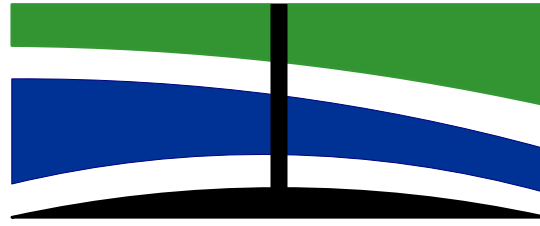


Deepwell



Energy Services

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 March 31, 2009 and should be read in conjunction with the Trust's audited consolidated financial statements as at and for the year ended December 31, 2008. This MD&A discusses operations and events for the year ended December 31, 2008 and unless otherwise noted, references to "2008" or the "year" in this MD&A refer to the year ended December 31, 2008, references to "2007" refer to the year ended December 31, 2007, references to "fourth quarter of 2008" or the "quarter" in this MD&A refer to the three months ended December 31, 2008, and references to "fourth quarter of 2007" refer to the three months ended December 31, 2007.

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"). The Trust and its subsidiaries are based in Calgary, Alberta and Palko is based in Midale, Saskatchewan (collectively "Deepwell"), 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 a statement regarding the promising future of Palko due to the likelihood of continued high levels of drilling activity and production are likely in the Bakken play. This statement is based on the assumptions that current activity 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 high 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, and intends to continue that focus. 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.
- Growth: Deepwell is primarily focused on growth through acquisition of existing waste management companies or facilities, and by adding new facilities and increasing capacity and services provided at existing 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 new and existing facilities.

2008 Overview

2008 was a challenging year within in the oil and gas industry, with record high oil prices set in the early part of the year followed by a sharp decline in oil and gas prices during the second half of the year. The downturn within the industry, as well as that within worldwide financial markets, resulted in a significant decline in third quarter drilling activity. Deepwell experienced an increase in revenue due largely to the addition of the Claresholm facility in February 2008, the purchase of a 50 percent interest in Palko in September 2008 and higher average oil prices realized during the first three quarters of the year. Operating expenses increased by 62 percent - largely due to operating costs at the Claresholm facility and higher waste oil repayments, trucking and landfill charges during the year at all facilities. As a result of the increase in operating costs, operating margin was 42 percent for the year compared to 53 percent in 2007. Despite the current economic climate, the Trust continues to generate positive operating margins and is closely monitoring its operations to achieve operational efficiencies. During the year the Trust incurred significant internal and external costs in evaluating its structure. The costs incurred relating to these changes were reported as restructuring and included severance and recruitment costs for executive changes as well as legal and consulting costs related to the Trust's planned conversion to a public company. A charge to earnings to reflect the impairment of goodwill related to the Producer's Oilfield Services assets acquired in 2006, contributed to the net loss for the year in the amount of \$8.5 million. The Trust paid distributions of \$4.6 million in 2008 which was \$0.61/unit over the year.

Key activities for the year:

- In February 2008, Deepwell completed construction and commenced operations of its Claresholm oilfield waste management facility located in southwest Alberta.
- In September 2008, Deepwell acquired a 50 percent joint interest in Palko Energy Ltd., which operates in the heart of the Bakken oil play in southeast Saskatchewan. This acquisition provides Deepwell with a strategic foothold in a new geographic region with a promising future due to continued high levels of drilling activity and the number of new producing wells brought on stream even in the current economic environment. Palko has a number of growth initiatives planned in 2009 to capitalize on this strong market.
- Deepwell incurred \$1.2 million of internal and external restructuring costs during the year in order to lay the foundation for the future. Subject to unitholder approval, Deepwell is contemplating changing its structure from a trust to a public company.

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 consolidated financial statements of the Trust.

