

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

## **DEEPWELL ENERGY SERVICES TRUST**

AS AT AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008  
(unaudited)

As per the disclosure requirements of the National Instrument 51-102, Part 4, subsection 4.3(3)(a), this note is to inform readers that Deepwell has elected not to review these financial statements and notes with its auditors.

The accompanying unaudited interim financial statements of the Trust as at and for the nine months ended September 30, 2008 have been internally prepared and are the responsibility of Deepwell's management.

# DEEPWELL ENERGY SERVICES TRUST

## CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash	\$ 517,378	\$ -
Accounts receivable	3,803,897	2,746,918
Inventory (note 4)	566,120	219,991
Prepaid expenses and deposits	163,068	214,920
	5,050,463	3,181,829
Property and equipment (note 5)	51,141,923	46,982,025
Intangible assets (note 6)	2,668,769	2,925,102
Goodwill (note 7)	2,105,914	7,157,402
	\$ 60,967,069	\$ 60,246,358
<b>Liabilities</b>		
Current liabilities:		
Bank indebtedness	\$ 134,409	\$ 40,537
Demand loan	-	550,000
Accounts payable and accrued liabilities	2,547,344	3,631,316
Distributions payable	431,315	429,792
Current portion of long-term debt (note 9)	1,874,614	933,333
Taxes payable	436,631	-
	5,424,313	5,584,978
Long-term debt (note 9)	14,996,916	3,866,667
Future income taxes (note 3)	513,000	-
Asset retirement obligations	1,181,237	1,016,449
	22,115,466	10,468,094
<b>Unitholders' Equity</b>		
Trust units (note 8)	56,357,672	56,229,626
Contributed surplus (note 8)	1,402,714	1,066,549
Deficit	(18,908,783)	(7,517,911)
	38,851,603	49,778,264
	\$ 60,967,069	\$ 60,246,358

See accompanying notes to interim consolidated financial statements.

# DEEPWELL ENERGY SERVICES TRUST

## INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS), OTHER COMPREHENSIVE INCOME (LOSS) AND DEFICIT

(unaudited)

	For the three months ended Sept 30, 2008	For the three months ended Sept 30, 2007 <small>(restated - note 14)</small>	For the nine months ended Sept 30, 2008	For the nine months ended Sept 30, 2007 <small>(restated - note 14)</small>
<b>Revenues</b>	\$ 4,861,607	\$ 3,513,654	\$ 14,727,987	\$ 10,473,315
<b>Expenses</b>				
Operating	2,856,716	1,584,125	8,437,299	4,693,785
General and administrative	746,382	520,071	1,821,511	1,675,765
Internal restructuring charges (note 10)	748,171	-	839,010	-
Depreciation and accretion	893,792	824,096	2,926,151	2,422,782
Amortization of intangible assets	86,172	82,234	256,333	246,701
Unit-based compensation	94,226	141,673	336,165	676,111
Interest on short-term debt	5,212	11,235	25,633	41,876
Interest on long-term debt	181,195	99,606	400,408	503,976
Financing fees	-	35,000	22,910	92,380
Loss (gain) on disposal of property and equipment	858	-	12,316	(10,239)
Impairment of goodwill (note 7)	7,157,402	-	7,157,402	-
Loss on write-off of property and equipment (net of accrued insurance proceeds)	-	-	-	367,702
Fire-related expenses	-	-	-	162,119
	12,770,126	3,298,040	22,235,138	10,872,958
<b>Income (loss) before taxes</b>	(7,908,519)	215,614	(7,507,151)	(399,643)
Future income tax recovery	-	-	-	(87,201)
Current income tax	7,432	-	7,432	-
<b>Net income (loss) and comprehensive income (loss)</b>	(7,915,951)	215,614	(7,514,583)	(312,442)
<b>Deficit, beginning of period</b>	\$ (9,699,398)	\$ (4,915,935)	\$ (7,517,911)	\$ (2,507,364)
Distributions to unitholders (note 8)	(1,293,434)	(1,284,092)	(3,876,289)	(3,164,607)
<b>Deficit, end of period</b>	\$ (18,908,783)	\$ (5,984,413)	\$ (18,908,783)	\$ (5,984,413)
<b>Net income (loss) per trust unit:</b>				
Basic and diluted	\$ (1.10)	\$ 0.03	\$ (1.05)	\$ (0.06)
<b>Weighted average number of trust units outstanding:</b>				
Basic	7,188,578	6,324,139	7,188,578	5,015,016
Diluted	7,193,174	6,327,260	7,192,047	5,015,143

See accompanying notes to interim consolidated financial statements.

