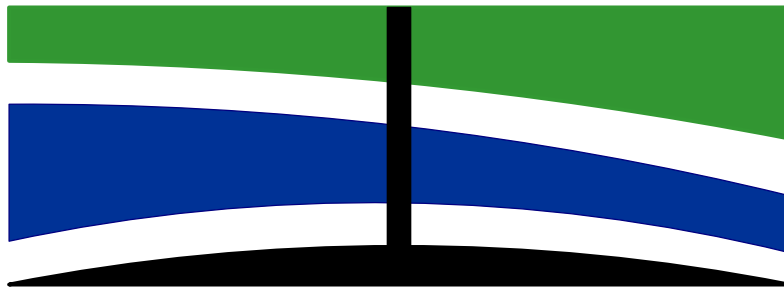


Deepwell



Energy Services

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

DEEPWELL ENERGY SERVICES TRUST

March 31, 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 months ended March 31, 2009 and 2008.

Deepwell Energy Services Trust

Interim Consolidated Balance Sheets

(unaudited)

| | March 31 2009 | December 31 2008 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 520,037 | \$ 746,078 |
| Accounts receivable | 3,124,338 | 2,919,425 |
| Inventory | 357,343 | 207,477 |
| Prepaid expenses and deposits | 127,108 | 384,645 |
| | <u>4,128,826</u> | <u>4,257,625</u> |
| Property, plant and equipment (Note 4) | 49,986,774 | 49,847,709 |
| Intangible assets (Note 5) | 2,497,838 | 2,583,924 |
| Goodwill | 2,030,676 | 2,030,676 |
| | <u>\$ 58,644,114</u> | <u>\$ 58,719,934</u> |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness | \$ — | \$ 343,417 |
| Accounts payable and accrued liabilities | 2,404,551 | 1,527,023 |
| Operating loan (Note 6) | 650,000 | 50,000 |
| Taxes payable | 43,410 | 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>20,969,491</u> | <u>19,817,664</u> |
| Future income taxes | 455,000 | 465,500 |
| Asset retirement obligation (Note 7) | 1,237,729 | 1,205,123 |
| | <u>22,662,220</u> | <u>21,488,287</u> |
| Unitholders' Equity | | |
| Trust units (Note 8) | 56,386,571 | 56,386,571 |
| Contributed surplus (Note 8) | 953,452 | 1,253,452 |
| Deficit | (21,358,129) | (20,408,376) |
| | <u>35,981,894</u> | <u>37,231,647</u> |
| | <u>\$ 58,644,114</u> | <u>\$ 58,719,934</u> |
| Basis of presentation (Note 1) | | |
| Commitments (Note 12) | | |

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 months ended March 31
(unaudited)

| | 2009 | 2008 |
|---|-----------------|----------------|
| Revenue | \$ 3,266,126 | \$ 5,127,690 |
| Operating expenses | 2,313,060 | 2,727,653 |
| Operating margin | 953,066 | 2,400,037 |
| Expenses | | |
| General and administrative | 762,545 | 477,714 |
| Unit-based compensation (Note 8) | (300,000) | 120,430 |
| Interest and financing costs | 203,274 | 109,915 |
| Depreciation and accretion | 1,143,698 | 923,777 |
| Amortization of intangible assets | 86,086 | 84,032 |
| Loss on sale of property and equipment | — | 11,416 |
| | 1,895,603 | 1,727,284 |
| (Loss) income before income taxes | (942,537) | 672,753 |
| Income taxes | | |
| Current income tax provision | 17,716 | — |
| Future income tax reduction | (10,500) | — |
| | 7,216 | — |
| Net (loss) income and comprehensive (loss) income for the period | (949,753) | 672,753 |
| Deficit, beginning of period | (20,408,376) | (7,517,911) |
| Distributions to unitholders | — | (1,290,806) |
| | (20,408,376) | (8,808,717) |
| Deficit, end of period | \$ (21,358,129) | \$ (8,135,964) |
| Net loss per Trust unit | | |
| Basic and diluted | \$ (0.13) | \$ 0.09 |
| Weighted average number of Trust units (Note 8) | | |
| Basic and diluted | 7,200,198 | 7,173,770 |

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Interim Consolidated Statements of Cash Flows

