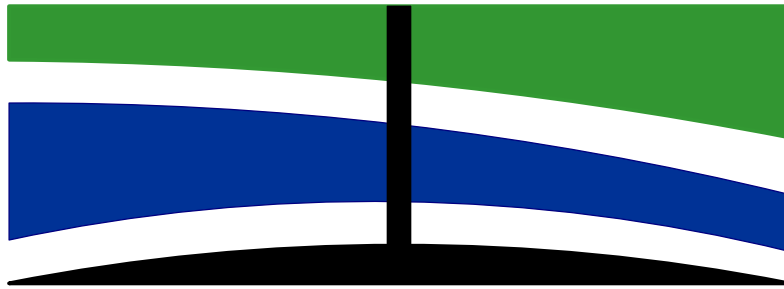


Deepwell



Energy Services

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

DEEPWELL ENERGY SERVICES TRUST

June 30, 2009

Unaudited – Prepared by Management

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2009 and 2008.

Deepwell Energy Services Trust

Interim Consolidated Balance Sheets

(unaudited)

	June 30 2009	December 31 2008
Assets		
Current assets		
Cash	\$ 280,648	\$ 746,078
Accounts receivable	2,116,356	2,919,425
Inventory	400,298	207,477
Prepaid expenses and deposits	128,796	384,645
	<u>2,926,098</u>	<u>4,257,625</u>
Property, plant and equipment (Note 4)	49,279,803	49,847,709
Intangible assets (Note 5)	2,414,376	2,583,924
Goodwill	2,030,676	2,030,676
	<u>\$ 56,650,953</u>	<u>\$ 58,719,934</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 319,981	\$ 343,417
Accounts payable and accrued liabilities	1,660,877	1,527,023
Operating loan (Note 6)	700,000	50,000
Taxes payable	-	25,694
Current portion of long-term debt (Note 6)	3,475,020	3,475,020
Reclassified long-term debt (Note 6)	14,396,510	14,396,510
	<u>20,552,388</u>	<u>19,817,664</u>
Future income taxes	449,000	465,500
Asset retirement obligation (Note 7)	1,263,392	1,205,123
	<u>22,264,780</u>	<u>21,488,287</u>
Unitholders' Equity		
Trust units (Note 8)	56,386,571	56,386,571
Contributed surplus (Note 8)	1,086,341	1,253,452
Deficit	(23,086,739)	(20,408,376)
	<u>34,386,173</u>	<u>37,231,647</u>
	<u>\$ 56,650,953</u>	<u>\$ 58,719,934</u>
Basis of presentation (Note 1)		
Commitments (Note 12)		
Subsequent event (Note 14)		

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Interim Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

For the three and six months ended June 30
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenue	\$ 2,149,900	\$ 4,738,690	\$ 5,416,026	\$ 9,866,380
Operating expenses	1,716,230	2,852,928	4,029,290	5,580,583
Operating margin	433,670	1,885,762	1,386,736	4,285,797
Expenses				
General and administrative	474,095	688,254	1,236,640	1,165,968
Unit-based compensation (Note 8)	132,889	121,509	(167,111)	241,939
Interest and financing costs	309,020	152,629	512,294	262,544
Depreciation and accretion	1,167,464	1,108,582	2,311,162	2,032,359
Amortization of intangible assets	83,462	86,129	169,548	170,161
Loss on sale of property and equipment	-	42	-	11,458
	2,166,930	2,157,145	4,062,533	3,884,429
(Loss) income before income taxes	(1,733,260)	(271,383)	(2,675,797)	401,368
Income taxes				
Current income tax provision	1,350	-	19,066	-
Future income tax reduction	(6,000)	-	(16,500)	-
	(4,650)	-	2,566	-
Net (loss) income and comprehensive (loss) income for the period	(1,728,610)	(271,383)	(2,678,363)	401,368
Deficit, beginning of period	(21,358,129)	(8,135,964)	(20,408,376)	(7,517,911)
Distributions to unitholders	-	(1,292,051)	-	(2,582,855)
Deficit, end of period	\$ (23,086,739)	\$ (9,699,398)	\$ (23,086,739)	\$ (9,699,398)
Net (loss) income per Trust unit				
Basic and diluted	\$ (0.24)	\$ (0.04)	\$ (0.37)	\$ 0.06
Weighted average number of Trust units (Note 8)				
Basic	7,200,198	7,180,086	7,200,198	7,180,086
Diluted	7,200,198	7,184,666	7,200,198	7,184,021

