 2008 reflecting lower oil prices and the global down turn

Distributions to Unitholders

No distributions were paid to unitholders for the first quarter of 2009 compared to \$1.3 million in the first quarter of 2008. In December 2008, the Trust suspended all distributions to allow Deepwell to conserve cash, reduce its debt levels and position the Trust to capitalize on future growth opportunities as the economy improves.

Capital expenditures

The Trust's capital expenditures for purchase of property, plant and equipment for the quarter were \$1.3 million compared to \$2.9 million for the same quarter in 2008. Most of the capital expenditures in 2009 related to re-completion of the Grande Cache disposal well at a cost of \$0.8 million and expansion of the Palko facility at a cost of \$0.4 million.

Financial security deposits

Deepwell has issued letters of guarantee in the amount of \$2.3 million (Q1-2008 - \$2.3 million) to the ERCB as security for abandonment and reclamation of oilfield waste management facilities.

Unitholders' equity

The Trust is authorized to issue an unlimited number of Trust units which carry the right to vote. Trust units are redeemable at any time at the option of the unitholder. The redemption price is equal to the lesser of 90 percent of the average market price for the 10 days immediately prior to the date the units were tendered for redemption and the closing market price on the date the units were tendered for redemption. As at May 13, 2009 there were 7,200,198 Trust units issued and outstanding.

The Trust is authorized to issue an unlimited number of Special Voting Units, which will enable the Trust to provide voting rights to holders of any exchangeable shares that may be issued by any direct or indirect subsidiaries of the Trust. Except for the right to vote, the Special Voting Units do not confer any other rights. No Special Voting Units have been issued by the Trust.

On April 10, 2007, the Trust established a distribution reinvestment plan (the "DRIP"). The DRIP allows eligible unitholders of the Trust to direct that their cash distributions be reinvested in additional Trust units. The cash distributions will be re-invested at the discretion of Deepwell Energy Services Ltd. either by acquiring Trust units issued from treasury at 95 percent of the average market price (as defined in the DRIP) or by acquiring Trust units at prevailing market.

Trust unit option plan

As at March 31 2009, a total of 392,948 options were outstanding (Q1-2008 – 506,971), pursuant to the Trust's incentive unit option plan ("Option Plan"). The options carry a five-year term and vest equally over a period of three years from the date of grant. The exercise price of each option is based upon the weighted

average trading price for a period prior to the date of grant. The exercise price is adjusted downwards by 100 percent of the amount of distributions paid on outstanding Trust units.

The fair value of unit options granted to employees and directors on or after August 22, 2006 is recognized as a compensation cost. During the first quarter of 2009, the Trust granted 461,833 (Q1-2008 – nil). The fair value of options issued in the quarter was estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 1.28%, volatility of 77% and expected life of 5 years. The impact of monthly distributions and corresponding changes in exercise price during the life of the options are assumed to be equal and offsetting, and so no provision is made in the pricing model for either factor.

The Trust recognized a recovery of \$0.3 million (Q1-2008 - \$0.1 million expense) of stock unit based compensation related to the impact of options that have been forfeited, cancelled or granted and options that have been revalued for non-employees.

As such, the opening weighted average exercise price has not been adjusted to reflect the decrease in exercise price for distribution over the quarter.

Liquidity

As at March 31, 2009, the Trust had a working capital deficit of \$16.8 million of which \$14.4 million is comprised of long term debt reclassified to current due to the breach of bank covenants (December 31, 2008 – \$15.6 million) and an accumulated deficit of \$21.4 million (December 31, 2008 – \$20.4 million). Should the Trust be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. The Trust's ability to continue as a going concern is dependent upon its ability to attain and maintain profitable operations and to continue to obtain financing from investors and its creditor sufficient to meet current and future obligations.

Credit facilities

The Trust renewed its existing credit facilities on September 19, 2008 with a Canadian chartered bank (the "credit facilities"). Due to the breach of certain covenants, negotiations are continuing the bank. The facilities consisted of the following:

Extendible revolving operating loan

As at March 31, 2009, the Trust had a 364 day extendible revolving operating loan committed to May 28, 2009, bearing interest at the lender's prime rate plus 0.125 percent to 1.625 percent, based on the funded debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio, with any unused amounts subject to standby fees. Drawings under this facility are repayable at May 28, 2009 unless extended by the bank. Due to covenant breaches at the end of the quarter, no further drawings are technically available under this facility, however the bank is continuing to allow draws on the facility due to ongoing negotiations.

