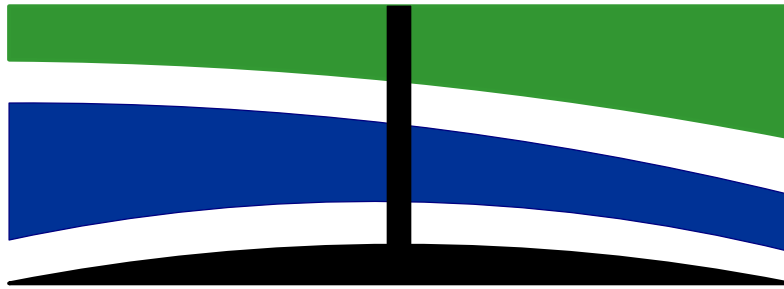


Deepwell



Energy Services

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

DEEPWELL ENERGY SERVICES TRUST

September 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 nine months ended September 30, 2009 and 2008.

Deepwell Energy Services Trust

Interim Consolidated Balance Sheets

(unaudited)

	September 30 2009	December 31 2008
Assets		
Current assets		
Cash (Note 3)	\$ 67,435	\$ 746,078
Accounts receivable	2,754,817	2,919,425
Inventory	385,593	207,477
Prepaid expenses and deposits	238,802	384,645
	<u>3,446,647</u>	<u>4,257,625</u>
Property, plant and equipment (Note 4)	48,712,639	49,847,709
Intangible assets (Note 5)	2,337,537	2,583,924
Goodwill	2,030,676	2,030,676
	<u>\$ 56,527,499</u>	<u>\$ 58,719,934</u>
Liabilities		
Current liabilities		
Bank indebtedness	\$ 156,551	\$ 343,417
Accounts payable and accrued liabilities	2,823,967	1,527,023
Demand loan (Note 6)	500,000	50,000
Taxes payable	-	25,694
Current portion of long-term debt (Note 6)	8,973,235	3,475,020
Reclassified long-term debt (Note 6)	9,398,295	14,396,510
	<u>21,852,048</u>	<u>19,817,664</u>
Future income taxes	438,000	465,500
Asset retirement obligation (Note 7)	1,289,056	1,205,123
	<u>23,579,104</u>	<u>21,488,287</u>
Unitholders' Equity		
Trust units (Note 8)	56,386,571	56,386,571
Contributed surplus (Note 8)	1,103,498	1,253,452
Deficit	(24,541,674)	(20,408,376)
	<u>32,948,395</u>	<u>37,231,647</u>
	<u>\$ 56,527,499</u>	<u>\$ 58,719,934</u>
Basis of presentation (Note 1)		
Commitments (Note 12)		
Subsequent events (Note 14)		

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the three and nine months ended September 30 (unaudited)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	\$ 3,024,851	\$ 4,861,607	\$ 8,440,877	\$ 14,727,987
Operating expenses	2,007,766	2,856,716	6,037,056	8,437,299
Operating margin	1,017,085	2,004,891	2,403,821	6,290,688
Expenses				
General and administrative	502,145	746,382	1,738,785	1,821,511
Internal restructuring charges	–	748,171	–	839,010
Unit-based compensation (Note 8)	17,157	94,226	(149,954)	336,165
Interest and financing costs (Note 6)	781,714	186,407	1,294,008	448,951
Depreciation and accretion	1,087,365	893,792	3,398,527	2,926,151
Amortization of intangible assets	76,839	86,172	246,387	256,333
Loss on sale of property and equipment	–	858	–	12,316
Impairment of goodwill	–	7,157,402	–	7,157,402
	2,465,220	9,913,410	6,527,753	13,797,839
Loss before income taxes	(1,448,135)	(7,908,519)	(4,123,932)	(7,507,151)
Income taxes				
Current income tax provision	17,800	7,432	36,866	7,432
Future income tax reduction	(11,000)	–	(27,500)	–
	6,800	7,432	9,366	7,432
Net loss and comprehensive loss for the period	(1,454,935)	(7,915,951)	(4,133,298)	(7,514,583)
Deficit, beginning of period	(23,086,739)	(9,699,398)	(20,408,376)	(7,517,911)
Distributions to unitholders	–	(1,293,434)	–	(3,876,289)
Deficit, end of period	\$ (24,541,674)	\$ (18,908,783)	\$ (24,541,674)	\$ (18,908,783)
Net (loss) income per Trust unit				
Basic and diluted	\$ (0.20)	\$ (1.10)	\$ (0.58)	\$ (1.05)
Weighted average number of Trust units (Note 8)				
Basic	7,200,198	7,188,578	7,200,198	7,188,578
Diluted	7,200,198	7,193,174	7,200,198	7,192,047