Financial Highlights	For the twelve months ended Dec 31, 2008	For the twelve months ended Dec 31, 2007	For the three months ended Dec 31, 2008	For the three months ended Dec 31, 2007
Revenue	\$ 18,653,296	\$ 14,124,051	\$ 3,925,309	\$ 3,650,736
Operating expenses	10,755,303	6,635,001	2,318,004	1,941,216
Operating Margin	7,897,993	7,489,050	1,607,305	1,709,520
General and administrative expenses	2,543,414	2,518,213	721,903	842,448
EBITDA	\$ 5,354,579	\$ 4,970,837	\$ 885,402	\$ 867,072
Net loss	\$ (8,510,656)	\$ (557,598)	\$ (996,074)	\$ (266,819)
Per unit, basic	(1.18)	(0.10)	(0.14)	(0.04)
Per unit, diluted	(1.18)	(0.10)	(0.14)	(0.04)
EBITDA	\$ 5,354,579	\$ 4,970,837	\$ 885,402	\$ 867,072
Per unit, basic	0.75	0.89	0.12	0.12
Per unit, diluted	0.75	0.89	0.12	0.12
Funds from operations	\$ 3,720,740	\$ 4,482,814	\$ 546,956	\$ 779,107
Per unit, basic	0.52	0.80	0.08	0.11
Per unit, diluted	0.52	0.80	0.08	0.11
Distributions to Unitholders	\$ 4,379,809	\$ 4,452,949	\$ 503,520	\$ 1,288,342
Per unit, basic	0.61	0.80	0.07	0.18
Per unit, diluted	0.61	0.80	0.07	0.18
Capital expenditures	\$ 4,910,433	\$ 11,199,255	\$ 224,327	\$ 5,901,036
Total assets, end of period	\$ 58,719,934	\$ 60,246,358	\$ 58,719,933	\$ 60,246,358
Term loan, end of period	\$ 17,871,530	\$ 4,800,000	\$ 17,871,530	\$ 4,800,000
Total liabilities, end of period	\$ 21,488,287	\$ 10,468,094	\$ 21,488,287	\$ 10,468,094
Trust unit equity, end of period	\$ 56,386,571	\$ 56,229,626	\$ 56,386,571	\$ 56,229,626
Weighted average Trust units, basic	7,181,459	5,569,288	7,196,858	7,153,886
Weighted average Trust units, diluted	7,182,621	5,570,403	7,196,858	7,163,196

Revenue for the year was \$18.7 million (2007 - \$14.1 million) with an operating margin of \$7.9 million (42 percent) (2007 - \$7.5 million and 53 percent), EBITDA of \$5.4 million (29 percent) (2007 - \$5.0 million and 35 percent), and a net loss of \$8.5 million (2007 - \$0.5 million). Revenue for the quarter was \$3.9 million (2007 - \$3.6 million), with an operating margin of \$1.6 million (41 percent) (2007 - \$1.7 million and 47%), EBITDA of \$0.9 million (23 percent) (2007 - \$0.9 million and 24 percent) and a net loss of \$1.0 million (2007 - \$0.2 million)

Included in the consolidated financial statements is Deepwell's 50 percent joint interest in Palko Energy Ltd. from the date of acquisition. Deepwell's proportionate share of revenue for this period was \$0.6 million and operating margin \$0.4 million (69 percent), respectively. EBITDA for the period was \$0.4 million (57 percent). Palko operations have not experienced the rapid decline in activity that has occurred in other parts of western Canada.

Net loss for the year was \$1.18 per unit basic and diluted (2007 - net loss of \$0.10 per unit basic and diluted) and funds from operations for the year was \$0.52 per unit basic and diluted (2007 - \$0.83 basic and diluted). Distributions paid to unitholders for the year, were \$4.6 million or \$0.61 per unit (2007 - \$4.5 million or \$0.80 per unit).

A charge to earnings to reflect the impairment of goodwill, in the amount of \$7.2 million related to the Producer's Oilfield Services assets acquired in 2006, contributed to the net loss for the year in the amount of \$8.5 million.

During the fourth quarter of 2008, demand for oilfield waste management services in the Western Canadian Sedimentary Basin weakened due to the uncertainty in the oil and gas industry and the global downturn.

Results of operations

Revenue

Revenue for the year increased by \$4.5 million (32 percent) to \$18.7 million from \$14.1 million in 2007. Fourth quarter revenue was \$3.9 million compared to \$3.7 million for the same period in 2007.