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Interim Consolidated Statements of Cash Flows

For the three and six months ended June 30
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Operating activities				
Net (loss) income for the period	\$ (1,728,610)	\$ (271,383)	\$ (2,678,363)	\$ 401,368
Non-cash items				
Unit-based compensation	132,889	121,509	(167,111)	241,939
Depreciation and accretion	1,167,464	1,108,582	2,311,162	2,032,359
Amortization of intangible assets	83,462	86,129	169,548	170,161
Loss on sale of property and equipment	-	42	-	11,458
Future income tax reduction	(6,000)	-	(16,500)	-
	(350,795)	1,044,879	(381,264)	2,857,285
Change in non-cash working capital (Note 9)	545,341	351,968	1,623,036	(762,028)
Cash from operating activities	194,546	1,396,847	1,241,772	2,095,257
Investing activities				
Expenditures on property, plant and equipment	(434,830)	(858,390)	(1,684,987)	(3,770,183)
Proceeds on sale of property, plant and equipment	-	1,313	-	4,813
Change in non-cash working capital (Note 9)	(369,086)	(671,795)	(648,779)	(1,244,086)
Cash used in investing activities	(803,916)	(1,528,872)	(2,333,766)	(5,009,456)
Financing activities				
Advances (repayments) of bank indebtedness	319,981	-	(23,436)	-
Advances of long-term debt	-	1,000,000	-	5,200,000
Advances of operating loan	50,000	700,000	650,000	150,000
Distribution payments	-	(1,259,739)	-	(2,498,423)
Cash flow from financing activities	369,981	440,261	626,564	2,851,577
(Decrease) increase in cash	(239,389)	308,236	(465,430)	(62,622)
Cash (bank indebtedness), beginning of period	520,037	(411,395)	746,078	(40,537)
Cash (bank indebtedness), end of period	\$ 280,648	\$ (103,159)	\$ 280,648	\$ (103,159)
Supplementary information				
Interest paid	\$ 255,253	\$ 133,536	\$ 459,162	\$ 239,634

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

1. Nature of the organization and basis of presentation

Deepwell Energy Services Trust (the "Trust") is an open-ended unincorporated investment Trust governed by the laws of the Province of Alberta and created pursuant to a Declaration of Trust dated April 21, 2006.

These unaudited interim consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As at June 30, 2009, the Trust had a working capital deficit of \$17,626,290 (December 31, 2008 – \$15,560,039) and an accumulated deficit of \$23,086,739 (December 31, 2008 – \$20,408,376). Of the working capital deficit at June 30, 2009, \$14,396,510 is related to long-term debt that has been reclassified to current liabilities (Note 6). A loan amending agreement dated June 10, 2009 was proposed by the lender and includes the requirement for the Trust to raise an additional \$5,000,000 in debt or equity. Failure to raise this required equity capital represents a default under the agreement and a fee will be payable. Subsequent to June 30, 2009, the Trust signed a letter of intent with a third party for a proposed private placement and a strategic relationship (see note 14). The Trust continues to consider various alternatives to remedy any future shortfall in capital. The Trust may deem it necessary to raise capital through equity markets, debt markets or other financing arrangements. There is no assurance this capital will be available.