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust
Interim Consolidated Statements of Cash Flows
For the three and nine months ended September 30 (unaudited)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Operating activities				
Net loss for the period	\$ (1,454,935)	\$ (7,915,951)	\$ (4,133,298)	\$ (7,514,583)
Non-cash items				
Unit-based compensation	17,157	94,226	(149,954)	336,165
Depreciation and accretion	1,087,365	893,792	3,398,527	2,926,151
Amortization of intangible assets	76,839	86,172	246,387	256,333
Loss on sale of property and equipment	–	858	–	12,316
Impairment of goodwill	–	7,157,402	–	7,157,402
Future income tax reduction	(11,000)	–	(27,500)	–
	(284,574)	316,499	(665,838)	3,173,784
Change in non-cash working capital (Note 9)	(449,631)	137,915	1,173,405	(1,273,649)
Cash from (used in) operating activities	(734,205)	454,414	507,567	1,900,135
Investing activities				
Expenditures on property, plant and equipment	(494,536)	(915,923)	(2,179,523)	(4,686,106)
Acquisition	–	(3,960,753)	–	(3,960,753)
Proceeds on sale of property, plant and equipment	–	–	–	4,813
Change in non-cash working capital (Note 9)	878,958	(13,828)	230,179	(609,393)
Cash from (used in) investing activities	384,422	(4,890,504)	(1,949,344)	(9,251,439)
Financing activities				
(Repayments) advances of bank indebtedness	(163,430)	31,250	(186,866)	93,872
Repayments from long-term debt	–	(1,000,000)	–	(1,000,000)
Advances of long-term debt	500,000	7,871,530	500,000	13,071,530
(Repayments) advances on demand loan	(200,000)	(700,000)	450,000	(550,000)
Distribution payments	–	(1,249,312)	–	(3,746,720)
Cash from financing activities	136,570	4,953,468	763,134	7,868,682
(Decrease) increase in cash	(213,213)	517,378	(678,643)	517,378
Cash, beginning of period	280,648	–	746,078	–
Cash, end of period	\$ 67,435	\$ 517,378	\$ 67,435	\$ 517,378
Supplementary information				
Interest paid	\$ 301,221	\$ 186,407	\$ 760,383	\$ 426,041

See accompanying notes to the interim consolidated financial statements

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 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 September 30, 2009, the Trust had a working capital deficit of \$18,405,401 (December 31, 2008 – \$15,560,039) and an accumulated deficit of \$24,541,674 (December 31, 2008 – \$20,408,376). A loan amending agreement dated August 24, 2009 was executed and includes the requirement to raise \$5 million, amended covenants upon closing of the new financing, and a renewal of the credit facilities until May 31, 2010. The lender extended the deadline for raising additional financing to November 30, 2009 in an extension agreement dated October 22, 2009. During August 2009, the Trust announced new financing comprised of a private placement of up to \$5.7 million and a rights offering of up to \$1.3 million. It is anticipated that this financing will close by November 30, 2009 (Note 14). The Trust will continue to consider various alternatives to remedy any future shortfalls 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 is dependent upon the Trust achieving and maintaining profitable operations and may also require the raising of 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 nine months ended September 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

September 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 September 30, 2009

Cash	\$	67,435
Other current assets		<u>502,725</u>
Current assets		570,160
Long term assets		<u>5,512,717</u>
	\$	<u>6,082,877</u>
Current liabilities	\$	1,554,747
Long term liabilities		<u>555,938</u>
	\$	<u>2,110,685</u>

	Three months ended September 30, 2009	Nine months ended September 30, 2009
Revenue	\$ 435,498	\$ 1,076,378
Operating expenses	<u>237,796</u>	<u>608,121</u>
	197,702	468,257
General and administrative	<u>27,312</u>	<u>69,109</u>
	170,390	399,148
Depreciation	72,078	211,028
Income tax	<u>6,800</u>	<u>9,366</u>
Net income (loss)	\$ <u>91,512</u>	\$ <u>178,754</u>
Cashflows from operating activities	\$ 14,686	\$ 298,503
Cashflows used in investing activities	<u>(211,145)</u>	<u>(960,392)</u>
	<u>\$ (196,459)</u>	<u>\$ (661,889)</u>