	Three months ended		Year ended	
	Dec 31, 2008	Dec 31, 2007	Dec 31, 2008	Dec 31, 2007
Processing revenues	\$ 2,780,159	\$ 2,350,226	\$ 11,659,658	\$ 9,570,823
Oil revenues	1,144,844	1,297,124	6,968,537	4,512,349
Operational revenues	3,925,003	3,647,350	18,628,195	14,083,172
Interest income	306	3,386	25,101	40,879
Consolidated revenues	\$ 3,925,309	\$ 3,650,736	\$ 18,653,296	\$ 14,124,051

Revenue for 2008 consisted of approximately 63 percent processing and disposal fees (2007 – 68 percent), and 37 percent revenue from sale of recovered oil (2007 – 32 percent). Processing and disposal revenue for the fourth quarter was approximately 71 percent of total revenue (2007 - 78 percent), while recovered oil revenue was 29 percent (2007 – 22 percent). In 2008 processing and disposal revenue increased to \$11.7 million from \$9.6 million in 2007 due to higher waste processing volumes. During 2008, oil revenue rose to \$7.0 million from \$4.5 million in 2007 as a result of higher average oil prices and increased volumes of oil recovered. Contributing to the increase in revenue was the commencement of operations of the new Claesholm facility late in the first quarter, however operating costs increased by a disproportionate amount.

Revenue for the fourth quarter increased 12 percent from \$3.7 million in 2007 to \$3.9 million in 2008 primarily due to an increase in recovered oil volumes. While the fourth quarter is historically a strong quarter, revenue decreased by \$0.9 million or 19 percent to \$3.9 million over the third quarter of 2008 due to the economic downturn. This decrease reflects the impact of lower oil prices and lower activity levels experienced in the fourth quarter.

Expenses

Operating expenses

Operating expenses increased by \$4.1 million from \$6.6 million in 2007 to \$10.7 million in 2008, resulting in an operating margin of 42 percent for the year, compared with 53 percent in 2007. Operating expenses include \$2.2 million (2007 - \$1.2 million) in oil credits repaid to customers. Trucking costs increased 165 percent in 2008 reflecting increased shipments of oil and waste volumes and higher trucking rates. Operating costs in 2008 also increased with the opening of the Claesholm facility in February 2008.

For the fourth quarter of 2008, operating expenses were \$2.3 million representing a 19 percent increase over the fourth quarter of 2007 primarily as a result of higher waste oil credits and maintenance activities carried out at the facilities.

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 \$2.5 million or 14 percent of revenue for the year (2007 – \$2.5 million or 18 percent). General and administrative expenses for the fourth quarter were \$0.7 million compared to \$0.8 million for the same quarter in 2007.

Restructuring costs

During the last half of 2008, the Trust underwent restructuring and incurred costs of \$1.2 million (2007 – nil) which included severance and recruitment costs for executive changes as well as legal and consulting costs related to the Trust's planned conversion to a public company. During the fourth quarter of 2008, the Trust incurred \$0.4 million (2007 – nil) of restructuring costs, primarily associated with the conversion project. In light of the current economic situation, the Trust has elected to pause work in the conversion project and may recommence work when the situation allows.

Depreciation, amortization and accretion

Depreciation expense was \$4.9 million for 2008 which was an increase of \$1.3 million over 2007 primarily as a result depreciation expense relating to the Claresholm facility of \$0.5 million and a fourth quarter charge of \$0.4 million representing expenditures incurred in the development of the Clear Prairie disposal site that was abandoned in the quarter. 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.

Goodwill

In the third quarter the Trust performed an annual assessment of the carrying value of goodwill. In view of the economic downturn within the oil and gas service sector and the decline in the trading value of the Trusts' units, management concluded that the carrying value of goodwill pertaining to the Producers Oilfield Services assets in the amount of \$7.2 million was impaired and therefore charged \$7.2 million to earnings. As the Trust's investment in Palko is considered to be a separate reporting unit, a separate impairment test of the Palko goodwill was performed and no adjustment for impairment resulted.

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 modestly in 2008 (\$0.7 million) over 2007 (\$0.6 million) and substantially for the quarter 2008 - \$0.3 million (2007 - \$0.04 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.