For the three months ended March 31
(unaudited)

| | 2009 | 2008 |
|---|--------------------|---------------------|
| Operating activities | | |
| Net (loss) income for the period | \$ (949,753) | \$ 672,753 |
| Non-cash items | | |
| Unit-based compensation | (300,000) | 120,430 |
| Depreciation and accretion | 1,143,698 | 923,777 |
| Amortization of intangible assets | 86,086 | 84,032 |
| Loss on sale of property and equipment | – | 11,416 |
| Future income tax reduction | (10,500) | – |
| | (30,469) | 1,812,408 |
| Change in non-cash working capital (Note 9) | 1,077,695 | (520,636) |
| Cash provided by operating activities | 1,047,226 | 1,291,772 |
| Investing activities | | |
| Expenditures on property, plant and equipment | (1,250,157) | (2,911,794) |
| Proceeds on sale of property, plant and equipment | – | 3,500 |
| Change in non-cash working capital (Note 9) | (279,693) | (1,166,287) |
| Cash used in investing activities | (1,529,850) | (4,074,581) |
| Financing activities | | |
| Repayment of bank indebtedness | (343,417) | – |
| Advances of long-term debt | – | 4,200,000 |
| Advances (repayment) of operating loan | 600,000 | (550,000) |
| Distribution payments | – | (1,238,049) |
| Cash flow from financing activities | 256,583 | 2,411,951 |
| Decrease in cash | (226,041) | (370,858) |
| Cash (bank indebtedness), beginning of period | 746,078 | (40,537) |
| Cash (bank indebtedness), end of period | \$ 520,037 | \$ (411,395) |
| Supplementary information | | |
| Interest paid | \$ 197,999 | \$ 106,098 |

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 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 March 31, 2009, the Trust had a working capital deficit of \$16,840,665 (December 31, 2008 – \$15,560,039) and an accumulated deficit of \$21,612,414 (December 31, 2008 – \$20,408,376). Of the working capital deficit at March 31, 2009, \$14,396,510 is related to long-term debt that has been reclassified to current liabilities due to a covenant violation (Note 6). The Trust is considering 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 ended March 31, 2009 may not be indicative of the results for the year ended December 31, 2009.

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.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

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 March 31, 2009

| | | |
|-----------------------|----|-------------------------|
| Cash | \$ | 506,579 |
| Other current assets | | <u>412,084</u> |
| Current assets | | 918,663 |
| Long term assets | | <u>2,855,926</u> |
| | \$ | <u><u>3,774,589</u></u> |
| Current liabilities | \$ | 1,339,943 |
| Long term liabilities | | <u>568,225</u> |
| | \$ | <u><u>1,908,168</u></u> |

For the three months ended March 31, 2009

| | | |
|--|----|-------------------------|
| Revenue | \$ | 364,494 |
| Expenses | | 253,367 |
| Income tax | | <u>7,216</u> |
| Net income | \$ | <u>103,911</u> |
| Cashflows from operating activities | \$ | 192,500 |
| Cashflows used in investing activities | | <u>(431,999)</u> |
| | \$ | <u><u>(239,499)</u></u> |

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

4. Property, plant and equipment

| | Cost | March 31, 2009 Accumulated Depreciation | Net Book Value |
|------------------------------------|----------------------|---|----------------------|
| Disposal wells | \$ 33,290,991 | \$ 5,591,247 | \$ 27,699,744 |
| Pipelines | 3,957,782 | 535,773 | 3,422,009 |
| Oilfield service equipment & tanks | 12,818,520 | 2,316,460 | 10,502,060 |
| Site improvements | 4,760,450 | 826,361 | 3,934,089 |
| Buildings | 3,918,229 | 326,301 | 3,591,928 |
| Administrative | 1,358,239 | 521,295 | 836,944 |
| | <u>\$ 60,104,211</u> | <u>\$ 10,117,437</u> | <u>\$ 49,986,774</u> |

5. Intangible assets

| | Cost | March 31, 2009 Accumulated Amortization | Net Book Value |
|----------------------------|---------------------|---|---------------------|
| Completions and contracts | \$ 2,115,000 | \$ 278,960 | \$ 1,836,040 |
| Customer relations | 1,310,000 | 649,536 | 660,464 |
| Non-competition agreements | 48,000 | 46,666 | 1,334 |
| | <u>\$ 3,473,000</u> | <u>\$ 975,162</u> | <u>\$ 2,497,838</u> |

6. Credit facilities

The Trust renewed its existing credit facilities on September 19, 2008 with a Canadian chartered bank which consist of the following at March 31, 2009:

a) Extendible revolving operating loan

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

Outstanding drawings at March 31, 2009 \$650,000 (December 31, 2008 – \$50,000)

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.

b) 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.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

6. Credit facilities *(continued)*

b) Extendible revolving term loan *(continued)*

\$2,276,502 in letters of guarantee have been issued under this facility. At the option of the Trust, this facility may be utilized by way of banker's acceptances up to 50 percent of the authorized credit available with interest calculated at lender's prime rate plus 1.125 percent to 2.625 percent based on the funded debt to EBITDA ratio.

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

| | | |
|------|----|-------------------|
| 2009 | \$ | 3,475,020 |
| 2010 | | 5,957,177 |
| 2011 | | 5,957,177 |
| 2012 | | <u>2,482,156</u> |
| | \$ | <u>17,871,530</u> |

As at March 31, 2009, the Trust has breached the financial covenant which requires a minimum consolidated equity position, excluding Palko, of \$35,000,000. This breach was reported to the creditor and negotiations have commenced in conjunction with the May 2009 credit facility review. As no waiver has been obtained from the creditor and a further breach of covenants is possible prior to the finalization of the credit facility review, the long term debt has been reclassified to current liabilities. Negotiations with the creditor are on going.