Extendible revolving term loan

As at March 31, 2009, the Trust had a three year extendible revolving term loan committed to May 28, 2009. If the loan is not extended by the bank for an additional 364 day period, monthly payments of \$496,431 are required to be made on a non-revolving basis to May 28, 2012, The facility has a \$5,000,000 sublimit for the issue of letters of guarantee/credit and bears interest at the lender's prime rate plus 0.125 percent to 1.625 percent, based on the funded debt to EBITDA ratio, with any unused amounts subject to standby fees. Due to covenant breaches at the end of the quarter, no further drawings are available under this facility pending completion of ongoing negotiations.

As at March 31, 2009, the Trust has breached its financial covenants. The breaches were reported to the bank and negotiations have commenced in conjunction with the May 2009 refinancing. As no waiver has been obtained from the creditor and a further breach of covenants is possible prior to the finalization of the refinancing, the long term debt has been reclassified to current liabilities.

Capital Resources

The Trust has commitments of \$0.2 million for capital expenditures as at March 31, 2009.

Off-Balance Sheet Arrangements

The Trust has no off-balance sheet arrangements as at March 31, 2009.

Contractual obligations, commitments and contingencies

The following table shows future contractual obligations by period:

Payments by period	Total	2009-2010	2011-2012	Thereafter
Total contractual obligations	\$ 479,827	\$ 380,123	\$ 99,704	\$ -

Quarterly information

	2009		2008			2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 3,266,126	\$ 3,925,309	\$ 4,861,607	\$ 4,738,690	\$ 5,127,690	\$ 3,650,736	\$ 3,513,654	\$ 2,532,151
Operating expenses	2,313,060	2,318,004	2,856,716	2,852,930	2,727,653	1,941,216	1,584,125	1,190,438
Operating Margin	953,066	1,607,305	2,004,891	1,885,760	2,400,037	1,709,520	1,929,529	1,341,713
General and administrative	762,545	721,903	746,382	597,415	477,714	842,448	520,071	559,150
EBITDA	190,521	885,402	1,258,509	1,288,345	1,922,323	867,072	1,409,458	782,563
Net income (loss)	\$ (949,753)	\$ (996,074)	\$ (7,915,951)	\$ (271,385)	\$ 672,753	\$ (245,156)	\$ 215,614	\$ (657,354)
Net income (loss) per Trust unit:								
Basic	(\$0.13)	(\$0.14)	(\$1.10)	(\$0.04)	\$0.09	\$(0.03)	\$0.03	\$(0.15)
Diluted	(\$0.13)	(\$0.14)	(\$1.10)	(\$0.04)	\$0.09	\$(0.03)	\$0.03	\$(0.15)
Weighted average number of Trust units outstanding								
Basic	7,200,198	7,196,858	7,188,578	7,180,086	7,173,770	7,154,344	6,324,139	4,357,724
Diluted	7,200,198	7,196,858	7,193,174	7,184,666	7,173,770	7,154,344	6,327,260	4,357,744

The Trust's business is seasonal with the first and fourth quarters traditionally being the two strongest quarters for the industry and the second quarter being the weakest. The underlying causes of the seasonality are variations in prevailing weather conditions, which in turn have effects on the ability to carry out field operations. While Deepwell's facilities remain open and accessible throughout the year, its customers are, at

times, restricted from moving waste due to spring breakup or periods of rainfall. In the Grande Cache region restrictions also occur at certain times of the year in designated wildlife areas.

Financial instruments

The Trust's financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and credit facilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Trust's risk management policies are established to identify and analyze the risks faced by the Trust, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Trust's activities. The Trust has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

The Board of Directors has overall responsibility for the establishment and oversight of the Trust's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out in note 11 to the unaudited interim consolidated financial statements as at and for the three months ended March 31, 2009.

Capital management

The Trust's objective when managing capital is to maintain a flexible capital structure which will allow it to execute acquisitions and any capital expenditure programs. The Trust seeks to maintain a balance between the level of long-term debt and unitholders' equity to ensure access to capital to fund growth and working capital given the cyclical nature of the oilfield services sector.

