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MONDAY, MAY 12, 2008

DEEPWELL ANNOUNCES QUARTERLY RESULTS

CALGARY – Deepwell Energy Services Trust (“Deepwell” or the “Trust”) is pleased to release its financial and operating results for the three-month period ended March 31, 2008. During the quarter, Deepwell’s financial performance marked its highest-ever quarterly revenue, EBITDA and net income. The Trust opened a new oilfield waste management facility during the quarter near Claresholm, Alberta, signifying another step in its corporate growth strategy although the facility did not contribute to the financial results of the quarter.

Highlights of the quarter:

- Quarterly revenue of \$5.1 million, an increase of 16 percent over the previous quarterly high achieved in the first quarter of 2007;
- Quarterly earnings before interest, taxes, depreciation and amortization (EBITDA) of \$1.9 million;
- Net income of \$0.7 million;
- Distributions during the first three months totaled \$1.3 million or \$0.18 per unit;
- Official opening of Deepwell’s oilfield waste management facility near Claresholm, Alberta, the Trust’s first new greenfield plant. The Claresholm facility positions Deepwell in a region marked by growing oil and natural gas production not locally served by any other third-party waste management provider. The facility increases Deepwell’s overall waste management throughput capacity by more than one-third and is expected to contribute to substantial year-over-year growth in waste management activity, revenue and EBITDA; and
- Receipt of approval in March 2008 from the Alberta Energy Resources Conservation Board (formerly the Alberta Energy and Utilities Board) upgrading Deepwell’s Rycroft facility to include the acceptance of the full range of Class 1b waste fluids and for custom treating third-party crude oil emulsions. The approval allows the Rycroft facility to generate additional revenues through treating a variety of Class 1b liquid waste streams and custom treating emulsions.

The first quarter 2008 results are reflective of Deepwell’s operational improvements and of a modest recovery in oilfield activity in general. The first quarter revenue impact of the new Claresholm facility was limited. The facility officially opened on February 19, 2008 on a limited basis, with full operations commencing in March 2008. Initial demand grew slowly as customers conduct audits of Claresholm to satisfy their own internal control requirements before committing to use the facility, and the facility did not contribute positively to first quarter financial results.

Deepwell remains cautiously optimistic concerning its prospects for growth in revenue, EBITDA and net income – particularly for the second half of 2008. The second quarter is traditionally the weakest quarter of the year due to seasonal factors. Industry forecasts for activity in the second quarter and beyond are improving in response to continued record crude oil prices, a strong rebound in natural gas prices and reduced industry uncertainty surrounding the Government of Alberta’s New Royalty Framework, which was recently modified to include modest new deep drilling incentives. Deepwell is well-positioned to benefit from a rebound in industry field activity, thanks to the efficiency and capacity improvements made to pre-existing facilities and to the major increase to its overall waste processing capacity through the addition of the new Claresholm facility.

Deepwell is a Calgary, Alberta-based income trust focused exclusively on providing waste treatment and disposal services to the oil and natural gas industry in western Canada.



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 May 5, 2008 and should be read in conjunction with the Trust's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2008. This MD&A discusses operations and events for the three months ended March 31, 2008. Unless otherwise noted, references to "2008" or the "quarter" or the "period" or "Q1-08" in this MD&A refer to the three months ended March 31, 2008. References to "2007" or "Q1-07" refer to the three months ended March 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"). The Trust and its subsidiaries (collectively "Deepwell") are based in Calgary, Alberta 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 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 LP, 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. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A.

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 MD&A 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 MD&A. The Trust does not assume any obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities legislation.

Non-GAAP measures

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:

- Earnings before interest, taxes, depreciation and amortization (EBITDA); and
- Funds from operations, which refers to cash flow from operating activities before changes in non-cash working capital.

These measures are identified and presented, where appropriate, together with reconciliations to the equivalent GAAP measure. However, they should not be used as an alternative to GAAP, because they may not be consistent with the calculations of other companies or Trusts.

First quarter 2008 overview

In the first quarter of 2008 Deepwell recorded its highest quarterly revenue, EBITDA and net income since inception. Revenue for the quarter eclipsed the previous record high of the first quarter of 2007, by 16 percent. Net income was 49 percent higher than the prior record quarter achieved in the third quarter of 2006. The results were supported by strengthening market demand compared to late 2006 levels and stable operations at Deepwell's first three facilities, as well as a very limited contribution from the startup of Deepwell's new facility at Claresholm, Alberta.