# DEEPWELL ENERGY SERVICES TRUST

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the three months ended Sept 30, 2008	For the three months ended Sept 30, 2007 (restated - note 14)	For the nine months ended Sept 30, 2008	For the nine months ended Sept 30, 2007 (restated - note 14)
<b>Operating activities</b>				
Net income (loss)	\$ (7,915,951)	\$ 215,614	\$ (7,514,583)	\$ (312,442)
Non-cash items:				
Depreciation and accretion	893,792	824,096	2,926,151	2,422,782
Financing fees	-	-	-	39,880
Amortization of intangible assets	86,172	82,234	256,333	246,701
Impairment of goodwill	7,157,402	-	7,157,402	-
Future income tax recovery	-	-	-	(87,201)
Unit-based compensation (note 8)	94,226	141,673	336,165	676,111
Loss (gain) on sale or disposal of property and equipment	858	-	12,316	(10,239)
Loss on write-off of property and equipment	-	-	-	746,332
Change in non-cash working capital	137,915	(606,991)	(1,273,649)	(728,092)
<b>Cash flow from operating activities</b>	<b>454,414</b>	<b>656,626</b>	<b>1,900,135</b>	<b>2,993,832</b>
<b>Investing activities</b>				
Financial security deposits	-	1,468,473	-	1,433,474
Purchase of property and equipment	(915,923)	(2,846,290)	(4,686,106)	(5,298,219)
Acquisition (note 3)	(3,960,753)	-	(3,960,753)	-
Proceeds on sale of property and equipment	-	-	4,813	143,500
Change in non-cash investing working capital	(13,828)	(131,644)	(609,393)	(1,231,381)
<b>Cash flow used in investing activities</b>	<b>(4,890,504)</b>	<b>(1,509,461)</b>	<b>(9,251,439)</b>	<b>(4,952,626)</b>
<b>Financing activities</b>				
Net proceeds from issuance of units	-	16,604,891	-	16,604,891
Increase (decrease) in bank indebtedness	31,250	(262,005)	93,872	898,261
Repayments from long-term debt	(1,000,000)	(13,500,000)	(1,000,000)	(13,500,000)
Advances from long-term debt	7,871,530	-	13,071,530	2,000,000
Unit issuance costs	-	(981,651)	-	(1,059,725)
Net repayments on demand loan	(700,000)	-	(550,000)	-
Distributions paid to unitholders	(1,249,312)	(1,008,400)	(3,746,720)	(3,013,494)
<b>Cash flow from financing activities</b>	<b>4,953,468</b>	<b>852,835</b>	<b>7,868,682</b>	<b>1,929,933</b>
Increase (decrease) in cash	517,378	-	517,378	(28,861)
Cash, beginning of period	-	-	-	28,861
<b>Cash, end of period</b>	<b>\$ 517,378</b>	<b>\$ -</b>	<b>\$ 517,378</b>	<b>\$ -</b>
<b>Supplementary information</b>				
Cash interest paid	\$ 186,407	\$ 110,841	\$ 426,041	\$ 545,852

See accompanying notes to interim consolidated financial statements.

# DEEPWELL ENERGY SERVICES TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

## 1. Nature of the organization and basis of presentation

Deepwell Energy Services Trust (the "Trust" or "Deepwell") 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. The principal undertaking of the Trust is to engage in the oilfield waste management business indirectly through its wholly owned subsidiary, Deepwell Energy Services LP ("Deepwell LP") and its subsidiaries Deepwell Energy Services Commercial Trust and Deepwell Energy Services Ltd. and its joint interest investment in Palko Energy Ltd. ("Palko"). Deepwell provides oilfield waste management services, including treating, processing and disposing of oilfield wastes and custom treating of oil/water emulsions. Deepwell accounts for its joint interest investment in Palko using the proportionate consolidation method whereby the Trust's proportionate share of assets, liabilities, revenues and expenses have been recorded in these financial statements. Use of the proportionate consolidation method is appropriate as Palko is jointly controlled by Deepwell through its 50% interest and other non-related parties which hold the remaining 50% interest.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars and are consistent with those set out in the audited consolidated financial statements as at December 31, 2007. 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 period. The most significant estimates relate to depreciation, amortization, asset retirement obligations, accretion, income taxes, unit-based compensation and recoverability of goodwill and intangibles. Actual results could differ from those estimates. The 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 summarized in the notes to the consolidated financial statements for the year ended December 31, 2007.

