

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Deepwell Energy Services Trust (the "Trust") has been prepared taking into consideration information available to March 30, 2007 and should be read in conjunction with the Trust's audited consolidated financial statements as at and for the 247 days ended December 31, 2006. This MD&A discusses operations and events for the 247-day period ended December 31, 2006. Unless otherwise noted, references to the "year" in this MD&A refer to the 247-day period ended December 31, 2006, and references to the "quarter" in this MD&A refer to the three months ended December 31, 2006.

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 calculations of other companies or Trusts.

DEEPWELL OVERVIEW

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.

On April 27, 2006, Deepwell completed its private placement which raised \$40,000,000 in gross proceeds. On April 28, 2006, Deepwell closed the acquisition of the oilfield waste management businesses operated by Producers Oilfield Services Inc. for cash consideration of approximately \$43,000,000. The acquisition was funded with approximately \$37,000,000 in net proceeds from the April 27, 2006 private placement, and approximately \$6,000,000 drawn from the Trust's credit facilities. The acquisition included three operating facilities in Alberta located at Grande Cache, Mayerthorpe, and Rycroft

The Mayerthorpe and Grande Cache facilities are oilfield waste management facilities and are operated in association with Class Ib disposal wells. These facilities are designed to receive, treat and separate oilfield wastes into recoverable oil and disposable water and solids. Recovered oil is shipped from the facility and sold into the oil market at prevailing market rates. The solids are transported and disposed of in a landfill approved by the Alberta Energy and Utilities Board (EUB) and the water is injected into a Deepwell LP Class Ib disposal well. Deepwell LP's facilities can also receive, treat and separate oil/water emulsions to obtain pipeline specification crude oil. Treated oil is then shipped from the facility and sold into the oil market at prevailing market rates and credited back to the customer and the separated water is injected into a Deepwell LP Class Ib disposal well.

The Rycroft facility is a water injection facility operated in association with a Class Ib disposal well. This facility is designed to receive and treat produced water to recover residual amounts of oil. The residual oil is shipped from the facility and then sold into the oil market at prevailing market rates. The water is disposed of in the Deepwell LP Class Ib disposal well at Rycroft.

STRATEGY

Deepwell is committed to building value for its Unitholders through disciplined management and the implementation of its long-term strategy. The key aspects of Deepwell's strategy are:

- Focus on oilfield waste management: Deepwell currently operates exclusively in the oilfield waste management business, and intends to continue that focus;
- Growth: Deepwell is primarily focused on organic growth through adding new facilities, and increasing capacity and services provided at existing facilities;
- Operational efficiency: Attain and maintain efficient operations and a high standard of customer service within a safe working environment; and
- Environmental stewardship: Meet or exceed regulatory requirements and industry standards.

Selected financial information

The following tables are summaries of selected financial information that has been derived from, and should be read in conjunction with, the consolidated financial statements of the Trust.

FINANCIAL HIGHLIGHTS	For the three months ended Dec 31, 2006	For the 247 days ended Dec 31, 2006
Revenue	\$ 4,059,296	\$ 9,647,020
Operating costs	1,605,492	4,594,714
Gross margin	2,453,804	5,052,306
Selling and administrative	730,354	1,409,031
Earnings before interest, taxes, depreciation & amortization (EBITDA)	1,723,450	3,643,275
Depreciation, accretion and amortization	993,621	2,186,578
Unit-based compensation	197,812	251,432
Interest	149,325	359,740
Loss on sale of property and equipment	34,295	34,295
Future income taxes	(47,799)	(47,799)
Net income	396,196	859,029
Add:		
Depreciation, accretion and amortization	993,621	2,186,578
Unit-based compensation	197,812	251,432
Loss on sale of property and equipment	34,295	34,295
Future income taxes	(47,799)	(47,799)
Funds from operations	\$ 1,574,125	\$ 3,283,535