The market for oilfield waste management services in general was stronger than in the fourth quarter of 2007, but not as strong as from the historically high levels seen in early 2006. Robust oil prices and strengthening prices for natural gas have led to more optimism among Deepwell's customers, somewhat offsetting the caution surrounding the anticipated impact of the Government of Alberta's proposed royalty structure.

From a growth perspective, the first quarter of 2008 was highlighted by the opening of Deepwell's fourth facility, at Claresholm, Alberta on February 19, 2008. The state-of-the-art Claresholm facility boosts Deepwell's waste processing capacity by more than one-third and is located in an active region of oil and gas production and exploration which was not previously serviced by a locally situated third-party oilfield waste management facility.

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 as follows:

- **Focus on oilfield waste management:** Deepwell currently operates exclusively in the oilfield waste management business, and intends to continue that focus. The oilfield waste management business in Alberta has significant barriers to entry, which support the long-term cash flow of current and future facilities.
- **Growth:** Deepwell is primarily focused on organic growth through adding new facilities and increasing capacity and services provided at existing facilities.
- **Operational efficiency:** To attain and maintain efficient operations and a high standard of customer service within a safe working environment.
- **Environmental stewardship:** To meet or exceed regulatory requirements and industry standards. Deepwell's facilities are audited annually by regulatory bodies, and Deepwell has developed innovations to enhance environmental stewardship at new and existing facilities.

Selected financial information

The table below provides selected financial information that has been derived from, and should be read in conjunction with, the interim consolidated financial statements of the Trust.

	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenue	\$5,127,690	\$4,427,510
Operating expenses	2,727,653	1,919,221
Gross Margin	2,400,037	2,508,289
Selling and administrative expenses	477,714	596,545
EBITDA	1,922,323	1,911,744
Depreciation, accretion and amortization	1,007,809	922,669
Financing fees	3,817	-
Unit-based compensation	120,430	175,137
Interest	106,098	205,561
Loss on sale or disposal of property and equipment	11,416	7,261
Loss on write-off of property and equipment	-	367,701
Fire-related expenses	-	162,119
Future income tax recovery	-	(24,550)
Net income	672,753	95,846
Non-cash items:		
Depreciation, amortization and accretion	1,007,809	922,669
Unit-based compensation	120,430	175,137
Loss on sale or disposal of property and equipment	11,416	7,261
Loss on write-off of property and equipment	-	746,332
Future income tax recovery	-	(24,550)
Funds from operations	\$1,812,408	\$1,922,695
Changes in non-cash working capital	(520,636)	(1,324,969)
Cash flow from operating activities	\$1,291,772	\$597,726
Net income	\$672,753	\$95,846
Per unit, basic and diluted	0.09	0.02
EBITDA	\$1,922,323	\$1,911,744
Per unit, basic and diluted	0.27	0.44
Funds from operations	\$1,812,408	\$1,922,695
Per unit, basic and diluted	0.25	0.44
Distributions to Unitholders	\$1,290,806	\$1,095,970
Per unit, basic and diluted	0.18	0.25
Gross margin as a percentage of revenue	47%	57%
Selling and administrative expenses as a percentage of revenue	9%	13%
Capital expenditures	\$2,911,793	\$776,186
Total assets, end of period	\$63,191,756	\$54,491,681
Long-term debt, end of period	\$9,000,000	\$11,500,000
Total long-term liabilities, end of period	\$7,534,250	\$12,300,945
Trust unit equity, end of period	\$56,281,748	\$40,490,377
Weighted average Trust units, basic and diluted	7,173,770	4,356,000

Revenues for the quarter were \$5,127,690, with a gross margin of \$2,400,037 (47 percent of revenue), EBITDA of \$1,922,323 (37 percent of revenue) and net income of \$672,753. Net income for the quarter was \$0.09 per unit basic and diluted (Q1-07 – \$0.02 per unit basic and diluted) and funds from operations for the quarter were \$0.25 per unit basic and diluted (Q1-07 – \$0.44 basic per unit and diluted). Distributions paid to

unitholders for the quarter, including distributions to participants under the Trust's Distribution Reinvestment Plan (DRIP), were \$1,290,171 or \$0.18 per unit (Q1-07 – \$0.29 per unit).

Results of operations

Revenue

Revenues for the quarter were \$5,127,690 (Q1-07 – \$4,427,510) comprised approximately 57 percent of processing and disposal fees and 43 percent of revenue from the sale of recovered oil (Q1-07 – 64 percent and 36 percent, respectively). In 2008 oil sales as a percentage of total revenue increased to 43 percent from 36 percent in Q1-07. Processing revenues of \$2,922,062 increased slightly (3.6 percent) from 2007 revenues of \$2,820,686.