Income taxes

In 2007, Income Trust tax legislation was passed resulting in a two-tiered tax structure subjecting distributions to the federal corporate income tax rate plus a deemed 13 per cent provincial income tax at the Trust level commencing in 2011. On February 26, 2008 the Federal Government announced as part of the Federal budget that the provincial component of the tax on the Trust is to be calculated based on the general provincial rate in each province in which the Trust has a permanent establishment. This is the same way that a corporation would calculate its provincial tax rate. On February 1, 2009 the Minister of Finance tabled a Notice of Ways and Means which includes the proposed legislation for calculating the provincial tax rate. As the proposed rules were not substantively enacted as of December 31, 2008, the Trust has not reflected a reduced tax rate in the calculation of future income taxes in 2008.

Based on the amount of the Trust's existing temporary differences that are anticipated to reverse after January 1, 2011, the Trust expects a future income tax asset as at January 1, 2011. However, the future income tax asset is fully offset by a valuation allowance.

The anticipated amount and timing of reversals of temporary differences will be dependent on the Trust's actual results, distributions and actual acquisition and disposition of assets and liabilities. As a result, a change in estimates or assumptions could materially affect the estimate of the future tax asset.

The Trust's net future income tax balances are comprised of the following:

	<u>2008</u>	<u>2007</u>
Future income tax assets:		
Difference in tax and book value of Trust's assets	\$ 3,013,388	\$ 2,215,677
Asset retirement obligation	336,253	284,661
Unit issuance costs	121,536	123,624
Operating losses of a subsidiary	355,279	315,129
	<u>3,826,456</u>	<u>2,939,091</u>
Future income tax liabilities:		
Difference in tax and book value of subsidiary and joint venture assets	(537,368)	(128,907)
Valuation allowance	(3,754,588)	(2,810,184)
	<u>\$ (465,500)</u>	<u>\$ -</u>

The provision for future income taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

	<u>2008</u>	<u>2007</u>
(Loss) before taxes	\$ (8,841,764)	\$ (644,799)
Combined federal and provincial income tax rate	29.5%	32.12%
	<u>(2,608,320)</u>	<u>(207,109)</u>
Increase (decrease) in income taxes resulting from:		
Write off of Goodwill with no tax basis	2,111,434	-
Change in tax status with enactment of Bill C-52	-	(2,622,368)
Non-taxable portion of Trust's income	(566,934)	(168,841)
Non-deductible items and other	(211,692)	100,933
Valuation allowance	944,404	2,810,184
	<u>\$ (331,108)</u>	<u>\$ (87,201)</u>

The Trust has non-capital loss carry forwards from its subsidiary of approximately \$1,421,000. The expiration of the losses is as follows:

2013	111,000
2014	229,000
2025	168,000
2026	178,000
2027	297,000
2028	438,000
	<u>\$ 1,421,000</u>

Funds from operations

Funds from operations, defined as cash flow from operations before changes in non-cash working capital, were \$3.7 million for 2008 compared to \$4.5 million for 2007 a decline of 17 percent due to restructuring costs of \$1.2 million incurred in 2008. For the fourth quarter of 2008, funds from operations were \$0.3 million,

a decrease of \$0.5 million from the same quarter in 2007, reflecting lower operating margins due to lower oil prices and restructuring costs.

Distributions to Unitholders

Distributions declared to unitholders for the year were \$4.4 million (2007 - \$4.5 million). Actual cash distributions paid were \$4.7 million for 2008, compared to \$4.2 million for 2007, excluding non-cash distributions to participants in the DRIP. Distributions paid to unitholders for the quarter were \$0.5 million (2007 - \$1.3 million).

In light of the current economic environment, the Trust suspended distributions in December 2008 to allow Deepwell to conserve cash, reduce its debt levels and position the Trust to capitalize on future growth opportunities as the economy improves. The suspension of distributions included the distribution that would have been declared to unitholders of record on December 31, 2008.

Investing activities

Cash used in investing activities during the year was \$9.9 million compared to \$9.0 million in 2007. The increase was primarily related to the purchase of Palko for \$3.9 million after post-closing adjustments, as well as the purchase of property, plant and equipment and the completion of the Claresholm facility.