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

4. Property, plant and equipment

	September 30, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Disposal wells	\$ 33,320,636	\$ (6,288,215)	\$ 27,032,421
Pipelines	3,957,782	(711,952)	3,245,830
Oilfield service equipment & tanks	13,595,612	(3,121,883)	10,473,729
Site improvements	4,804,263	(1,031,712)	3,772,551
Buildings	3,920,811	(510,766)	3,410,045
Administrative	1,434,473	(656,410)	778,063
	<u>\$ 61,033,577</u>	<u>\$ (12,320,938)</u>	<u>\$ 48,712,639</u>

5. Intangible assets

	September 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Completions and contracts	\$ 2,115,000	\$ (326,522)	\$ 1,788,478
Customer relations	1,310,000	(760,941)	549,059
Non-competition agreements	48,000	(48,000)	—
	<u>\$ 3,473,000</u>	<u>\$ (1,135,463)</u>	<u>\$ 2,337,537</u>

6. Credit facilities

A loan amending agreement executed effective August 24, 2009 with an extension agreement dated October 22, 2009 includes the following terms:

a) Demand loan

The operating loan was converted to a demand loan facility with an authorized limit of \$2 million of which \$500,000 was drawn as at September 30, 2009. The loan bears interest at the lender's prime rate plus 4 % and unused amounts are subject to standby fees of 1.5%. Deepwell LP is subject to quarterly 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. Once the \$5 million in additional financing has been raised (Notes 1 and 14) and utilized to repay the extendible revolving term loan, the EBITDA covenant will be amended to be less than the greater of a 20% negative variance or \$500,000 in actual to forecasted EBITDA. A \$300,000 fee was charged upon execution of the loan amending agreement and is due by November 30, 2009.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

6. Credit facilities *(continued)*

b) Extendible revolving term loan

The term loan has an authorized limit of \$21,155,032 of which \$18,371,530 was drawn at September 30, 2009 and bears interest at the lender's prime rate plus 4% with any unused amounts subject to standby fees. A payment of \$5,000,000 is required upon closing of the rights offering (note 14) with the balance being renewed until May 31, 2010 at which time an additional payment of \$1,500,000 is required. 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. The table below shows the payments required if the loan is not extended:

2009 - remaining	\$	5,000,000
2010		4,962,530
2011		5,935,765
2012		<u>2,473,235</u>
	\$	<u><u>18,371,530</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.

The Trust has breached the EBITDA covenant as at September 30, 2009 and has advised the Lender accordingly. It is anticipated that no action will occur as a result of the new financing expected to close by November 30, 2009. As a result of this breach, the long term debt continues to be classified as current.

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>78,439</u>
Balance – September 30, 2009	\$	<u><u>1,289,056</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

September 30, 2009
(unaudited)

8. Unitholders' equity

a) Issued

Trust units

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

b) Trust unit options

The Trust granted 461,833 trust unit options exercisable at \$1.02 per trust unit to directors, employees and consultants in January 2009 and 72,500 trust unit options exercisable at \$0.86 per trust unit to employees in August 2009. The options expire five years from the date of grant, 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 (January 2009) and \$46,117 (August 2009) using the Black-Scholes pricing model based on a risk free interest rate of 1.28% to 2.49% and expected volatility of 77% to 80%.

	Number of Options	Weighted average exercise price
Balance – December 31, 2008	206,004	\$ 6.83
Granted	534,333	0.98
Forfeited/cancelled	(304,500)	1.47
Balance - September 30, 2009	435,837	\$ 3.42

Details of trust unit options outstanding and exercisable at September 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
\$ 0.86	72,500	4.87	\$ 0.86	–	\$ –
1.02	188,833	4.31	1.02	–	–
4.15	16,500	3.53	4.15	8,835	4.15
5.45	47,004	2.96	5.45	32,108	5.45
\$ 8.12 – 8.61	111,500	1.91	8.19	106,833	8.19
	435,837	3.61	\$ 3.42	147,776	\$ 7.35

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

8. Unitholders' equity (continued)

c) Contributed surplus

Balance - December 31, 2008	\$ 1,253,452
Unit-based compensation expense for trust unit options	<u>(149,954)</u>
Balance – September 30, 2009	<u>\$ 1,103,498</u>