For the three months ended March 31	2008	2007
Processing revenues	\$ 2,922,062	\$ 2,820,686
Oil revenues	2,202,803	1,592,248
Operational revenues	5,124,865	4,412,934
Interest income	2,825	14,577
Consolidated revenues	\$ 5,127,690	\$ 4,427,511

Increased oil volumes received in the quarter were a result of product received from well fracturing and production oil classified as waste, which did not meet pipeline specification (off-spec production fluids). The increase in oil revenues was partially offset by additional oil repayments to customers reflected directly in operating costs.

For the three months ended March 31	2008	2007
Oil revenues	\$ 2,202,803	\$ 1,592,248
Less: Oil repayments	954,296	660,420
Net oil	\$ 1,248,507	\$ 1,006,827

On February 19, 2008 Deepwell opened its fourth facility which is located in the southern Alberta community of Claresholm. For the first two weeks of operations plant receipts were limited to sweet water; for safety reasons, sour wastes and solid wastes were not accepted until final construction and commissioning were completed in March 2008. As a result of limited operations, Claresholm did not contribute significantly to first-quarter revenues.

Expenses

Operating expenses

Operating expenses were \$2,727,654 for the quarter (Q1-07 – \$1,919,222), yielding a gross margin of 47 percent for the quarter (Q1-07 – 57 percent). Operating expenses include \$954,296 in oil credits repaid to customers and \$191,264 from Deepwell's Claresholm facility. Oil repayments were significantly higher than in Q1-07 due largely to the oil credits paid on the high volume of off-spec production fluids. Increases in direct operating expenses were due to the addition of the Claresholm facility and trucking and landfill costs which increased with the higher oil and solid waste volumes.

For the three months ended March 31	2008	2007
Oil repayments	\$ 954,296	\$ 660,420
Direct operating expenses	1,773,358	1,258,802
Operating expenses	\$ 2,727,654	\$ 1,919,222

Selling and administrative

Selling and administrative expenses, which represent costs associated with the Trust's head office, senior management and public company costs, were \$477,714 or 9 percent of revenue for the quarter (Q1-07 – \$596,545 or 13 percent of revenue). The period-over-period decrease in selling and administrative expenses consists of savings in a number of areas, with significant decreases in legal and accounting costs due in part to lower costs of annual items as the Trust approaches its second full year of operations.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense was \$1,007,809 for the quarter (Q1-07 – \$922,669) and consisted of depreciation of fixed assets of \$905,976 (Q1-07 – \$801,053), accretion of \$17,801 (Q1-07 – \$15,454) and amortization of deferred financing costs in 2007 of \$23,928. Amortization of intangible assets totalled \$84,032 (Q1-07 – \$82,234), and consisted of the amortization of well completions and contracts, customer relationships, and non-competition agreements.

Interest

Total cash interest expense for the quarter was \$106,098 (Q1-07 – \$205,561), comprised of interest on long-term debt of \$95,910 (Q1-07 \$188,061) and interest on the Trust's operating loan of \$10,188 (Q1-07 \$17,500). Interest rates are floating, with a range from 0.125 percent to 1.4 percent over the lender's prime rate, depending on the Trust's ratio of consolidated funded debt to earnings before interest, taxes, depreciation, amortization, accretion, and unit-based compensation. Actual interest rates during the quarter ranged from 0.125 percent to 1.4 percent over the lender's prime rate.

Loss on sale of assets

During the quarter, Deepwell realized a loss on the sale and disposal of office equipment and oilfield service equipment in the amount of \$11,416 (Q1-07 – \$7,261).

Distributions to unitholders

Distributions declared to unitholders for the quarter, including distributions to participants under the DRIP, were \$1,290,171 (Q1-07 – \$1,095,970). Actual cash distributions paid were \$1,238,049 (Q1-07 - \$1,251,915) excluding non-cash distributions to participants in the DRIP.

For the three months ended, March 31	2008	2007
Cash flows from operating activities	\$ 1,291,772	\$ 597,726
Net income	672,753	95,846
Actual cash distributions paid during the period	1,238,049	1,251,915
Excess (shortfall) of cash flows from operating activities over cash distributions	53,723	(654,189)
Shortfall of net income from cash distributions paid	\$ (565,296)	\$ (1,156,069)

While the cash distributions to unitholders exceeded net income in the first quarter of 2008, Deepwell's distributions have generally not been based upon net income, as net income includes a number of non-cash items such as depreciation, amortization, accretion, and unit-based compensation that do not affect the Trust's ability to make distributions to unitholders. While the Trust believes that the current operating assets have the ability to support the current level of 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.