The ability of the Trust to continue as a going concern will depend on achieving and maintaining profitable operations and may also depend on raising additional financing sufficient to meet all obligations. Although in the opinion of management, the use of the going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful. These unaudited consolidated interim financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate (Note 6). Such adjustments could be material.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the audited December 31, 2008 consolidated financial statements except certain disclosures have been condensed or omitted. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the notes contained in the Trust's audited December 31, 2008 consolidated financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates.

These unaudited interim consolidated financial statements include the accounts of the Trust, its wholly owned subsidiary Deepwell Energy Services LP ("Deepwell LP"), Deepwell LP's subsidiaries Deepwell Energy Services Commercial Trust and Deepwell Energy Services Ltd. and its joint interest investment in Palko Energy Ltd. after the elimination of intercompany transactions and balances.

The Trust provides water disposal and oilfield waste management services, including treating, processing and disposing of oilfield wastes and custom treating of oil/water emulsions. The operating results for the three and six months ended June 30, 2009 may not be indicative of the results for the year ended December 31, 2009.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

2. Change in accounting policy

On January 1, 2009, the Trust adopted the revised Canadian accounting standard Section 3064 Goodwill and Intangible Assets which replaces the previous goodwill and intangible asset standard and revised the requirement for recognition, measurement, presentation and disclosure of intangible assets. Prior periods have not been restated. The adoption of this change had no impact on the Trust's unaudited interim consolidated financial statements.

3. Acquisition of Palko Energy Ltd.

On September 25, 2008, Deepwell Energy Services Ltd. acquired a 50% joint interest in Palko Energy Ltd ("Palko"), based out of Midale, Saskatchewan for net cash consideration of \$3,978,265. Palko currently operates one facility which provides treatment, processing and disposal of oilfield waste to customers in south eastern Saskatchewan. The operating results of Palko are proportionately consolidated effective the closing date of the transaction.

The Trust's proportionate share of Palko's results included in these unaudited interim consolidated financial statements are as follows:

As at June 30, 2009

Cash	\$	280,648
Other current assets		<u>401,801</u>
Current assets		682,449
Long term assets		<u>3,110,439</u>
	\$	<u><u>3,792,888</u></u>
Current liabilities	\$	1,378,553
Long term liabilities		<u>564,581</u>
	\$	<u><u>1,943,134</u></u>

	Three months ended <u>June 30, 2009</u>	Six months ended <u>June 30, 2009</u>
Revenue	\$ 276,386	\$ 640,880
Operating expenses	<u>212,019</u>	<u>370,325</u>
	64,367	270,555
General and administrative	<u>20,596</u>	<u>41,797</u>
	43,771	228,758
Depreciation	65,090	138,950
Income tax	<u>(4,650)</u>	<u>2,566</u>
Net (loss) income	\$ <u>(16,669)</u>	\$ <u>87,242</u>
Cashflows from operating activities	\$ 91,317	\$ 283,817
Cashflows used in investing activities	<u>(317,248)</u>	<u>(749,247)</u>
	<u><u>(225,931)</u></u>	<u><u>(465,430)</u></u>

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

4. Property, plant and equipment

	Cost	June 30, 2009 Accumulated Depreciation	Net Book Value
Disposal wells	\$ 33,320,639	\$ 6,018,798	\$ 27,301,841
Pipelines	3,957,782	620,612	3,337,170
Oilfield service equipment & tanks	13,135,680	2,696,271	10,439,409
Site improvements	4,772,239	924,842	3,847,397
Buildings	3,918,229	415,137	3,503,092
Administrative	1,434,472	583,578	850,894
	<u>\$ 60,539,041</u>	<u>\$ 11,259,238</u>	<u>\$ 49,279,803</u>

5. Intangible assets

	Cost	June 30, 2009 Accumulated Amortization	Net Book Value
Completions and contracts	\$ 2,115,000	\$ 305,385	\$ 1,809,615
Customer relations	1,310,000	705,239	604,761
Non-competition agreements	48,000	48,000	-
	<u>\$ 3,473,000</u>	<u>\$ 1,058,624</u>	<u>\$ 2,414,376</u>