Certain information and disclosure normally required to be included in notes to annual consolidated financial statements have been condensed or omitted from these notes. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Trust's annual report for the year ended December 31, 2007. The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2007. Certain comparative amounts have been reclassified to conform to the current period's presentation.

## 2. Accounting policies

### (a) Changes in accounting policies

In the first quarter of 2008, the Trust adopted three new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

#### Inventories

Effective January 1, 2008, the Trust adopted the CICA's new recommendation for inventory under Handbook Section 3031 "Inventories". The new section provides guidance on the measurement and disclosure of inventories. The new recommendation establishes that inventories should be measured at the lower of cost and net realizable value and provides guidance on the determination of cost. There was no material impact on the financial statements from the retrospective application of the new accounting recommendation. Disclosures relating to the new standard are presented in note 4.

#### Financial Instruments Disclosures and Presentation:

Section 3862 "Financial Instruments – Disclosures" describes the required disclosures related to the significance of financial instruments on an issuer's financial position and performance and the nature and extent of risks arising from financial instruments to which an issuer is exposed and how the issuer manages those risks.

Section 3863 "Financial Instruments – Presentation" describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 "Financial Instruments – Disclosure and Presentation" (notes 7 and 8). The Trust adopted each of these new sections effective January 1, 2008.

## Capital Management

Section 1535 “*Capital Disclosures*” establishes standards for disclosing information about an entity’s capital and how it is managed. These standards require an entity to disclose the following:

- Its objectives, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any imposed capital requirements to which it is subject; and
- When the entity has not complied with such requirements, the consequences of such non-compliance.

The impact of the adoption of the new disclosures are presented in note 11.

### (b) Recently issued

#### Goodwill and Intangible Assets

In February 2008, the CICA issued a new section, Section 3064 “*Goodwill and Intangible Assets*”, replacing Section 3062 “*Goodwill and Other Intangible Assets*” as well as Section 3450 “*Research and Development Costs*”. Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of Section 3062. The new section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Trust is currently evaluating the effect of these new standards on its results, financial position and cash flows.

#### International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed the date of changeover from GAAP to International Financial Reporting Standards (IFRS). Canadian publicly accountable enterprises must adopt IFRS for their interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Trust is currently developing its IFRS conversion plan and evaluating the effect of the new standards on its consolidated financial statements.

### 3. Acquisition

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 \$3,960,753. Palko currently operates one facility which provides treatment, processing and disposing 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 amount of the consideration paid and the fair value of Deepwell’s proportionate share of the assets acquired and liabilities assumed were:

Cash consideration	\$	5,271,530
Acquisition costs		184,533
Total consideration		5,456,063
Cash acquired		(1,495,310)
Net cash consideration	\$	3,960,753
Allocation of purchase price		
Net working capital	\$	115,555
Capital assets		
- Disposal Well		1,900,000
- Oilfield service equipment		459,532
Goodwill		2,105,914
Asset retirement obligation		(107,248)
Future income tax liability		(513,000)
	\$	3,960,753

Finalizing of the estimated fair value of the Palko acquisition is still in progress and therefore, the allocation of the purchase price to the assets acquired and liabilities assumed is subject to adjustment.

#### 4. Inventories

Oil inventory consists of custom treating and waste oil retained in storage tanks at certain facilities. The inventory is valued at net realizable value and the offsetting credit is recorded as unearned revenue. As at September 30, 2008, oil inventory was valued at \$566,120 (December 2007 - \$219,991).

#### 5. Property, plant and equipment

September 30, 2008	Cost	Accumulated depreciation	Net book value
Disposal wells	\$ 31,796,890	\$ 4,754,971	\$ 27,041,919
Pipelines	3,523,204	358,820	3,164,384
Tanks	4,179,451	278,511	3,900,940
Oilfield service equipment	4,962,440	1,219,600	3,742,840
Site improvements	8,253,596	644,462	7,609,134
Future sites	2,103,106	-	2,103,106
Buildings	2,867,606	144,382	2,723,224
Computer equipment	690,731	234,253	456,478
Vehicles	416,379	112,821	303,558
Furniture and fixtures	129,375	41,112	88,263
Leasehold improvements	12,784	4,707	8,077
	\$ 58,935,562	\$7,793,639	\$ 51,141,923