Investing activities

Net cash used in investing activities during the quarter was \$4,074,580 (Q1-07 – \$2,074,381).

Capital expenditures

The Trust's capital expenditures for purchase of property and equipment for the quarter were \$2,911,793 (Q1-07 – 776,186). During the period Deepwell invested \$2,163,570 in completing construction of the Claresholm facility. The remaining investment in property and equipment included investment in a loader, tank and containment upgrades, safety equipment, future sites, buildings, computing equipment, and other oilfield service equipment.

Unitholders' equity

Trust unit option plan

As at March 31, 2008, a total of 506,971 options were issued and outstanding pursuant to the Trust's incentive unit option plan. The options carry a five year-term and, except for 73,800 options issued to executives during 2007 in lieu of a cash bonus for 2006 (vesting immediately), 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. No options were granted during the quarter.

Options outstanding as at March 31, 2008				Options exercisable as at March 31, 2008	
Exercise price	Number of options	Weighted average contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
\$5.94	206,971	4.38	\$5.94	73,800	\$5.94
6.14	2,000	4.10	6.14	-	6.14
8.61	282,500	3.39	8.61	94,167	8.61
8.92	14,500	3.50	8.92	4,833	8.92
9.26	1,000	3.48	9.26	333	9.26
	506,971	3.80	\$7.52	173,133	\$7.48

The Trust recorded unit-based compensation expense and contributed surplus of \$120,430 during the period (Q1-07 – \$175,137).

Liquidity

Net cash provided by financing activities for the quarter was \$2,411,951 (Q1-07 – \$198,568). The Trust paid distributions to unitholders of \$1,238,049 (Q1-07 – \$1,251,915) during the quarter of which \$52,122 was realized in proceeds from its distribution reinvestment plan; the distribution reinvestment plan was not in effect in the first quarter of 2007. During the quarter the Trust increased amounts outstanding under long-term debt by \$4,200,000.

Credit facilities

The Trust renewed its existing credit facilities on May 31, 2007 with a Canadian chartered bank (the "credit facilities"), which consisted of the following:

Demand loan

Under the credit facilities, the Trust has a \$2,000,000 demand revolving operating loan. During the quarter interest ranged from the lender's prime rate plus 0.125 percent to 1.4 percent and this rate is dependent on the funded debt to EBITDA ratio. As at March 31, 2008 the borrowing base for the demand loan was \$2,000,000 and the amount drawn was \$nil.

Long-term debt

Under the credit facilities, the Trust has a \$15,500,000, 364-day extendible revolving term loan committed to May 29, 2008. No set principal repayment has been established and the Trust has the ability to repay, borrow and repay again until the 364-day term expires. Interest ranges from the lender's prime rate plus 0.125 percent to 1.4 percent per annum. Interest is calculated monthly and paid in arrears. As at March 31, 2008 an aggregate of \$9,000,000 is outstanding of which \$2,500,000 is current. The revolving period extends to May 29, 2008, at which time the credit facility is eligible for renewal. Should this renewal not be extended, the credit facility reverts to a three-year term with the monthly principal repayments commencing on June 26, 2008.

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 aforementioned guarantees, the lenders, as creditors, will have a prior ranking claim relative to the unitholders.

Interest rate risk

The operating loan and the extendible revolving term loan bear interest at a floating interest rate. Therefore, to the extent that the Trust borrows under these facilities the Trust is at risk to rising interest rates.

Contractual obligations, commitments and contingencies

The following table shows future contractual obligations by period:

Payments by period	Total	2008	2009-2010	2011-2012	Thereafter
Long-term debt	\$ 9,000,000	\$ 2,250,000	\$ 6,000,000	\$ 750,000	\$ -
Commitments	518,189	123,499	163,024	139,962	91,704
Total contractual obligations	\$ 9,518,189	\$ 2,373,499	\$ 6,163,024	\$ 889,962	\$ 91,704