The Trust considers its capital structure to include working capital, debt, and unitholders' equity. The Trust monitors capital based on annual funds from operations and acquisition opportunities, for which budgets are updated as necessary and are reviewed and periodically approved by the Trust's Board.

The Trust manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Trust's assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations.

The Trust has externally imposed capital requirements as governed by the credit facilities through the maintenance of certain bank covenants. As at March 31, 2009, the Trust has breached its financial covenant and remains in negotiations with the bank for a viable resolution.

Outlook

For Deepwell, like most other companies, the last quarter of 2008 ended with many industry indicators turning negative which have continued into the first several months of 2009. The overall economy remains in a state of depressed credit and equity markets. Activity in the oil and gas sector has been reduced significantly.

Deepwell management has been actively reviewing the existing structure with a mandate to reduce costs, increase market share of revenue and change its culture to better position it to move forward with whatever alternative provides projected growth and value for the unit holders.

Each plant is being reviewed and analyzed for profitability and generation of returns. Palko acquisition continues to add value and will continue to increase as growth initiatives are identified.

Restructuring alternatives are being pursued as ongoing negotiations take place with Deepwell's bank. The credit facility currently in place has covenants that in the current market are not attainable, therefore alternatives will be required.

Critical accounting estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods. The most significant estimates relate to depreciation, amortization, asset retirement obligations, accretion, income taxes, valuation of accounts receivable, unit-based compensation and recoverability of goodwill and intangibles. Actual results may differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the Trust's accounting policies as disclosed in the Trust's consolidated financial statements.

In light of the current financial instability, Deepwell has reviewed the method used and calculations of critical accounting estimates and in particular the impairment and obsolescence of its fixed assets, intangible assets and goodwill and the rates at which Deepwell depreciates fixed assets. Management believes the critical accounting estimates are reasonable under the current circumstances. Management has also assessed the valuation of the Trust's accounts receivable utilizing a variety of approaches including collection history, subsequent receipts and financial stability of the customer and believes its allowance is reasonable.

Risks and uncertainties

Capital Markets

As a result of the weakened global economic situation, Deepwell, along with all participants in the oil and gas service industries, is experiencing restricted access to capital and increased borrowing costs. The lending capacity of all financial institutions has diminished and risk premiums have increased independent of Deepwell's business and asset base. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, Deepwell's ability to do so is dependent on, among other factors, the overall state of capital markets and investor demand for investments in the service industry and the Trust's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, Deepwell's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Current Global Financial Conditions

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by government authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-backed commercially paper market. These factors may impact the ability of Deepwell to obtain equity or debt financing in the future and, if obtained, on favourable terms. If these increased levels of volatility and market turmoil continue, Deepwell's operations could be adversely impacted and the trading price of the Trust's Units could be adversely affected.

Cyclicality of the oil and natural gas industry

The demand for oilfield services is largely dependent on the activity levels of oil and natural gas exploration and development companies. Industry conditions are influenced by numerous factors over which the Trust has no control, including: the level of oil and natural gas prices and production; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining production from maturing basins; the discovery of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation capacity; weather conditions; global political stability, military actions, regulatory and economic conditions; the ability of oil and natural gas companies to raise capital; fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas; and technological advances in fuel economy and energy generation devices.

The current financial instability has increased the uncertainty in the oil and natural gas industry, and the uncertainty in the oil and natural gas service industry in which Deepwell operates. In Alberta, the Trust operates in mature areas of oil and natural gas development and most of its services are for producing wells. In Saskatchewan, Palko is located in a developing area of oil and natural gas production that relies more on the water production from existing wells and development of new wells.

Oil and natural gas prices

The revenue, cash flow and earnings of the Trust are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration and production. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond Deepwell's control may also affect the supply of and demand for oil and natural gas, leading to future price volatility.

The large fluctuations in oil and natural gas prices which have occurred during this financial crisis have resulted in fluctuations in Deepwell's revenues. Future changes in oil and natural gas prices could result in increases or decreases in total revenues and volumes processed through the Trust's facilities. Prolonged financial instability could result in oil and natural gas projects being deferred or cancelled limiting new revenue streams to service providers such as Deepwell Seasonal weather.