FINANCIAL HIGHLIGHTS (continued)	For the three months ended Dec 31, 2006	For the 247 days ended Dec 31, 2006
Net income	\$ 396,196	\$ 859,029
Per unit, basic	0.09	0.20
Per unit, diluted	0.09	0.20
EBITDA	\$ 1,723,450	\$ 3,643,275
Per unit, basic	0.40	0.84
Per unit, diluted	0.40	0.84
Funds from operations	\$ 1,574,125	\$ 3,283,535
Per unit, basic	0.36	0.75
Per unit, diluted	0.36	0.75
Cash distributions paid to Unitholders	\$ 1,251,915	\$ 2,949,088
Per unit, basic	0.29	0.68
Per unit, diluted	0.29	0.68
Gross margin as a percentage of revenue	60%	52%
Selling and administrative as a percentage of revenue	18%	15%
Capital expenditures	\$ 3,416,125	\$ 6,808,996
Total assets, end of period		\$ 54,491,681
Long-term debt, end of period		\$ 11,500,000
Total long-term liabilities, end of period		\$ 12,300,945
Trust units, end of period		\$ 40,490,377
Weighted average Trust units, basic	4,356,000	4,356,000
Weighted average Trust units, diluted	4,356,000	4,357,187

Revenues for the year were \$9,647,020, with a gross margin of \$5,052,306 (52 percent of revenue), EBITDA of \$3,643,275 (38 percent of revenue) and net income of \$859,029 (9 percent of revenue). Revenues for the quarter were \$4,059,296, with a gross margin of \$2,453,804 (60 percent of revenue), EBITDA of \$1,723,450 (42 percent of revenue) and net income of \$396,196 (10 percent of revenue). Revenues improved for the quarter relative to results in the prior quarters due to seasonally higher levels of activity in the fourth quarter in the industry, partially offset by lower prices on the sale of recovered oil compared to the second and third quarters of 2006.

On a basic and diluted per unit basis, earnings for the year were \$0.20 per unit (\$0.09 per unit for the quarter), and funds from operations for the year were \$0.75 per unit (\$0.36 per unit for the quarter). Basic and diluted distributions declared to unitholders for the year were \$3,366,393 or \$0.77 per unit (\$0.29 per unit for the quarter). Distributions paid for the year were \$2,949,088, or \$0.68 cents per unit, basic and diluted (\$0.29 per unit for the quarter).

In general, demand in the oilfield waste management business was strong for the year, although as is typically the case, seasonal fluctuations and weather conditions had an impact on activity at certain times.

Results of operations

REVENUE

Revenues for the year were \$9,647,020 (\$4,059,296 for the quarter) generated approximately 60 percent from processing and disposal fees and 40 percent from the sale of recovered oil (57 percent and 43 percent respectively, for the quarter).

During the year, the Trust experienced a number of challenges at the Grande Cache facility. In June the pipeline running from the plant to the disposal well was breached. There was no exposure to the environment, as the inner fibreglass pipeline was enclosed in a steel casing; however, in order to minimize the risk of future pipeline breaches at the facility, the entire inner fibreglass pipeline was replaced. This

resulted in a significant impact to revenues as the pipeline was not brought back on-line until September 28, 2006. During this time, Grande Cache was still receiving limited amounts of production fluids and trucking the water from the plant to the well site. Small volumes of oilfield waste were being processed during this period as well.

In October and November, a solids treatment pad was installed at Grande Cache to improve solid waste handling and treatment capabilities; however, the installation disrupted the ability to receive and process waste in October and November.

On December 7, 2006, an explosion and subsequent fire occurred at the Grande Cache facility, The damage was isolated to a single tank in the vacuum truck unloading system, and the facility resumed operations on December 14, 2006. For the remainder of the year, the facility was only capable of receiving waste transported in tanker trucks, which could be offloaded directly into Deepwell's tanks. On February 1, 2007, Deepwell resumed receiving waste transported in vacuum trucks.

The above-noted operational issues at Grande Cache negatively impacted revenues by an estimated \$743,000 for the year, and \$473,000 for the quarter.

The Mayerthorpe facility provided consistent operational and financial results for the year and the quarter, and generally exceeded expectations. The Rycroft facility provided strong results except in June, when the facility was out of operation for two weeks during stimulation of the disposal well. The downtime while the well was stimulated decreased revenues; however, at year-end the facility was at a "run-rate" significantly beyond original expectations.

EXPENSES

Operating

Operating expenses were \$4,594,714 for the year, and the relationship to revenues is generally consistent with management's expectations. Operating expenses include \$1,133,828 in oil credits repaid to customers (\$371,068 for the quarter), which mitigates the impact of oil prices on Deepwell's revenues. Certain expenses, such as oil credits, trucking, and landfill expenses are activity-driven; however, a significant portion of expenses can be considered fixed. Additional trucking costs of approximately \$166,000 were incurred during the third quarter of the year, to transport water to the wellhead for disposal, while the disposal pipeline at the Grande Cache facility was out of service.