Quarterly information

	Quarter Ended:							
	March				June			
	March 2008	December 2007	September 2007	June 2007	March 2007	December 2006	September 2006	June 2006
Revenue	\$ 5,127,690	\$3,650,736	\$3,513,654	\$2,532,151	\$4,427,510	\$4,059,296	\$3,808,795	\$1,778,929
Operating	2,727,653	1,941,216	1,584,126	1,190,437	1,919,222	1,605,492	2,040,285	948,937
Gross Margin	2,400,037	1,709,520	1,929,528	1,341,714	2,508,288	2,453,804	1,768,510	829,992
Selling and administrative	477,714	842,448	520,373	558,848	596,544	730,354	448,788	229,889
EBITDA	1,922,323	867,072	1,409,155	782,866	1,911,744	1,723,450	1,319,722	600,103
Depreciation, amortization and accretion	1,011,626	838,528	915,875	897,865	922,669	993,621	697,052	480,317
Financing fees	-	114,043	-	-	-	-	15,588	-
Unit-based compensation	120,430	138,706	141,372	359,902	175,137	197,812	53,620	-
Interest	106,098	44,639	110,841	229,450	205,561	149,325	102,469	107,946
Loss (gain) on sale of equipment	11,416	1,466	-	(17,500)	7,261	34,295	-	-
Loss on write-off of equipment	-	-	-	-	367,702	-	-	-
Fire-related expenses	-	-	-	-	162,119	-	-	-
Future income tax recovery	-	-	-	(62,651)	(24,550)	(47,799)	-	-
Net income (loss)	\$ 672,753	\$ (270,310)	\$ 241,067	\$ (624,200)	\$ 95,845	\$ 396,196	\$ 450,993	\$ 11,840
Net income (loss) per Trust unit:								
Basic	\$0.09	\$(0.04)	\$0.04	\$(0.14)	\$0.02	\$0.09	\$0.10	\$0.00
Diluted	\$0.09	\$(0.04)	\$0.04	\$(0.14)	\$0.02	\$0.09	\$0.10	\$0.00
Weighted average number of Trust units outstanding								
Basic	7,173,770	7,154,344	6,324,139	4,357,724	4,356,000	4,356,000	4,356,000	4,356,000
Diluted	7,173,770	7,154,344	6,327,260	4,357,744	4,356,000	4,357,187	4,477,793	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

All of the Trust's financial instruments as at March 31, 2008 relate to standard working capital and credit facility items. There are no significant differences between the carrying value of these financial instruments and their estimated fair values. There are no unusual off-balance sheet arrangements and the Trust does not use any financial instruments such as derivatives. Of the Trust's financial instruments, only accounts receivable represent credit risk, and management views the credit risk related to accounts receivable as minimal. The operating loan and the extendible revolving term loan bear interest at a floating interest rate. Therefore, to the extent that the Trust borrows under these facilities, the Trust is at risk to rising interest rates.

Outlook

Deepwell anticipates improvements over the prior year for the balance of 2008, despite relatively flat year-over-year EBITDA in the first quarter. Operational improvements and efficiencies and the addition of the Claresholm facility should provide revenue growth, particularly in the third and fourth quarters of 2008. It is anticipated that contributions from Claresholm will not be significant until the second half of 2008, although the customer base is growing.

Spring break-up and seasonal weather were historically bad for the industry in 2007, and more moderate conditions in 2008 may lead to year-over-year improvements in revenues in the second quarter. Commodity prices have been strong and expectations are that, on average, 2008 commodity prices will be above 2007 prices, spurring industry activity during the second half of the year.

Deepwell has several key opportunities for increasing services and capacity at existing facilities during 2008 and anticipates the construction of a fifth facility in a new market territory during 2009.

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, unit-based compensation and recoverability of goodwill and intangibles. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the Trust's accounting policies as disclosed in the Trust's consolidated financial statements.

Risks and uncertainties

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, and increasing consumer demand for alternatives to oil and natural gas; and technological advances in fuel economy and energy generation devices.

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.

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 skills and expertise of the officers of the Trust. Deepwell does not currently carry "key man" insurance that would compensate the Trust for the loss of any senior executives.

Competition for human resources

During periods of high activity related to oil and natural gas exploration and development, demand for experienced and skilled employees increases. The success of the Trust is dependent upon the ability to retain the services of experienced and skilled employees and the ability to recruit and retain other key employees.

Reliance on major customers

It is estimated that the top 10 customers of Deepwell accounted for approximately 76 percent of revenue for the quarter, the largest customer accounting for 14 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.

Competition

Deepwell faces competition from a variety of competitors. Many of these competitors have 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.

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 LP 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 monitor the activities of Deepwell LP for quality control and safety. However, there are no assurances that Deepwell LP'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.

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.

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.