In Canada, the level of activity in the oil and natural gas industry is influenced by seasonal weather patterns. Spring break-up during the second quarter of each year leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions on the provision of energy services. The timing and duration of spring break-up are dependent on weather patterns and the duration of this period will have an impact on the level of business of the Trust.

Dependence on key personnel

The success of the Trust will likely continue to be dependent on the Trust's ability to attract and retain key officers and operational personnel.

Reliance on major customers

It is estimated that the top 10 customers of Deepwell accounted for approximately 57 percent of processing revenue for the quarter, the largest customer accounting for approximately 22 percent. Deepwell does not generally enter into long-term contracts with its customers and there can be no assurance that the current customers will continue their relationships with Deepwell. Deepwell continues to maintain a philosophy to attract and retain customers by offering superior and personal customer service.

Competition

Deepwell faces competition from a variety of competitors, many with strong financial, marketing and other resources. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of oilfield services that compete with those of Deepwell or that new competitors will not enter the various markets in which Deepwell is active. Deepwell monitors the competition changes and focuses on customer service to mitigate increased competition.

Operating risks and insurance

The business of Deepwell will be subject to hazards inherent in the oil and natural gas industry, such as equipment defects, malfunction and failures; accidental release; natural disasters which result in fires; vehicle accidents and explosions that can cause personal injury; loss of life; suspension of operations; damage to formations; damage to facilities; business interruption; and damage to or destruction of property, equipment and the environment. These risks could expose Deepwell to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

Management will continue to be actively involved in the establishing policies and monitoring operations of Deepwell for quality control and safety. However, there are no assurances that Deepwell's safety procedures will always prevent such damages. Although Deepwell maintains insurance coverage that management believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover such liabilities.

Environmental risks

The Canadian oil and natural gas industry is regulated by a number of federal and provincial governmental bodies and agencies under a variety of complex federal and provincial legislation that sets forth numerous prohibitions and requirements with respect to planning and approval processes related to land use, sustainable resource management, waste management, responsibility for the release of presumed hazardous materials, protection of wildlife and the environment and the health and safety of workers. Legislation provides for restrictions and prohibitions on the transport of dangerous goods and the release or emission of various substances, including substances used and produced in association with certain oil and natural gas industry operations. The legislation addresses various permits required for drilling, access road construction, camp construction, well completion, installation of surface equipment, air monitoring, surface and ground water monitoring in connection with these activities, waste management and access to remote or environmentally sensitive areas.

Deepwell is subject to a complex and increasingly stringent array of legal requirements and potential liabilities, including with respect to the ownership and management of property, the need to obtain and comply with permits and approvals, the health and safety of employees, and the handling, use, storage, disposal, intentional or accidental release, and transportation of certain substances, including hazardous materials and dangerous goods. Failure to comply with these requirements could expose Deepwell to substantial potential penalties. There can be no assurance that Deepwell will not be required, at some future date, to incur significant costs to comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by existing conditions or by the requirements or potential liability under current or future environmental laws. To mitigate this risk, Deepwell employs a regulatory agent to monitor and plan strategies to address the changing regulatory environment.

The Canadian Federal Government has announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. The Government is currently developing a framework that outlines its clean air and climate change action plan. As this federal program is under development, Deepwell LP is unable to predict the total impact of the potential regulations upon its business. It is possible that Deepwell LP's customers could face increases in operating costs in order to comply with GHG emissions legislation which could affect Deepwell's operations by reducing demand for its services.

Credit risk

All of the accounts receivable of Deepwell are with customers involved in the oil and natural gas industry whose revenues may be impacted by fluctuations in commodity prices. Collection of these receivables could be negatively influenced by any prolonged substantial reduction in oil and/or natural gas prices, which could have a material adverse effect on the financial results and cash flows of Deepwell. Deepwell monitors collections closely in order to mitigate this risk.

Access to additional financing

Deepwell may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations of Deepwell, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to Deepwell when needed or on terms acceptable to Deepwell. The inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit Deepwell's growth and may have a material adverse effect on the financial results and cash flows of Deepwell.