Selling and administrative

Selling and administrative costs for the year were \$1,409,031 or 15 percent of revenue (\$730,354 and 18 percent for the quarter). Professional fees, audit fees, wages and benefits for head office personnel, office supplies, and computer-related expenses were the most significant cash costs.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense was \$2,186,578 for the period (\$993,621 for the quarter) and consists of depreciation of fixed assets of \$1,873,801 (\$867,586 for the quarter), and amortization of intangible assets of \$218,963 (\$82,160 for the quarter), accretion of \$37,982 (\$14,243 for the quarter), amortization of deferred financing charges of \$55,832 (\$29,632 for the quarter). Intangible assets consist of regulatory approvals, customer relationships, and non-competition agreements.

Interest

Total cash interest expense for the year was \$359,740 (\$149,325 for the quarter) comprised of interest on long-term debt of \$341,375 and interest on the Trust's operating loan of \$18,365. 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 year ranged from 0.125 percent to 0.625 percent over the lender's prime rates.

Loss on sale of assets

During the fourth quarter, a plant vehicle and a tractor loader were sold, for total proceeds of \$55,500, and recognized losses on disposal were \$34,295.

Income taxes

The Trust is a taxable entity under the Income Tax Act (Canada) but is taxable only on income that is not distributed to the Unitholders. Any taxable income is distributed to the Unitholders and therefore no provision for income taxes relating to the Trust is included in these financial statements.

Income taxes in the Trust's corporate subsidiary are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement and income tax basis of assets and liabilities. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

On December 21, 2006, the federal Minister of Finance released draft legislation to implement proposals originally announced on October 31, 2006 relating to the taxation of certain distributions from certain trusts and partnerships (the "Trust Taxation Proposal"). Subject to the Trust Taxation Proposal, returns on capital are generally taxed as ordinary income in the hands of a unitholder who is resident in Canada for purposes of the Income Tax Act (Canada) (The "Tax Act"). Pursuant to the Trust Taxation Proposal, commencing January 1, 2011 (provided the Trust only experiences "normal growth" and no "undue expansion" before then) certain distributions from the Trust which would otherwise have been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at that trust level. Returns of capital generally are (and under the Trust Taxation Proposal will continue to be) tax-deferred for unitholders who are resident in Canada for purposes of the Tax Act (and reduce such unitholder's adjusted cost based in the Trust Unit for purposes of the Tax Act). Distributions, whether of income or capital to a unitholder who is not resident in Canada for purposes of the Tax Act, or that is a partnership that is not a "Canadian partnership" for purposes of the Tax Act, generally will be subject to Canadian withholding tax.

Distributions to Unitholders

During the year, distributions declared to unitholders were \$3,366,393, and distributions paid during the year were \$2,949,088. Since inception, the Trust has made monthly distributions of \$0.0958 per unit, with the first payment prorated for the two days following acquisition to the end of April, 2006. On March 19, 2007 the Trust announced a change in the monthly distribution and that the cash distribution for the period of March 1 to March 31, 2007 had been set at \$0.06 per Trust unit; this cash distribution is payable on April 13, 2007 to unitholders of record on March 30, 2007.

Upon review of Deepwell's opportunities for growth, the Trustees concluded that retention of more cash to provide capital for growth would be most appropriate. A reduction in the cash distribution will provide greater financial flexibility to exploit Deepwell's high-return growth opportunities.

Investing activities

Net cash used in investing activities during the year was \$49,215,969.

BUSINESS ACQUISITIONS

On April 27, 2006, the Trust purchased all of the issued and outstanding shares of Deepwell Disposal Services Inc. in exchange for 356,000 Class B Trust Units valued at \$3,560,000. The Trust incurred transaction costs of \$57,068.

On April 28, 2006, the Trust purchased the oilfield waste management assets of Producers Disposal Services Ltd. and Rycroft Disposal Well Inc. ("PDS" and "Rycroft", respectively) for cash consideration of \$42,754,509. The Trust also incurred transaction costs of \$241,279. The Trust acquired all of the assets of PDS and Rycroft, excluding security deposits held by the EUB. The Trust assumed the asset retirement obligations of PDS and Rycroft; however, the Trust assumed only those operating liabilities accruing to PDS and Rycroft subsequent to March 31, 2006. The Trust also did not assume any bank indebtedness or amounts due to affiliates.

CAPITAL EXPENDITURES

Excluding investment on the original acquisition (which is detailed above), the Trust's capital expenditures for purchase of property and equipment for the year were \$6,808,996.