Capital expenditures

The timing and amount of capital expenditures by Deepwell will directly affect the amount of cash generated from operating activities. The cost of labour and equipment has escalated over the past several years.

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, could result in a termination of distributions by Deepwell and would permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, 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. There is no assurance that Deepwell will be able to refinance any or all of the credit facilities at their maturity dates 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.

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 exploration and production companies and lower the demand for Deepwell's services.

Related-party transactions

There were no related-party transactions in the three months ended March 31, 2008.

Internal controls

During the quarter, no changes were made that materially affected, are reasonably likely to materially affect, internal control over financial reporting.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

DEEPWELL ENERGY SERVICES TRUST

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2008
(unaudited)

As per the disclosure requirements of 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 three months ended March 31, 2008 have been internally prepared and are the responsibility of the Trust's management.

DEEPWELL ENERGY SERVICES TRUST

CONSOLIDATED BALANCE SHEETS

As at	March 31, 2008 (unaudited)	December 31, 2007 (audited)
Assets		
Current assets:		
Accounts receivable	\$ 3,713,062	\$ 2,746,918
Inventory	318,416	219,991
Prepaid expenses and deposits	188,880	214,920
	<hr/> 4,220,358	<hr/> 3,181,829
Property and equipment (Note 3)	48,972,926	46,982,025
Intangible assets (Note 4)	2,841,070	2,925,102
Goodwill	7,157,402	7,157,402
	<hr/> \$ 63,191,756	<hr/> \$ 60,246,358
Liabilities		
Current liabilities:		
Bank indebtedness	\$ 411,395	\$ 40,537
Demand loan	-	550,000
Accounts payable and accrued liabilities	2,982,922	3,631,316
Distributions payable	430,426	429,792
Current portion of long-term debt	2,500,000	933,333
	<hr/> 6,324,743	<hr/> 5,584,978
Long-term debt (Note 6)	6,500,000	3,866,667
Asset retirement obligations	1,034,250	1,016,449
	<hr/> 13,858,993	<hr/> 10,468,094
Unitholders' Equity		
Trust units (Note 5)	56,281,748	56,229,626
Contributed surplus (Note 5)	1,186,979	1,066,549
Deficit	(8,135,964)	(7,517,911)
	<hr/> 49,332,763	<hr/> 49,778,264
	<hr/> \$ 63,191,756	<hr/> \$ 60,246,358

See accompanying notes to interim consolidated financial statements.

DEEPWELL ENERGY SERVICES TRUST

INTERIM CONSOLIDATED STATEMENTS OF INCOME, OTHER COMPREHENSIVE INCOME AND DEFICIT

(unaudited)

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Revenues	\$ 5,127,690	\$ 4,427,510
Expenses		
Operating	2,727,653	1,919,221
Selling and administrative	477,714	596,545
Depreciation and accretion	923,777	816,507
Amortization of intangible assets	84,032	82,234
Unit-based compensation	120,430	175,137
Interest on short-term debt	10,188	17,500
Interest on long-term debt	95,910	188,061
Financing fees	3,817	23,928
Loss on sale or disposal of property and equipment	11,416	7,261
Loss on write-off of property and equipment (net of accrued insurance proceeds)	-	367,701
Fire-related expenses	-	162,119
	4,454,937	4,356,214
Income before taxes	672,753	71,296
Future income tax recovery	-	(24,550)
Net income and comprehensive income	672,753	95,846
Deficit, beginning of period	\$ (7,517,911)	\$ (2,507,365)
Distributions to unitholders (Note 5d)	(1,290,806)	(1,095,970)
Deficit, end of period	\$ (8,135,964)	\$ (3,507,489)
Net income per trust unit:		
Basic and diluted	\$ 0.09	\$ 0.02
Weighted average number of trust units outstanding:		
Basic and diluted	7,173,770	4,356,000