Capital expenditures

The Trust's capital expenditures for purchase of property, plant and equipment for the year were \$4.9 million compared to \$11.2 million in 2007, as most of the capital expenditures relating to the Claresholm facility were incurred in 2007. In addition to completing the Claresholm facility, other capital expenditures included additions or improvements to disposal wells, tanks, service equipment, site improvements, buildings and administrative assets totalling \$1.8 million (2007 - \$3.2 million)

Financial security deposits

Deepwell has issued letters of guarantee in the amount of \$2.3 million (2007 - \$2.1 million) to the EUB 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 March 31, 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.

For the year ended December 31,	2008		2007	
	Number	Amount	Number	Amount
Balance, beginning of year	7,163,200	\$ 56,229,626	4,356,000	\$ 40,490,377
Issued upon rights offering July 9, 2007	-	-	2,180,515	13,104,895
Issued upon private placement July 31, 2007	-	-	582,362	3,499,996
Issued from Distribution Reinvestment Plan	36,998	156,945	44,323	264,184
Trust unit issue costs	-	-	-	(1,129,826)
Balance, end of year	7,200,198	\$ 56,386,571	7,163,200	\$ 56,229,626

Trust unit option plan

As at December 31, 2008, a total of 206,004 options were outstanding (2007 – 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 2008, the Trust granted 29,000 options (2007 – 208,971). The fair value of options issued in the year was estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.21 percent (2007 – 4.21 percent), volatility of 48 percent (2007 – 45 percent) and weighted average expected life of 4.27 years (2007 – 4.64). 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 \$0.2 million (2007 - \$0.8 million) of stock based compensation related to options that have been granted this year.

	December 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	506,971	\$ 7.00	303,500	\$ 8.81
Granted	29,000	4.15	208,971	6.12
Expired/Cancelled	(329,967)	6.87	(5,500)	9.27
Exercised	-	-	-	-
Balance, end of year	206,004	\$ 6.83	506,971	7.70

As such, the opening weighted average exercise prices has been adjusted by \$0.67 (2007 - \$0.82) to reflect the decrease in exercise price for distribution over the year.

Liquidity

As at December 31, 2008, the Trust had a working capital deficit of \$15.5 million (2007 – \$2.4 million) and an accumulated deficit of \$20.4 million (2007 – \$7.5 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.

Cash provided by financing activities for the year was \$8.2 million (2007 - \$5.2 million) as a result of net borrowings on the long-term facility of \$13.1 million offset by cash distributions paid in the amount of \$4.7 million in 2008. In 2007, cash provided by financing activities of \$5.2 million consisted of net proceeds from an issue of trust units of \$15.5 million offset by repayments of long-term debt of \$6.7 million and distributions of \$4.2 million.

Credit facilities

The Trust renewed its existing credit facilities on September 19, 2008 with a Canadian chartered bank (the "credit facilities"). The facilities consisted of the following:

Extendible revolving operating loan

As at December 31, 2008, 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. At December 31, 2008 the borrowing base for the demand loan was \$1.5 million (2007 - \$1.2 million). Due to the covenant breach at year end, no further drawings are available under this facility.

Extendible revolving term loan

As at December 31, 2008, 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. 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 2.4 percent based on the funded debt to EBITDA ratio. Due to the covenant breach at year end, no further drawings are available under this facility.

As at December 31, 2008, the Trust has breached the financial covenant which requires a minimum consolidated equity position, excluding the equity invested in Palko, of \$35,000,000. This breach was 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 no commitments for capital expenditures as at December 31, 2008. The Trust will be re-completing its disposal well at Grande Cache early in 2009.

Off-Balance Sheet Arrangements

The Trust has no off-balance sheet arrangements as at December 31, 2008.