In the third quarter of 2006, a new pipeline from the Grande Cache facility to the disposal well was installed at a cost of approximately \$1,290,000.

To increase capacity at Grande Cache, a second disposal well was placed into operation by stimulating an out-of-service disposal well at a cost of approximately \$1,900,000. The well was put into service in late September and some productivity increases were realized in the fourth quarter, although the positive impact was mitigated by the operational downtime at Grande Cache in the fourth quarter. In March 2007, Deepwell received EUB approval to increase wellhead pressure at this well, and further increases in injection rate are expected as a result.

A solids treatment pad was installed at Grande Cache in the fourth quarter at a cost of approximately \$390,000. The pad allows solids to be treated, such that landfill disposal costs can be significantly reduced. The pad was damaged in the December 7, 2006 fire, but should be repaired and placed back into service in the second quarter of 2007.

Approximately \$350,000 was invested in computers, furniture and other head office equipment upon the establishment of the Trust's head office location in August 2006.

Approximately \$170,000 was invested in preliminary costs for acquisition and conversion of a second disposal well at Rycroft. An application was made in 2006 to the EUB for approval to add the second well into service, and approval was granted in March 2007. The existing well at Rycroft was stimulated in June 2006 at a cost of approximately \$260,000, and the well's performance has improved substantially since that time.

Approximately \$730,000 was invested in preparation of the well and application to the EUB for approval of Deepwell's planned facility at Claresholm, Alberta. An additional \$30,000 was invested in costs related to other future facilities.

The remaining costs relate primarily to improvements of drainage and retention ponds at the facilities, new injection pumps, new tanks and mobile equipment.

Unitholders' equity

On April 27, 2006, the Trust completed a private placement offering of 4,000,000 Class B Trust units at \$10 per unit, for total gross proceeds of \$40,000,000 less agents' commission of \$2,400,000 and other expenses of \$669,623. The net proceeds of \$36,930,377 were used to complete the acquisition of PDS and Rycroft. An additional 356,000 Class B Trust units were issued as purchase consideration for Deepwell Disposal Services Inc.

Pursuant to the Trust's prospectus dated August 18, 2006, the Trust exchanged all outstanding Class B Trust units on a one-for-one basis for units of Deepwell Energy Services Trust. Subsequent to the exchange of units, the Trust received approval to list the units for trading on the TSX, and the units commenced trading on the TSX on August 24, 2006. As of March 28, 2007, the Trust had 4,356,000 units outstanding.

TRUST UNIT OPTION PLAN

The Trust has established a unit option plan for trustees, directors, officers, employees and consultants. The Trust recognizes unit-based compensation expense in the consolidated statement of income for all unit options granted based upon their fair value at the time of grant. The fair value is determined using an accepted option pricing model, with total compensation expense recognized over the period the options vest. Compensation expense is offset with a corresponding increase to contributed surplus. Consideration paid by the option-holder

upon the exercise of the options, together with the amount previously recognized in contributed surplus, is recognized as an increase in Unitholders' capital.

As at December 31, 2006 a total of 314,500 options issued pursuant to the Trust incentive stock option plan ("Option Plan") were outstanding at an average exercise price of \$10.01. All of these units were issued during the period and remain outstanding at December 31, 2006. No options are exercisable at December 31, 2006, and the weighted average contractual life remaining is 4.65 years. The total number of outstanding options shall not exceed 10 percent of the outstanding Trust units. 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. As at December 31, 2006, the exercise prices of outstanding options range from \$9.62 to \$10.26 per unit and the weighted average exercise price of granted options is \$9.63 per unit

The Trust recorded unit option compensation expense and contributed surplus of \$251,432 during the period. The fair value of options issued during the period was estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rate of 4.25 percent; volatility of 35 percent; life of five years; 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.

Liquidity

As at December 31, 2006, the Trust had cash of \$28,861. The Trust also has credit facilities in place in the aggregate of \$17,500,000.

Net cash provided by financing activities for the year was \$45,385,577. The Trust realized \$36,930,377 in net proceeds of its private placement on April 27, 2006. At December 31, 2006, the Trust had drawn \$11,500,000 on its long-term credit facility. Deferred financing costs of \$95,712 were paid relating to the establishment of the Trust's credit facilities. A total of \$55,832 of deferred financing costs was amortized during the period. Other financing activities include the payment of \$2,949,088 in distributions to Unitholders related to the periods from April 29, 2006 to December 31, 2006.