December 31, 2007	Cost	Accumulated depreciation	Net book value
Disposal wells	\$ 28,705,932	\$ 3,341,134	\$ 25,364,798
Pipelines	3,458,236	230,977	3,227,259
Tanks	2,865,351	168,349	2,697,002
Oilfield service equipment	3,064,749	663,976	2,400,773
Site improvements	2,608,276	245,837	2,362,439
Future sites	8,258,067	-	8,258,067
Buildings	1,927,341	69,048	1,858,293
Computer equipment	597,051	113,101	483,950
Vehicles	297,658	68,488	229,170
Furniture and fixtures	118,073	27,301	90,772
Leasehold improvements	12,784	3,282	9,502
	\$ 51,913,518	\$4,931,493	\$46,982,025

#### 6. Intangible assets

September 30, 2008	Cost	Accumulated amortization	Net book value
Completions and contracts	\$ 2,115,000	\$ 227,434	\$ 1,887,566
Customer relationships	1,310,000	538,130	771,870
Non-competition agreements	48,000	38,667	9,333
	\$ 3,473,000	\$ 804,231	\$ 2,668,769
December 31, 2007	Cost	Accumulated amortization	Net book value
Completions and contracts	\$ 2,115,000	\$ 150,208	\$ 1,964,792
Customer relationships	1,310,000	371,023	938,977
Non-competition agreements	48,000	26,667	21,333
	\$ 3,473,000	\$ 547,898	\$ 2,925,102

## 7. Goodwill impairment

During the period, the Trust performed an assessment of the carrying value of goodwill. In view of the economic downturn within the oil and gas service sector, and the recent decline in the trading value of the Trust's units, management concluded that the carrying value of goodwill in the amount of \$7,157,407 was impaired.

Opening balance, January 1, 2008	\$	7,157,402
Acquisition (Note 3)		2,105,914
Impairment of goodwill		(7,157,402)
Ending balance, September 30, 2008	\$	2,105,914

## 8. Unitholders' equity

### (a) Regular Trust units

The Trust is authorized to issue an unlimited number of Regular Trust units.

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.

	For the nine months ended September 30, 2008		For the year ended December 31, 2007	
	Number	Amount	Number	Amount
Balance, beginning of period	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	25,383	128,046	44,323	264,184
Trust unit issue costs	-	-	-	(1,129,826)
Balance, end of period	7,188,583	\$ 56,357,672	7,163,200	\$ 56,229,626

### (b) Trust unit options

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 options issued have been estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.21 percent, volatility of 48 percent. 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.

Options outstanding as at September 30, 2008				Options exercisable as at September 30, 2008	
Exercise price	Number of options	Weighted average contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
4.30	29,000	4.52	4.30	-	n/a
5.58	182,971	3.87	5.58	110,196	5.58
5.78	2,000	3.60	5.78	668	5.78
8.25	258,500	2.89	8.25	172,329	8.25
8.56	15,000	3.00	8.56	5,000	8.56
8.90	500	2.97	8.90	333	8.90
	487,971	3.36	7.01	288,526	7.23

### (c) Contributed surplus

	For the nine months ended September 30, 2008	For the year ended December 31, 2007
Balance, beginning of period	\$ 1,066,549	\$ 251,432
Unit-based compensation expense	336,165	815,117
Balance, end of period	\$ 1,402,714	\$ 1,066,549

#### (d) Distributions to unitholders

The Trust declares monthly distributions of cash to unitholders of record as at the close of business on each distribution record date. Pursuant to the declaration of trust, the Trust is required to pay to unitholders the net income of the Trust determined pursuant to the provisions of the Income Tax Act (Canada). Such distributions are recorded as reductions of equity upon declaration of the distribution. During the period, the Trust declared and paid distributions to the unitholders in accordance with the following schedules:

Period	Record date	Payment date	Distribution per Trust unit	Distribution amount
January 2008	January 31, 2008	February 15, 2008	\$0.06	\$ 430,112
February 2008	February 29, 2008	March 14, 2008	0.06	430,268
March 2008	March 31, 2008	April 15, 2008	0.06	430,426
April 2008	April 30, 2008	May 15, 2008	0.06	430,564
May 2008	May 31, 2008	June 15, 2008	0.06	430,682
June 2008	June 30, 2008	July 15, 2008	0.06	430,805
July 2008	July 31, 2008	August 15, 2008	0.06	430,974
August 2008	August 31, 2008	September 15, 2008	0.06	431,144
September 2008	September 30, 2008	October 15, 2008	\$ 0.060	431,315
Distributions declared to unitholders during the period				\$ 3,876,290

## 9. Credit facilities

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

### (a) Demand loan

Under the credit facilities, the Trust has a \$2,000,000 demand revolving operating loan. During the period, interest ranged from the lender's prime rate plus 0.125 percent to 1.625 percent, according to the funded debt to EBITDA ratio. As of September 30, 2008 the borrowing base for the demand loan was at \$2,000,000. As at September 30, 2008, there were no amounts drawn on this facility (December 31, 2007 - \$550,000).