DEEPWELL ENERGY SERVICES TRUST

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the three months ended March 31, 2008	For the three months ended March 31, 2007
Operating activities		
Net income	\$ 672,753	\$ 95,846
Non-cash items:		
Depreciation and accretion	923,777	816,507
Financing fees	-	23,928
Amortization of intangible assets	84,032	82,234
Future income tax recovery	-	(24,550)
Unit-based compensation (Note 5)	120,430	175,137
Loss on sale or disposal of property and equipment	11,416	7,261
Loss on write-off of property and equipment	-	746,332
Change in non-cash working capital	(520,636)	(1,324,969)
Cash flow from operating activities	1,291,772	597,726
Investing activities		
Financial security deposits	-	(14,578)
Purchase of property and equipment	(2,911,793)	(776,186)
Proceeds on sale of property and equipment	3,500	1,000
Change in non-cash investing working capital	(1,166,287)	(1,284,617)
Cash flow from investing activities	(4,074,580)	(2,074,381)
Financing activities		
Share issuance costs	-	(49,517)
Proceeds from long-term debt	4,200,000	1,500,000
Repayments on demand loan	(550,000)	-
Distributions paid to unitholders	(1,238,049)	(1,251,915)
Cash flow from financing activities	2,411,951	198,568
Decrease in cash	(370,858)	(1,278,087)
(Bank indebtedness) cash, beginning of period	(40,537)	28,861
Bank indebtedness, end of period	\$ (411,395)	\$ (1,249,226)
Supplementary information		
Cash interest paid	\$ 106,098	\$ 205,561

DEEPWELL ENERGY SERVICES TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
FOR THE PERIOD FROM JANUARY 1, 2008 TO MARCH 31, 2008

1. Nature of the Organization

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. Deepwell LP provides oilfield waste management services, including treating, processing and disposing of oilfield wastes and custom treating of oil/water emulsions.

2. Significant Accounting Policies

(a) Basis of presentation

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.

(b) Changes in Accounting Policies

(i) Adopted in 2008

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 recommendations.

Financial Instruments Disclosures and Presentation:

Section 3862 "Financial Instruments – Disclosure", describes the required disclosures related to the significance of financial instruments on the Trust's financial position and performance and the nature and extent of risks arising from financial instruments to which the Trust is exposed and how the Trust 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).

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.

(ii) Adopted in 2007

Comprehensive Income, Financial Instruments and Hedges

In the first quarter of 2007, the Trust adopted the following new Handbook sections issued by the CICA:

Section 1530 *“Comprehensive Income”* introduced a new financial statement which shows the change in equity of an enterprise from transactions and other events and circumstances from non-owner sources.

Section 3855 *“Financial Instruments — Recognition and Measurement”* established standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.

Section 3861 *“Financial Instruments — Disclosure and presentation”* requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity’s financial position, performance and cash flows. Also this section enables users through disclosure to evaluate the nature and extent of an entity’s use of financial instruments, the business purposes they serve and the risks associated with the instruments and management policies for mitigating and managing those risks.

Section 3865 *“Hedges”* whose application is optional, established how hedge accounting may be applied. The Trust, in accordance with its risk management strategy, decided to apply hedge accounting to its interest rate swaps and treat them as cash flow hedges. These derivatives are marked-to-market at each period-end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective.

Please refer to the audited consolidated financial statements for the year ended December 31, 2007 for more detailed information.

(iii) 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. Property and equipment

Asset class	As at March 31, 2008			As at December 31, 2007
	Cost	Accumulated	Net book value	Net book value
		depreciation		
Disposal wells	\$29,207,252	\$3,878,319	\$25,328,933	\$25,364,798
Pipelines	3,523,204	271,642	3,251,562	3,227,259
Tanks	4,151,405	199,881	3,951,524	2,697,002
Oilfield service equipment	4,704,026	806,031	3,897,995	2,400,773
Site improvements	8,214,176	324,350	7,889,827	2,362,439
Future sites	927,384	-	927,384	8,258,067
Buildings	2,866,558	88,431	2,778,127	1,858,293
Computer equipment	659,990	149,865	510,125	483,950
Vehicles	416,379	77,572	338,807	229,170
Furniture and fixtures	121,144	31,528	89,616	90,772
Leasehold improvements	12,784	3,757	9,027	9,502
	\$54,804,302	\$5,831,376	\$48,972,926	\$46,982,025

4. Intangible assets

	For the quarter ended March 31, 2008			As at
	Cost	Accumulated	Net	December 31, 2007
		amortization	book value	Net book value
Completions and contracts	\$2,115,000	\$174,537	\$1,940,463	\$1,964,792
Customer relationships	1,310,000	426,726	883,275	938,977
Non-competition agreements	48,000	30,667	17,333	21,333
	\$3,473,000	\$631,930	\$2,841,070	\$2,925,102

5. 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 the 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 quarter ended March 31, 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	10,570	52,122	44,323	264,184
Trust unit issue costs	-	-	-	(1,129,826)
Balance, end of period	7,173,770	\$56,281,748	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.