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 nine months ended September 30, 2008, the Trust paid \$1,249,312 and \$3,746,720 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 September 30		Nine months ended September 30	
	2009	2008	2009	2008
Accounts receivable	\$ (674,373)	\$ (539,752)	\$ 164,608	\$ (1,056,979)
Inventory	14,705	133,049	(178,116)	(346,129)
Prepaid expenses and deposits	(110,006)	45,197	145,842	51,852
Accounts payable and accrued liabilities	1,163,090	(66,593)	1,296,944	(1,083,972)
Taxes payable	35,912	436,631	(25,694)	436,631
Net working capital – Palko	<u>–</u>	<u>115,555</u>	<u>–</u>	<u>115,555</u>
	<u>\$ 429,328</u>	<u>\$ 124,087</u>	<u>\$ 1,403,584</u>	<u>\$ (1,883,042)</u>

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Operating	\$ (449,630)	\$ 137,915	\$ 1,173,405	\$ (1,273,649)
Investing	<u>878,958</u>	<u>(13,828)</u>	<u>230,179</u>	<u>(609,393)</u>
	<u>\$ 429,328</u>	<u>\$ 124,087</u>	<u>\$ 1,403,584</u>	<u>\$ (1,883,042)</u>

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

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.

	September 30 2009	December 31 2008
Working capital deficit	\$ (18,405,401)	\$ (15,560,039)
Unitholders' equity	32,948,395	37,231,647
	<u>\$ 14,542,994</u>	<u>\$ 21,671,608</u>

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, bank indebtedness, accounts payable and accrued liabilities, demand loan and long-term debt. 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

September 30, 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 September 30, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$2,754,817 (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 provided an allowance for a doubtful account in the amount of \$28,976 during the three and nine months ended September 30, 2009, respectively (year ended December 31, 2008 – \$38,324). 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 September 30, 2009, the Trust considers its receivables to be aged as follows:

Current	\$	1,593,239
Past due by less than 90 days		676,633
Past due by more than 90 days		484,945
	\$	<u>2,754,817</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 bank indebtedness, accounts payable and accrued liabilities, demand loan and long term debt. Bank indebtedness represents the overdraft of the Trust's bank account balances. Accounts payable and accrued liabilities have an expected maturity of less than one year. Amounts owing under the demand loan and long-term debt are disclosed in Note 6. As at September 30, 2009, the Trust has a working capital deficit of \$18,405,401.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

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

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 September 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 September 30, 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 demand loan and long term debt for which the interest rate fluctuates based on the prime rate of interest. For the three and nine months ends September 30, 2009, if interest rates had been 1% higher with all other variables held constant, the loss for the period would have been approximately \$47,000 and \$138,000 respectively higher (three and nine months ended September 30, 2008 – \$31,000 and \$74,000 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 September 30, 2009.

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

12. Commitments

Commitments include the office leases (\$183,555), facility leases where the plants are located (\$979,182), equipment lease (\$247,146), management fees payable to Palko's other 50% owner (\$660,500), capital commitments (\$92,500), and miscellaneous of \$85,384.

The Trust is committed to the following future minimum payments:

2009 (remainder)	\$	263,205
2010		587,619
2011		415,963
2012		129,206
2013		121,099
Thereafter		731,178
	\$	<u>2,248,267</u>

13. Related party transactions

- a) During the three and nine months ended September 30, 2009, the Trust was charged \$nil and \$33,048 (2008 – \$333,607) 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 nine months ended September 30, 2009, the Trust charged Palko nil and \$4,540 (2008 – \$44,950) for certain assets and other services. These amounts have been proportionately eliminated upon consolidation.
- c) During the three and nine months ended September 30, 2009, the Trust was charged \$67,144 and \$134,796 (2008 - \$nil) for management, office and administrative services by corporations who are controlled by certain directors and officers of the Company. Included in accounts payable and accrued liabilities at September 30, 2009 is \$30,832 (December 31, 2008 – nil) due to these corporations.

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

Deepwell Energy Services Trust

Notes to Interim Consolidated Financial Statements

September 30, 2009
(unaudited)

14. Subsequent events

In August 2009, the Trust announced a \$7 million financing comprised of the following:

- a) 4,206,806 units at a price of \$0.90 per unit to be purchased by Gibson Energy ULC via a private placement with anticipated gross proceeds of \$3,786,125.
- b) 2,130,935 units at a price of \$0.90 per unit to be purchased by certain existing unitholders with anticipated gross proceeds of \$1,917,842.

This financing is anticipated to close by November 30, 2009.

- c) A rights offering of up to 1,800,049 units for maximum gross proceeds of \$1,296,035. Each unitholder will receive one right per unit held and every four rights will entitle the unitholder to purchase one unit a price of \$0.72.

This rights offering is anticipated to close during December 2009.