6. Credit facilities

The renewal of the Trust's credit facilities on September 19, 2008 expired on May 28, 2009. A loan amending agreement was proposed effective June 10, 2009 with the following terms:

a) Demand loan

\$2,000,000 facility limit at June 30, 2009 and December 31, 2008

Outstanding drawings at June 30, 2009 \$700,000 (December 31, 2008 – \$50,000)

The operating loan was converted to a demand loan facility bearing interest at the lender's prime rate plus 4 percent with unused amounts subject to standby fees of 1.5%. Deepwell is subject to financial covenants of maintaining a minimum working capital ratio of 1.25:1, less than a 20% negative variance in actual to forecasted earnings before interest, income taxes, depreciation and amortization ("EBITDA"), and less than a \$1,500,000 negative variance in actual equity to forecasted equity. The Trust is in compliance with these covenants as at June 30, 2009.

b) Extendible revolving term loan

The Trust has a three year extendible term loan to May 31, 2010. At this time, a payment of \$1,500,000 is required on May 31, 2010. If the loan is not extended by the bank for an additional 364 day period, the balance of the loan shall be amortized over two years and repaid in full by May 31, 2012.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

6. Credit facilities *(continued)*

b) Extendible revolving term loan *(continued)*

The facility loan authorization is limited to \$20,148,032 plus up to an additional \$1,007,000 to fund non-discretionary capital expenditures and bears interest at the lender's prime rate plus 4 percent with any unused amounts subject to standby fees. The proposed agreement includes a requirement to raise \$5,000,000 in equity. Failure to provide satisfactory evidence of the required equity capital represents a default (Note 14).

Annual principal repayments required over the term of this loan are as follows:

2009	\$	5,000,000
2010		4,816,696
2011		5,685,765
2012		<u>2,369,069</u>
	\$	<u><u>17,871,530</u></u>

As security for the credit facilities, Deepwell LP granted the lender a security interest over all of its assets. In addition, the Trust and its subsidiaries guaranteed the indebtedness of Deepwell LP under the credit facilities with such guarantee being secured by all of the assets of each such guarantor. In respect of any proceeds resulting from the enforcement of the credit facilities or the above-mentioned guarantees, the lenders will have a prior ranking claim relative to the units. Additionally, the shares of Palko held by Deepwell Energy Services Ltd. are pledged as security under the credit facilities.

7. Asset retirement obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the retirement of the Trust's property, plant and equipment:

Balance – December 31, 2008	\$	1,205,123
Additions		5,494
Accretion		<u>52,775</u>
Balance – June 30, 2009	\$	<u><u>1,263,392</u></u>

The following significant assumptions were used to estimate the asset retirement obligation:

Undiscounted cash flows	\$	4,500,000
Discount rate		8.5%
Inflation rate		2%
Weighted average expected timing of cash flows		20 years

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

8. Unitholders' equity

a) Issued

Trust units

	Number	Amount
Balance – December 31, 2008 and June 30, 2009	7,200,198	\$ 56,386,571

Special Voting Rights

No Special Voting Units have been issued since inception of the Trust.

b) Trust unit options

In January 2009, the Trust granted 461,833 trust unit options to directors, employees and consultants. The options are exercisable at \$1.02 per Trust unit, expire in January 2014 and vest equally over a three year period commencing one year from the date of grant. The initial fair value of these options was estimated to be \$294,648 using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 1.28% and volatility of 77%. All options outstanding for consultants have been revalued as at June 30, 2009.