### (b) Long-term debt

Under the credit facilities, the Trust has a \$25,000,000, 364-day extendible revolving term loan committed to May 29, 2009. No set principal repayment has been established and the Trust has the ability to draw down and repay advances on this facility until the expiry of the credit agreement. Interest on the facility ranges from the lender's prime rate plus 0.125 percent to 1.625 percent per annum and is calculated monthly and paid in arrears. As at September 30, 2008 an aggregate of \$16,871,530 was outstanding on this facility of which \$1,874,614 is the current portion due within one year. This credit facility has \$1,200,000 remaining that can be drawn based on the current borrowing base (December 31, 2007 \$4,800,000).

As security for the credit facilities, Deepwell LP granted lenders 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, as creditors, will have a prior ranking claim relative to the units.

## 10. Internal restructuring charges

Internal restructuring charges consist of certain employee recruitment, other employee, legal and professional costs incurred in 2008. For the three and nine months ended September 30, 2008 these amounted to \$748,171 and \$839,010 respectively (September 30, 2007 – nil).

## 11. Capital disclosures

A key objective of the Trust is effective management of its capital to allow it to maintain investor, creditor and market confidence and to sustain future development of the business. 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 has externally imposed capital requirements as governed through the credit facilities through the maintenance of certain bank covenants, in particular, the funded debt to EBITDA covenant. For the purposes of this covenant, funded debt consists of the current and long-term portions of bank debt, operating loan advances and commitments at the balance sheet date and EBITDA (which is a Non-GAAP measure), is calculated as trailing twelve months earnings before interest, income taxes, depreciation and amortization and one-time allowance for certain items incurred in the third quarter of 2008 of \$1,550,000. The targeted ratio of funded debt to EBITDA is 2.50:1 with a maximum limit under the bank covenant of 3.00:1. At September 30, 2008 the funded debt to EBITDA ratio was 2.80:1 and at December 31, 2007 the ratio was 1.42:1.

## 12. Financial risk management and financial instruments

The Trust's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Trust's financial performance. The Trust manages its risks and risk exposures through a combination of financial instruments, insurance, a system of internal and disclosure controls and sound business practices. The Trust does not purchase any derivative financial instruments for speculative purposes. Risk management is primarily the responsibility of the Trust's corporate finance function. Significant risks are regularly monitored and actions are taken, when appropriate, according to the Trust's approved policies, established for that purpose.

The following summarizes the methods and assumptions used in estimating the fair value of the Trust's financial instruments:

- i) Short-term financial instruments approximate their carrying amount due to the relatively short period to maturity. These include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and distributions payable.
- ii) Long-term debt with a variable interest rate is carried at cost, which reflects fair value as the interest rate is the current market rate available to the Trust.

Pursuant to CICA Handbook Section 3855 the Trust has classified and measures its financial instruments as follows:

**Loans and receivables** - initially measured at fair value, subsequently measured at amortized cost using the effective interest method. Included in this category is accounts receivable.

**Other financial liabilities** - initially measured at fair value, subsequently measured at amortized cost using the effective interest method. Included in this category are accounts payable and accrued liabilities, bank indebtedness, long-term debt and distributions payable.

**Held-for-trading** – measured at fair value with realized and unrealized gains and losses include in net income in the period incurred. Included in this category is cash.

### Interest rate risk

The Trust's short and long term borrowings are subject to floating interest rates. Based on outstanding bank loans and indebtedness as at September 30, 2008, a 1% increase or decrease in interest rates would increase or decrease interest expense by approximately \$126,000 over a nine-month period. Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Trust is exposed to interest rate risk with respect to the utilization of floating rate credit facilities to finance operations and expansion which are subject to floating interest rates ranging from prime rate plus 0.125 to 1.625 percent with the actual rate dependent upon the Trust's ratio of funded debt to EBITDA. The Trust has the option to renew these loans annually.