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>27,112</u> |
| Balance – March 31, 2009 | \$ | <u>1,237,729</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

March 31, 2009
(unaudited)

8. Unitholders' equity

a) Issued

Trust units

| | Number | Amount |
|--|-----------|---------------|
| Balance – December 31, 2008 and March 31, 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 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 to non-employees have been revalued as at March 31, 2009.

| | Number of options | Weighted average exercise price |
|-----------------------------|-------------------|---------------------------------|
| Balance – December 31, 2008 | 206,004 | \$ 6.83 |
| Granted | 461,833 | 1.02 |
| Forfeited\cancelled | (274,889) | 1.12 |
| Balance – March 31, 2009 | 392,948 | 4.00 |

Details of trust unit options outstanding and exercisable at March 31, 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 | 192,833 | 4.81 | 1.02 | – | – |
| \$4.15 | 27,000 | 4.02 | 4.15 | – | – |
| \$5.45 | 56,615 | 3.46 | 5.45 | 19,508 | 5.45 |
| \$8.12 – \$8.61 | 116,500 | 2.41 | 8.18 | 78,830 | 8.18 |
| | 392,948 | 3.85 | 4.00 | 98,338 | 7.64 |

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

8. Unitholders' equity (continued)

d) Contributed surplus

| | |
|---|-------------------|
| Balance, December 31, 2008 | \$ 1,253,452 |
| Unit-based compensation expense (note 8b) | <u>(300,000)</u> |
| Balance, March 31, 2009 | <u>\$ 953,452</u> |

For the three months ended March 31, 2009, a credit of \$300,000 was recognized to unit-based compensation expense due to the revaluation of options for non employees and for changing termination dates which resulted in a reversal of unit based compensation relating to previously cancelled options.

e) 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. During 2008, the Trust declared \$1,290,806 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 March 31 | |
|--|-----------------------------|-----------------------|
| | <u>2009</u> | <u>2008</u> |
| Accounts receivable | \$ (204,913) | \$ (966,144) |
| Inventory | (149,866) | (98,425) |
| Prepaid expenses and deposits | 257,537 | 26,040 |
| Accounts payable and accrued liabilities | 877,528 | (648,394) |
| Taxes payable | <u>17,716</u> | <u>—</u> |
| | <u>\$ 798,002</u> | <u>\$ (1,686,923)</u> |

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

| | Three months ended March 31 | |
|-----------|-----------------------------|-----------------------|
| | <u>2009</u> | <u>2008</u> |
| Operating | \$ 1,077,695 | (520,636) |
| Investing | <u>(279,693)</u> | <u>(1,166,287)</u> |
| | <u>\$ 798,002</u> | <u>\$ (1,686,923)</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.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

10. Capital management *(continued)*

The Trust considers its capital structure to include working capital, long-term debt, and unitholders' equity.

| | March 31 2009 | December 31 2008 |
|-------------------------|------------------|---------------------|
| Working capital deficit | \$ (16,840,665) | \$ (15,560,039) |
| Unitholders' equity | 35,981,894 | 37,231,647 |
| | \$ 19,141,229 | \$ 21,671,608 |

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, in particular, the funded debt to EBITDA covenant as defined in note 6. For the purposes of this covenant, funded debt consists of the current and long-term portions of bank debt, operating loan advances and commitments at the balance sheet date. The targeted ratio of funded debt to EBITDA is 2.50:1 with a maximum limit under the bank covenant of 2.75:1. As at March 31, 2009, the Trust was in breach of this financial covenant.

The Trust has amended its' capital management strategy in response to the covenant breach as discussed in notes 1 and 6. 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.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

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

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 March 31, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$3,124,338 (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.

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 March 31, 2009, the Trust considers its receivables to be aged as follows:

| | | |
|-------------------------------|----|------------------|
| Current | \$ | 1,694,822 |
| Past due by less than 90 days | | 1,010,918 |
| Past due by more than 90 days | | 418,598 |
| | \$ | <u>3,124,338</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 March 31, 2009, the Trust has a working capital deficit of \$16,840,665.

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.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

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

c) Market risk *(continued)*

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 March 31, 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 March 31, 2009.

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 months ended March 31, 2009, if interest rates had been 1% higher with all other variables held constant, the loss for the period would have been approximately \$45,000 higher (three months ended March 31, 2008 – \$18,000 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 March 31, 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) | \$ | 222,214 |
| 2010 | | 157,909 |
| 2011 | | 99,704 |
| | \$ | <u>479,827</u> |

13. Related party transactions

- a) 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.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

March 31, 2009
(unaudited)

13. Related party transactions *(continued)*

- b) 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.
- c) 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.