Contractual obligations, commitments and contingencies

The following table shows future contractual obligations by period:

Payments by period	Total	2009-2010	2011-2012
Total contractual obligations	\$ 413,232	\$ 321,528	\$ 91,704

Quarterly information

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 3,925,309	\$ 4,861,607	\$ 4,738,690	\$ 5,127,690	\$ 3,650,736	\$ 3,513,654	\$ 2,532,151	\$ 4,427,510
Operating expenses	2,318,004	2,856,716	2,852,930	2,727,653	1,941,216	1,584,125	1,190,438	1,919,222
Operating Margin	1,607,305	2,004,891	1,885,760	2,400,037	1,709,520	1,929,529	1,341,713	2,508,288
General and administrative	721,903	746,382	597,415	477,714	842,448	520,071	559,150	596,544
EBITDA	885,402	1,258,509	1,288,345	1,922,323	867,072	1,409,458	782,563	1,911,744
Net income (loss)	\$ (996,074)	\$ (7,915,951)	\$ (271,385)	\$ 672,753	\$ (245,156)	\$ 215,614	\$ (657,354)	\$ 129,298
Net income (loss) per Trust unit:								
Basic	(\$0.14)	(\$1.10)	(\$0.04)	\$0.09	\$(0.03)	\$0.03	\$(0.15)	\$0.03
Diluted	(\$0.14)	(\$1.10)	(\$0.04)	\$0.09	\$(0.03)	\$0.03	\$(0.15)	\$0.03
Weighted average number of Trust units outstanding:								
Basic	7,196,858	7,188,578	7,180,086	7,173,770	7,154,344	6,324,139	4,357,724	4,356,000
Diluted	7,196,858	7,193,174	7,184,666	7,173,770	7,154,344	6,327,260	4,357,744	4,356,000

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 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.

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.

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 December 31, 2008, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$2,919,425 (December 31, 2007 – \$2,746,918).

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 of \$38,324 for doubtful accounts during the year ended December 31, 2008. 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.

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. As at December 31, 2008, the Trust has a working capital deficit of \$15,560,039.

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 December 31, 2008.

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 December 31, 2008.

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 year ended December 31, 2008, if interest rates had been 1% higher with all other variables held constant, earnings for the period would have been \$200,000 lower 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 December 31, 2008.

Outlook

For Deepwell, like most other companies, the last quarter of 2008 ended with many industry indicators turning negative. The overall economy was in decline, credit and equity markets were in turmoil, oil prices had declined significantly and drilling and completions activities were lower than they had been in both the previous quarter and from the previous year and the Alberta government announced its intention to implement a new royalty framework on January 1, 2009, under which it would take a larger royalty share of oil and natural gas revenues.

The Petroleum Services Association of Canada is predicting that only 13,500 wells will be drilled in Canada in 2009; a 21 percent decline from 2008 and a 46 percent decline from the peak drilling year of 2005. Canadian oil prices as measured by light oil postings in Edmonton declined from their peak level during 2008 of \$151.43 per barrel to CDN\$40.17 by December 31, 2008.

Even before the Alberta government's new royalty framework became effective on January 1, 2009, the movement of capital and infrastructure out of Alberta was starting to become evident in the provinces of British Columbia and Saskatchewan who have been experiencing larger than historical increases in drilling activity than Alberta. While British Columbia and Saskatchewan saw their drilling activities increase by 16.2 percent and 12.5 percent respectively in 2008 from 2007 levels, Alberta's drilling increased by only 4.7 percent. The Petroleum Services Association of Canada projects that Alberta will fall further behind these provinces in 2009 predicting its drilling activity will decline by 27 percent compared to Saskatchewan's 5 percent decline and British Columbia's 7 percent increase.

However, there have been a number of more promising developments recently that provides Deepwell with cautious optimism for 2009.

In November 2008, the Alberta government introduced incentives to encourage the drilling of wells between 1,000 and 3,500 meters below the surface. This new program has been designed, at least in part, to mitigate the impact of the new royalty framework introduced on January 1, 2009. In March 2009, the Alberta government announced additional incentives, including a drilling royalty credit of \$200 per metre for conventional oil and natural gas wells, a reduced royalty rate for the first year of production on newly drilled wells and a \$30 million fund for reclaiming abandoned oil and gas wells.

Since December 31, 2008, light oil prices at Edmonton have recovered by approximately 40 percent. As of March 29, 2009 the average price was \$66.77 CND (Canadian par pricing at Edmonton) per barrel. The December 2009 futures price on the Nymex exchange at March 31, 2009 was US\$57.51 per barrel and when adjusted for the then current foreign exchange rate of \$0.7976 US per \$1 Canadian, this price is equivalent to \$72.10 Canadian per barrel.