CREDIT FACILITIES

Deepwell LP established credit facilities on April 27, 2006 with a Canadian chartered bank (the "credit facilities"), which consist of a \$2,000,000 demand revolving operating loan and a \$15,500,000 364-day extendible revolving term loan, as well as a credit card facility. As of December 31, 2006, the borrowing base for the demand revolving loan was at \$1,808,000 and the amount drawn was nil. As at December 31, 2006, an aggregate of \$11,500,000 was drawn on the revolving term loan.

The operating loan bears interest ranging from the lender's prime rate plus 0.125 percent to prime plus 0.625 percent depending on the ratio of debt to EBITDA, with interest payable monthly. The extendible revolving facility does not require principal payments thereunder until May 31, 2007, unless otherwise extended. If extended, the facility will continue not to require the payment of principal. If not extended, the credit facility reverts to a three-year term with principal payments thereunder commencing monthly after the date such facility is not renewed.

As security for the credit facilities, Deepwell LP granted the lenders a security interest over all of its assets. In addition, each of the Trust, Deepwell Energy Services Commercial Trust and Deepwell Energy Services Ltd. 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 enforcement of the credit facilities or the above-mentioned guarantees, the lenders, as creditors, will have a prior-ranking claim relative to the Unitholders.

The credit facility is subject to customary terms and conditions for borrowings of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lender and maintenance of certain interest coverage and leverage ratios.

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

Payments due by period	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	\$ 11,500,000	\$ -	\$ 9,347,222	\$ 2,152,778	\$ -
Operating leases	753,056	168,972	335,906	248,178	-
Total contractual obligations	\$ 12,253,056	\$ 168,972	\$ 9,683,128	\$ 2,400,956	\$ -

Quarterly information

	64 days ended June 30, 2006	Three months ended Sept 30, 2006	Three months ended Dec 31, 2006	247 days ended Dec 31, 2006
Revenues	\$ 1,778,929	\$ 3,808,795	\$ 4,059,296	\$ 9,647,020
Expenses				
Operating	948,937	2,040,285	1,605,492	4,594,714
Selling and administrative	229,889	448,788	730,354	1,409,031
Depreciation and accretion	469,705	560,249	881,829	1,911,783
Amortization of intangible assets	-	136,803	82,160	218,963
Unit-based compensation	-	53,620	197,812	251,432
Interest on short-term debt	-	4,601	13,764	18,365
Interest on long-term debt	107,946	97,868	135,561	341,375
Amortization of deferred financing costs	10,612	15,588	29,632	55,832
Loss on sale of property and equipment	-	-	34,295	34,295
	1,767,089	3,357,802	3,710,899	8,835,790
Income before taxes	11,840	450,993	348,397	811,230
Future income tax recovery	-	-	(47,799)	(47,799)
Net income	\$ 11,840	\$ 450,993	\$ 396,196	\$ 859,029
Distributions to unitholders	(445,258)	(1,669,220)	(1,251,915)	(3,366,393)
Deficit, end of period	\$ (433,418)	\$ (1,651,645)	\$ (2,507,364)	\$ (2,507,364)
Net income per trust unit:				
Basic	\$ 0.00	\$ 0.10	\$ 0.09	\$ 0.20
Diluted	\$ 0.00	\$ 0.10	\$ 0.09	\$ 0.20
Weighted average number of Trust units outstanding:				
Basic	4,356,000	4,356,000	4,356,000	4,356,000
Diluted	4,356,000	4,477,793	4,356,000	4,357,187

Financial instruments

All of the Trust's financial instruments as at December 31, 2006 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 represents 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

The outlook for the Trust is positive. Demand for services has remained strong to date in 2007, and Deepwell implemented a general price increase of approximately 10 percent on processing fees on January 1, 2007.

The addition of the second well and solids treatment pad at the Grande Cache facility should add to capacity and efficiency, and the facility was back up to full operations on February 1, 2007, following the outage of the vacuum truck unloading system from the December 7, 2006 fire. In addition, Deepwell received approval from the EUB to increase wellhead pressure at the second well at Grande Cache. The cost to upgrade equipment for the increased operating pressure is estimated at approximately \$100,000, and the upgrades were put into service on March 26, 2007. Assuming that the upgraded Grande Cache facility operates at full capacity, Deepwell estimates that the increase in capacity can result in additional annualized EBITDA of approximately \$400,000.