### Credit concentration

The carrying value of accounts receivable is net of an allowance for doubtful accounts which reflects management's current assessment of its credit risk. The allowance for doubtful accounts at September 30, 2008 is \$35,200 (2007 - \$35,200) and has not changed since December 31, 2007. The Trust has a concentration of credit risk because

substantially all oil revenues are accumulated by a single purchaser and paid in full the month following receipt. The allowance for doubtful accounts is less than 1% of accounts receivable and relates to revenues earned in the normal course of operations. The Trust manages this risk by entering into sales contracts with credit-worthy counterparties, reviewing its exposure to individual entities on a regular basis, and delaying repayment of oil credits beyond the settlement date.

### Liquidity risk

Investments to drive growth can require significant financial resources. A range of funding alternatives is available to the Trust including cash flow provided by operations, additional debt, the issuance of equity or a combination thereof. Under the terms of the Trust's bank credit facilities currently in place, \$16,871,530 of long-term debt outstanding is revolving, although the Trust retains the right to repay, without penalty, amounts as deemed appropriate. At September 30, 2008, the Trust has remained within all prescribed bank debt covenants. Below is a summary of the financial performance under selected bank covenants:

	Prescribed Covenant	Target Covenant	Sept. 30, 2008 (actual)	Dec. 31, 2007 (actual)
Working capital ratio <sup>1</sup>	Min 1.25	Min 1.50	1.29	1.25
Funded debt/EBITDA <sup>2</sup>	Max 3.0/2.75	2.5	2.8	1.42
Trailing 4 quarter distributable cash exceeds cash distributions <sup>3</sup>	Excess distributable cash	\$500,000 excess	\$604,042	\$204,067

<sup>1</sup> Working capital ratio is defined as the ratio of current assets to current liabilities (excluding assets and liabilities of Palko).

<sup>2</sup> Funded debt consists of the current and long-term portions of bank debt, operating loan advances and commitments at the balance sheet date. EBITDA (which is a Non-GAAP measure), is calculated as trailing twelve months earnings before interest, income taxes, depreciation and amortization and one-time allowance for certain items incurred in the third quarter of 2008 of \$1,550,000, but excludes EBITDA from Palko.

<sup>3</sup> Distributable cash is defined as EBITDA less interest expense and cash taxes. Cash distributions are total distributions less reinvested distributions.

### Commodity price risk

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 and the Trust is impacted based on the activity levels in the industry. 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.

### Seasonality

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.

### 13. Related party transactions

During the current quarter, the Trust made payments in the amount of \$65,680 for professional services to a partnership in which one of Deepwell's board members is a partner. These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the parties. There were no such transactions for the year ended December 31, 2007.

### 14. Correction of an error

The comparative statements of income (loss), other comprehensive income (loss), and statements of cash flows have been restated for financing fees that were recorded as deferred financing fees at September 30, 2007 in error. The following summarizes the effect of the adjustment as at and for the three and nine month periods ended September 30, 2007:

As at September 30, 2007	Previously recorded	Increase (decrease)	Restated
Deferred financing fees	\$ 25,455	\$ (25,455)	\$ -
Deficit	5,958,958	25,455	5,984,413
Three months ended September 30, 2007			
Financing fees expense	\$ 9,545	\$ 25,455	\$ 35,000
Net income (loss) and comprehensive income	241,069	(25,455)	215,614
Nine months ended September 30, 2007			
Financing fees expense	\$ 66,925	\$ 25,455	\$ 92,380
Net income (loss) and comprehensive income	(286,987)	(25,455)	(312,442)

## 15. Subsequent events

The Trust declared a cash distribution for the period October 1, 2008 to October 31, 2008 at \$0.06 per unit to be paid on November 14, 2008.

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Additional information about the Trust is available at [www.sedar.com](http://www.sedar.com) and on the Trust's website at [www.deepwellenergy.com](http://www.deepwellenergy.com)

*Certain statements in this press release 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 LP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. 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 or not such results will be achieved. A number of factors, including those discussed above, could cause actual results to differ materially from the results discussed in the forward-looking statements. Deepwell's forward-looking statements are expressly qualified in their entirety by this cautionary statement. Unless otherwise required by applicable securities laws, Deepwell does not intend nor does it undertake any obligation to update or review any forward-looking statements to reflect subsequent information, events, results or circumstances or otherwise.*

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