Options have been estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.25 percent; volatility of 45 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 March 31, 2008				Options exercisable as at March 31, 2008	
Exercise price	Number of options	Weighted average contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
\$5.94	206,971	4.38	\$5.94	73,800	\$5.94
6.14	2,000	4.10	6.14	-	6.14
8.61	282,500	3.39	8.61	94,167	8.61
8.92	14,500	3.50	8.92	4,833	8.92
9.26	1,000	3.48	9.26	333	9.26
	506,971	3.80	\$7.52	173,133	\$7.48

Options outstanding as at December 31, 2007				Options exercisable as at December 31, 2007	
Exercise price	Number of options	Weighted average contractual life	Weighted average exercise price	Number of options	Weighted average exercise price
\$6.12	206,971	4.64	\$6.12	73,800	\$6.12
6.32	2,000	4.36	6.32	-	-
8.79	282,500	3.64	8.79	94,167	8.79
9.10	14,500	3.76	9.10	4,833	9.10
9.44	1,000	3.73	9.44	333	9.44
	506,971	4.04	\$7.70	173,133	\$7.66

There were no Trust unit options granted, cancelled, expired or exercised during the quarter.

(c) Contributed surplus

	For the quarter ended March 31, 2008	For the year ended December 31, 2007
Balance, beginning of period	\$1,066,549	\$251,432
Unit-based compensation expense	120,430	815,117
Balance, end of period	\$1,186,979	\$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
Distributions declared to unitholders during the period				1,290,806
Balance, beginning of period				7,819,342
Balance, end of period				\$9,110,148

(e) Weighted average Trust units outstanding

	For the quarter ended March 31, 2008	For the year ended December 31, 2007
Basic	7,173,770	5,569,288
Diluted	7,173,770	5,570,403

6. Credit facilities

The Trust renewed its existing credit facilities on May 31, 2007 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 1.400 percent, according to the funded debt to EBITDA ratio. As of March 31, 2008 the borrowing base for the demand loan was at \$2,000,000 and the amount drawn was nil.

(b) Long-term debt

Under the credit facilities, the Trust has a \$15,500,000, 364-day extendible revolving term loan committed to May 29, 2008. No set principal repayment has been established and the Trust has the ability to repay, borrow and repay again until the 364-day term expires. Interest ranges from the lender's prime rate plus 0.125 percent to 1.400 percent per annum. Interest is calculated monthly and paid in arrears. As at March 31, 2008 an aggregate of \$9,000,000 was outstanding of which \$2,500,000 is current. The

revolving period extends to May 29, 2008, at which time the credit facility is eligible for renewal. Should this renewal not be extended, the credit facility reverts to a three-year term with the monthly principal repayments commencing on June 26, 2008.

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.

7. Financial Instruments

The following table presents the carrying value and fair value of financial instruments as at March 31, 2008:

Assets (Liabilities) carried at cost/amortized cost	Carrying value	Fair value
Bank indebtedness	\$ (411,395)	\$ (411,395)
Accounts receivable	3,713,062	3,713,062
Accounts payable and accrued liabilities	(2,982,922)	(2,982,922)
Distributions payable	(430,426)	(430,426)
Long-term debt	\$ (9,000,000)	\$ (9,000,000)

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of judgment.

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.

8. Capital Disclosures

The Trust's objective with the management of its capital is 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. The Trust monitors capital on the basis of funded debt to EBITDA (earnings before interest, income taxes, depreciation and amortization). The ratio of funded debt to EBITDA is to be maintained under 2.00:1. As at March 31, 2008 the ratio was 1.82:1.

9. Financial Risk Management

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. In addition, as required, these risks are reviewed with the Trust's Board of Directors.

Interest Rate Risk

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 which are subject to floating interest rates ranging from 0.125 percent to 1.4 percent. The Trust has the option to renew these loans annually.

Credit concentration

The Trust has a concentration of credit risk because substantially all oil revenues are accumulated by the marketer, and paid in full the month following receipt. 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. The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the earnings statement within selling, general, and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off are credited against selling, general, and administrative expenses in the statements of other comprehensive income and deficit.

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, the \$9,000,000 of long-term debt outstanding is revolving, although the Trust retains the right to repay, without penalty, amounts as deemed appropriate. The Trust has remained within all bank debt covenants and foresees no change in its ability to meet these covenants in 2008.

Commodity Price Risk

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.

10. 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.

11. Subsequent events

The Trust declared a cash distribution for the period April 1, 2008 to April 30, 2008 at \$0.06 per unit to be paid on May 15, 2008.

12. Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

Additional information about the Trust is available at www.sedar.com and on the Trust's website at 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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