	Number of options	Weighted average exercise price
Balance – December 31, 2008	206,004	\$ 6.83
Granted	461,833	1.02
Forfeited\cancelled	(286,222)	1.28
Balance - June 30, 2009	381,615	\$ 3.97

Details of trust unit options outstanding and exercisable at June 30, 2009 is summarized as follows:

Exercise Price	Quantity	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Quantity	Weighted Average Exercise Price
\$1.02	188,833	4.56	1.02	–	–
\$4.15	26,667	3.78	4.15	9,002	4.15
\$5.45	54,115	3.21	5.45	18,507	5.45
\$8.12 – \$8.61	112,000	2.16	8.19	74,830	8.19
	381,615	3.61	3.97	102,339	7.34

c) Contributed surplus

Balance, December 31, 2008	\$ 1,253,452
Unit-based compensation expense (note 8b)	<u>(167,111)</u>
Balance, June 30, 2009	<u>\$ 1,086,341</u>

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

8. Unitholders' equity (continued)

d) Cash distributions

Pursuant to the declaration of Trust, the Trust is required to pay to unitholders the net income of the Trust determined pursuant to the provisions of the Income Tax Act (Canada). Such distributions are recorded as reductions of equity upon declaration of the distribution. For the three and six months ended June 30, 2008, the Trust declared \$1,292,051 and \$2,582,855 in distributions. Effective December 19, 2008 the Trust announced the indefinite suspension of distribution payments.

9. Change in non-cash working capital

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Accounts receivable	\$ 1,007,982	\$ 449,296	\$ 803,069	\$ (516,212)
Inventory	(42,955)	(380,753)	(192,821)	(479,178)
Prepaid expenses and deposits	(1,688)	(19,385)	255,849	6,655
Accounts payable and accrued liabilities	(743,674)	(368,985)	133,854	(1,017,379)
Taxes payable	(43,410)	-	(25,694)	-
	<u>\$ 176,255</u>	<u>\$ (319,827)</u>	<u>\$ 974,257</u>	<u>\$ (2,006,114)</u>

The change in non-cash working capital has been allocated to the following activities:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Operating	\$ 545,341	\$ 351,968	\$ 1,623,036	(762,028)
Investing	(369,086)	(671,795)	(648,779)	(1,244,086)
	<u>\$ 176,255</u>	<u>\$ (319,827)</u>	<u>\$ 974,257</u>	<u>\$ (2,006,114)</u>

10. 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, long-term debt, and unitholders' equity.

	June 30, 2009	December 31, 2008
Working capital deficit	\$ (17,626,290)	\$ (15,560,039)
Unitholders' equity	<u>34,386,173</u>	<u>37,231,647</u>
	<u>\$ 16,759,883</u>	<u>\$ 21,671,608</u>

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

10. Capital management *(continued)*

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 (Note 6).

The Trust had amended its' capital management strategy in response to the covenant breach in the first quarter of 2009 as discussed in Note 1. As well, the Trust suspended distributions indefinitely in December 2008.

11. Financial instruments and financial risk management

The Trust's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, operating loan and long-term debt, including current and reclassified portions. 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.

This note presents information about the Trust's exposure to each of the above risks and the Trust's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

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 follows:

a) Credit risk

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Trust's accounts receivable is due from an oil marketer and is subject to normal industry credit risks. The purchaser of the Trust's oil is subject to credit review to minimize the risk of non-payment. As at June 30, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$2,116,356 (December 31, 2008 – \$2,919,425).

The Trust's policy to mitigate credit risk associated with these balances is to establish relationships with large purchasers. The Trust historically has not experienced any significant collection issues with its marketers. The majority of the remaining receivable balances have been reviewed for collectability.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

11. Financial instruments and financial risk management *(continued)*

a) Credit risk *(continued)*

The Trust would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted. As at June 30, 2009, the Trust considers its receivables to be aged as follows:

Current	\$	1,264,575
Past due by less than 90 days		379,926
Past due by more than 90 days		471,855
	\$	<u>2,116,356</u>

b) Liquidity risk

Liquidity risk is the risk that the Trust will incur difficulties meeting its financial obligations as they are due. The Trust's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions without incurring unacceptable losses or risking harm to the Trust's reputation.