Leverage and restrictive covenants

Deepwell has credit facilities which contain a number of financial covenants that require Deepwell to meet certain financial ratios and financial condition tests. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness. Since Deepwell is in default of its credit facility covenants as at reporting date, there can be no assurance that the assets of Deepwell would be able to repay in full that indebtedness, which could result in the lenders realizing on the assets of Deepwell. Although Deepwell is actively negotiating with its lender, there is no assurance that Deepwell will be able to refinance any or all of the credit facilities on acceptable terms, or on any basis.

Uncertainty of cash distributions

The actual amounts of distributions paid by the Trust to the unitholders will depend upon numerous factors, including profitability of operations, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors beyond the control of Deepwell. In order to preserve cash, the Trust has suspended distributions indefinitely and will continue to monitor the distribution situation.

Government regulations

The Trust's operations are subject to a variety of Canadian federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the protection of the environment, and taxation.

The planned changes in the structure of oil and natural gas royalties payable to the Province of Alberta, intended to commence in 2009, could impact the exploration and development activities of E&P companies and lower the demand for Deepwell's services.

Related-party transactions

During the three months ended March 31, 2009, the Trust was charged \$33,048 (2008 - nil) in legal fees by a firm who employs one of the directors. Included in accounts payable at March 31, 2009 is \$6,306 (December 31, 2008 - nil) due to this law firm.

During the three months ended March 31, 2009, the Trust provided certain assets and other services to Palko at a cost of \$3,535 (2008 – nil). This amount has been proportionately eliminated upon consolidation.

During the three months ended March 31, 2009, the Trust was charged \$15,285 for professional services by a company who is controlled by the individual acting as chief financial officer. This amount is included in accounts payable at March 31, 2009.

These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the parties.

Accounting changes and pronouncements

Future Accounting Standards

International financial reporting standards (IFRS)

In 2005, the AcSB announced that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Trust is currently developing a plan for adoption of IFRS.

Disclosure and internal controls

NI 52-109 is focused on 1) disclosure controls and procedures 2) internal control over financial reporting.

Under the supervision and with the participation of the Trust's management, including the CEO and CFO, the Trust engaged third party consultants to perform an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as defined in National Instrument 52-109. The consultants assisted with the design, documentation, and testing of internal control systems, proposed improvements, and interim measures and provide general assistance in performing its evaluation. Based on that evaluation, the Trust's management, including the CEO and CFO, have concluded that the Trust's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosure of material information, and are sufficiently designed to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with GAAP, and are effective as of March 31, 2009.

During the design and operating effectiveness assessment certain material weaknesses in internal controls over financial reporting were identified, as follows:

- Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general administrative and financial matters. However, management believes that at this time the potential benefits of adding employees to clearly segregate duties do not justify the costs associated with such increase; and
- Inherent in requiring a small number of employees dealing with general administrative and financial matters, there is inadequate review and approval of complex accounting transactions. Management has engaged a third party firm to review such transactions on an ongoing basis.

The Trust believes that the weaknesses identified in its systems of internal control are mitigated through review of the Trust's financial statements by senior management, the audit committee of the board of directors, and by consulting with external experts. In addition, senior management is active in the Trust's day-to-day operations and in monitoring the Trust's financial reporting.

Notwithstanding the weaknesses identified, based on the evaluation performed, the CEO and CFO concluded that the design and operation of the Trust's disclosure controls and procedures were effective as at March 31, 2009 to ensure that information required to be disclosed by the Trust in reports filed under Canadian securities laws is gathered, recorded, processed, summarized and reported within the times specified under Canadian securities laws and is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure as required under Canadian

securities laws. Further, based on the Trust's mitigating procedures, the CEO and the CFO have satisfied themselves that the weaknesses identified have not resulted in material errors in the financial statements. Management and the Board of Directors are committed to transparency and completeness of financial reporting and disclosure.

The scope of the evaluation has not included the joint venture entered into in the third quarter of 2008, Palko. Palko's controls will be evaluated during the second quarter of 2009.

The existence of the identified control weakness need not be interpreted as evidence of a lack of integrity, of unsound business practices or of unacceptable risks to an entity's shareholders and related parties. It should be noted that while Deepwell's principal executive officer and principal financial officer believe that Deepwell's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that Deepwell's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

ADDITIONAL INFORMATION

Additional information relating to the Trust, including the Trust's Annual Information Form, may be found under the Trust's profile on SEDAR at www.sedar.com.