Deepwell re-completed its disposal well at its Grande Cache facility early in 2009. The well, post-re-completion, is currently operating at a rate approximately 50 percent higher than it did on average through 2008. The additional injection capacity is being well received by customers in the area and the overall facility volumes began to increase immediately.

During 2009, Deepwell will focus on restructuring its credit facilities, improving the efficiency of its existing facilities as well as assisting Palko in the pursuit of growth initiatives it has identified.

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, including the impairment of goodwill as recorded in the third quarter of 2008 and the increased depreciation rates effective in the fourth quarter of 2008. 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 43 percent of revenue for the year, the largest customer accounting for approximately 18 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 year, the Trust made payments of \$0.3 million for legal expenses to a partnership that employs one of Deepwell's board members.

Accounting changes and pronouncements

On January 1, 2008, the Trust adopted the new or revised Canadian accounting standards for inventory, capital disclosures, and financial instruments. Prior periods have not been restated. The adoption of these changes had no impact on the Trust's opening retained earnings.

Inventory

Section 3031 Inventories provides guidance on the measurement and disclosure of inventories. This section indicates that inventories should be measured at the lower of cost and net realizable value and provides guidance on the determination of cost. The cost of inventories shall be determined using the first-in, first-out or weighted average cost formula. The same cost formula must be used for all inventories having a similar nature and use to the entity.

Capital disclosures

Section 1535 Capital Disclosures specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital, (ii) quantitative data about what the entity regards as capital, (iii) whether the entity has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.

Financial instruments - presentation and disclosure

Section 3862 Financial Instruments – Disclosure and Section 3863 Financial Instruments – Presentation replace Section 3861 Financial Instruments – Disclosure and Presentation. The new standards revise and enhance disclosure requirements and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Presentation requirements remain unchanged.

Financial instruments - reclassification of financial assets

In October 2008, the Accounting Standards Board of Canada (“AcSB”) issued amendments to its standards dealing with reclassification of financial assets in response to similar amendments made by the International Accounting Standards Board (“IASB”) in the context of the current financial market turmoil.

The amendments allow reclassification of financial assets out of the held-for-trading category (measured at fair value with gains and losses recognized immediately in net income) into the available-for-sale or held-to-maturity categories, in “rare circumstances.” The latter two categories are subject to impairment testing, but income statement charges for impairment are recognized when impairment is considered “other than temporary.” The financial assets that can be reclassified exclude derivatives and financial assets an entity has elected to include in the held-for-trading category. Assets qualifying for reclassification are mainly debt and equity investments that were originally classified as held for trading because they were acquired for the purpose of near-term sale.

The amendments are accompanied by extensive disclosure requirements to provide clear information to financial statement users and apply to reclassifications made on or after July 1, 2008. An entity is precluded from reclassifying a financial asset in accordance with the amendments before July 1, 2008. Any reclassification made on or after November 1, 2008 takes effect from the date of reclassification.

However, any reclassification before November 1, 2008 can take effect from July 1, 2008 or a subsequent date. Any reclassification of a financial asset in accordance with the amendments must not be applied retrospectively to reporting periods ended before July 1, 2008. An entity does not reclassify financial assets retrospectively in periods reported on in previously issued financial statements. The Trust did not reclassify any financial assets during 2008.

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.

Goodwill and intangible assets

In January 2008, Section 3064 Goodwill and Intangible Assets was issued to replace Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. In addition, Section 1000 Financial Statement Concepts and Accounting Guideline AcG 11 Enterprises in the Development Stage were

amended. The new and amended material clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. The practice of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. Section 3064 provides extensive guidance on when expenditures qualify for recognition as intangible assets, aligns Canadian GAAP with IFRS and will be effective on January 1, 2009.

Business combinations and non-controlling interests

In January 2009, the AcSB issued Section 1582 Business Combinations, Section 1601 Consolidations and Section 1602 Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to IFRS 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard (“IAS”) 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective January 1, 2011.

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 December 31, 2008.

The assessment for 2008 did not include Deepwell's newly acquired joint venture, Palko, which will be included in the 2009 assessment.

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 plans to engage 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 December 31, 2008 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 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.