As the Trust pursues additional opportunities, annual capital expenditure budgets will be prepared, regularly monitored and updated as considered necessary. The Trust monitors its cash flow monthly. The Trust's financial liabilities are comprised of accounts payable and accrued liabilities, operating loan and long term debt. Accounts payable and accrued liabilities have an expected maturity of less than one year. Amounts owing under the operating loan and long-term debt are disclosed in note 6. As at June 30, 2009, the Trust has a working capital deficit of \$17,626,290.

c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Trust may use both financial derivatives and physical delivery sales contracts to manage market risks.

All such transactions are conducted in accordance with a risk management policy as set out herein:

i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Trust's oil sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum are impacted by changes in the exchange rate between the Canadian and United States dollar. The Trust has not entered into any forward exchange rate contracts as at June 30, 2009.

ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. The Trust has not entered into any commodity contracts as at June 30, 2009.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

11. Financial instruments and financial risk management *(continued)*

c) Market risk *(continued)*

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Trust is exposed to interest rate fluctuations on its operating loan and long term debt for which the interest rate fluctuates based on the prime rate of interest. For the three and six months ended June 30, 2009, if interest rates had been 1% higher with all other variables held constant, the loss for the period would have been approximately \$46,000 and \$91,000 respectively higher (three and six months ended June 30, 2008 – \$25,000 and \$43,000 lower earnings) due to higher interest expense. An equal and opposite impact would have occurred had interest rates been lower by the same amounts. The Trust had no interest rate swap or financial contracts in place at June 30, 2009.

12. Commitments

The Trust is committed to the following future minimum payments under lease contracts for office space and two vehicles with varying expiration dates:

2009 (remainder)	\$	642,131
2010		659,549
2011		499,947
2012		129,206
2013		121,099
Thereafter		<u>731,178</u>
	\$	<u><u>2,783,110</u></u>

Commitments primarily include the office lease (\$400,552), facility leases where the plants are located (\$998,782), equipment lease (\$261,984), management fees payable to Palko's other 50% owner (\$742,500 – See Note 13), and capital commitments (\$298,325).

13. Related party transactions

- a) During the three and six months ended June 30, 2009, the Trust was charged \$nil and \$33,048 (2008 - \$nil) in legal fees by a firm who employs one of the directors. This individual ceased to be a director subsequent to March 31, 2009.
- b) During the three and six months ended June 30, 2009, the Trust provided certain assets and other services to Palko at a cost of \$1,005 and \$4,540 (2008 – nil). These amounts have been proportionately eliminated upon consolidation.
- c) During the three and six months ended June 30, 2009, the Trust paid management fees of \$82,500 and \$165,000 to two corporations who own 50% of Palko. In total, these corporations are paid a monthly management fee of \$55,000 based on a management agreement. The Trust is responsible for paying its 50% share of this management fee.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

June 30, 2009
(unaudited)

13. Related party transactions *(continued)*

- d) During the three and six months ended June 30, 2009, the Trust was charged \$20,636 and \$28,136 for professional services by a company who is controlled by the individual acting as chief financial officer of the Company. Included in accounts payable and accrued liabilities at June 30, 2009 is \$6,932 (December 31, 2008 - nil) due to this corporation.
- e) During the three and six months ended June 30, 2009, the Trust was charged \$35,000 and \$39,516 for professional services by a corporation who is controlled by the individual acting as chief executive officer of the Company. For the three and six months ended June 30, 2009, the fees charged include \$22,500 and \$25,403 respectively for the CEO function and \$12,500 and \$14,113 for the individual performing corporate secretarial functions. Included in accounts payable and accrued liabilities at June 30, 2009 is \$12,250 (December 31, 2008 - nil) due to this corporation.

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

14. Subsequent event

Subsequent to June 30, 2009, the Trust signed a letter of intent with a third party for a proposed private placement and a strategic relationship. The proposed private placement provides the required equity pursuant to the credit facility (Note 6). The agreement is conditional upon the Trust obtaining unitholder approval of the private placement, a rights offering being issued and regulatory approvals.