Deepwell received approval from the EUB for a second Class 1b disposal well at its Rycroft facility. A second well adds significant capacity without requiring an immediate increase in staff, or a significant investment in infrastructure at the facility site. Tests indicate that the well will increase injection capacity at Rycroft by approximately 40 percent. Construction of a 1.2 km pipeline to the well will commence as soon as crews and equipment are available. Costs to complete the project are estimated at approximately \$900,000. Assuming completion of the pipeline and that the expanded Rycroft facility operates at full capacity, Deepwell estimates that the increase in capacity provided by the second well can result in additional annualized EBITDA of approximately \$800,000.

Deepwell is also in the final stages of the EUB approval process for its fourth facility, near Claresholm, Alberta. Deepwell believes that it is nearing approval of the facility, although no date for approval has been provided by the EUB. Construction commencement cannot be confirmed at this time, but Deepwell remains optimistic that construction of the facility will be completed during 2007.

In addition, Deepwell owns rights to a location and disposal well for future expansion after Claresholm, and anticipates that an application for approval of this facility may be submitted to the EUB in the second quarter of 2007.

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, and accretion. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the Trust's accounting policies as disclosed in the Trust's 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, 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 and lead 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 in the level of energy services. The timing and duration of spring break-up is 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 for 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 49.8 percent of revenue for the year, with no single customer accounting for more than approximately 8.5 percent. Deepwell does not generally enter into long-term contracts with 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, 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 Unitholder 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.

Related-party transactions

During the year the Trust made payments in the amount of \$318,954 for legal expenses to a Partnership of which one of the Trustees is a partner. These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the parties. As at December 31, 2006, \$6,176 was outstanding in accounts payable and accrued liabilities.

On April 27, 2006, the Trust purchased all of the issued and outstanding shares of Deepwell Disposal Services Inc. (DDSI) in exchange for 356,000 Class B Trust Units valued at \$3,560,000. Due to common management and directors, the Trust and DDSI were related parties at the time of the acquisition. The exchange amount was used for financial reporting purposes because the change in the ownership interests in the assets transferred is substantive, and estimated fair values of property, plant and equipment, intangibles and goodwill for both acquisitions were provided by an independent evaluator.

Accounting changes and pronouncements

FINANCIAL INSTRUMENTS, OTHER COMPREHENSIVE INCOME

This pronouncement, effective for fiscal years beginning on or after October 1, 2006, addresses when to recognize and how to measure a financial instrument on the balance sheet and how gains and losses are to be presented. An additional financial statement item, other comprehensive income, is required in certain circumstances. The Trust currently has no items that would create other comprehensive income. The fair values of those financial instruments, which are designated as hedges, are to be included on the balance sheet as a financial asset or liability with the related mark-to-market gain or loss recognized in other comprehensive income. Because the Trust did not have any derivative financial instruments at December 31, 2006, this required change will have no effect on the Trust's reported financial position or net income.

Disclosure and internal controls

The Trust's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Trust's disclosure controls and procedures to provide reasonable assurance that material information related to the Trust is made known. In addition, internal controls over financial reporting have been designed or have been caused to be designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP. They are assisted in these responsibilities by other members of the Trust's management team.

The Trust has conducted a review and evaluation of its disclosure controls and procedures. The Trust's CEO and CFO conclude that as at December 31, 2006, the Trust's disclosure controls and procedures are adequate to provide reasonable assurance that material information related to the Trust is made known to them by others within the Trust.

During the Trust's assessment of its system of internal controls as defined under Multilateral Instrument 52-109, the Trust identified the following weakness in internal controls over financial reporting:

Due to the limited number of staff, it is not feasible to achieve the complete segregation of incompatible duties.

The broad scope of senior management's oversight and strong entity level control are expected to compensate for any individual internal control weakness. In addition, the weakness identified is mitigated by: the active involvement of senior management in all the affairs of the Trust; open lines of communication within the Trust; the present levels of activities within the Trust being relatively transparent; the thorough review of the Trust's financial statements by management and the establishment of a whistle-blower policy. However these mitigating factors will not necessarily eliminate the likelihood that a material restatement will occur as a result of the aforesaid weakness in the Trust's internal controls over financial reporting.

It should be noted that a control system, including the Trust's disclosure and internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls will prevent all errors or fraud.

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.

Additional information

Additional information about the Trust can be found in the prospectus of the Trust dated August 18, 2006. The prospectus and other documents related to the Trust can be found on SEDAR at www.sedar.com.