

CONSOLIDATED FINANCIAL STATEMENTS OF

DEEPWELL ENERGY SERVICES TRUST

AS AT AND FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007, AND AS AT AND FOR THE PERIOD FROM APRIL 27, 2006 TO DECEMBER 31, 2006

Management's Report

To the Unitholders of
Deepwell Energy Services Trust

The audited consolidated balance sheets of **Deepwell Energy Services Trust** as at December 31, 2007 and 2006 and the consolidated statements of (loss) income, other comprehensive income and accumulated deficit, and cash flows for the year ended December 31, 2007 and for the period from April 27, 2006 to December 31, 2006 have been prepared by management. It is management's responsibility to ensure that sound judgement, appropriate accounting principles and methods, and reasonable estimates have been used in the preparation of this information. Management also ensures that all information presented is consistent.

Management is also responsible for developing internal controls over the financial reporting process. Management believes the system of internal controls, review procedures and established policies provide reasonable assurance as to the reliability and relevance of the financial reports. Management also believes that the Trust's operations are conducted in conformity with the law and with a high standard of business conduct.

The Board of Trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through the Audit Committee of its administrator. The Committee, which consists of non-management members, reviews the financial statements and annual report, and recommends them to the Board for approval. The Committee meets with management and external auditors to discuss internal controls, auditing matters and financial reporting issues. External auditors have full and unrestricted access to the Audit Committee. The Committee also recommends a firm of external auditors to be appointed by the Unitholders.

(signed) "*Robert Dodds*"

Robert Dodds, President and CEO
Deepwell Energy Services Trust

Calgary, Alberta
March 24, 2008

Auditors' Report

To the Unitholders of
Deepwell Energy Services Trust

We have audited the consolidated balance sheets of **Deepwell Energy Services Trust** as at December 31, 2007 and 2006 and the consolidated statements of (loss) income, other comprehensive income and accumulated deficit, and cash flows for the year ended December 31, 2007 and for the period from April 27, 2006 to December 31, 2006. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly in all material respects the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the year ended December 31, 2007 and for the period from April 27, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles.



Calgary, Canada
March 24, 2008

Chartered Accountants

DEEPWELL ENERGY SERVICES TRUST

CONSOLIDATED BALANCE SHEETS

December 31,	2007	2006
Assets		
Current assets:		
Cash	\$ -	\$ 28,861
Accounts receivable	2,746,918	2,729,106
Inventory	219,991	80,205
Prepaid expenses and deposits	214,920	242,990
	3,181,829	3,081,162
Property and equipment (Note 4)	46,982,025	39,565,606
Intangible assets (Note 5)	2,925,102	3,254,037
Goodwill	7,157,402	7,157,402
Financial security deposits	-	1,433,474
	\$ 60,246,358	\$ 54,491,681
Liabilities		
Current liabilities:		
Bank indebtedness	\$ 40,537	\$ -
Demand loan (Note 8a)	550,000	-
Accounts payable and accrued liabilities	3,631,316	3,538,986
Distributions payable	429,792	417,305
Current portion of long-term debt (Note 8)	933,333	-
	5,584,978	3,956,291
Long-term debt (Note 8)	3,866,667	11,500,000
Future income taxes (Note 7)	-	87,201
Asset retirement obligations (Note 9)	1,016,449	713,744
	10,468,094	16,257,236
Unitholders' Equity		
Trust units (Note 6)	56,229,626	40,490,377
Contributed surplus (Note 6)	1,066,549	251,432
Deficit	(7,517,911)	(2,507,364)
	49,778,264	38,234,445
	\$ 60,246,358	\$ 54,491,681

Commitments and contingencies (Note 12)

On behalf of the Board of Trustees:

(signed) "Jay B. Simmons"

Jay B. Simmons, Trustee

(signed) "Murray W. Montgomery"

Murray W. Montgomery, Trustee

See accompanying notes to the consolidated financial statements.

DEEPWELL ENERGY SERVICES TRUST

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

	For the twelve months ended December 31, 2007	For the period from April 27 to December 31, 2006
Revenues	\$ 14,124,051	\$ 9,647,020
Expenses		
Operating	6,635,001	4,594,714
Selling and administrative	2,518,213	1,409,031
Depreciation and accretion	3,246,002	1,911,783
Amortization of intangible assets (Note 5)	328,935	218,963
Unit-based compensation (Note 6)	815,117	251,432
Interest on short-term debt	38,880	18,365
Interest on long-term debt	551,611	341,375
Amortization of deferred financing costs	-	55,832
Financing fees	114,043	-
(Gain) loss on sale of property and equipment	(8,773)	34,295
Loss on write-off of property and equipment (net of accrued insurance proceeds) (Note 11)	367,702	-
Fire-related expenses (Note 11)	162,119	-
	14,768,850	8,835,790
(Loss) income before taxes	(644,799)	811,230
Future income tax recovery (Note 7)	(87,201)	(47,799)
Net (loss) income being comprehensive loss	(557,598)	859,029
Deficit, beginning of period	\$ (2,507,364)	\$ -
Distributions to unitholders (Note 6)	(4,452,949)	(3,366,393)
Deficit, end of period	\$ (7,517,911)	\$ (2,507,364)
Net (loss) income per trust unit:		
Basic	\$ (0.10)	\$ 0.20
Diluted	\$ (0.10)	\$ 0.20
Weighted average number of trust units outstanding:		
Basic (Note 6)	5,569,288	4,356,000
Diluted (Note 6)	5,570,403	4,357,187

DEEPWELL ENERGY SERVICES TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the twelve months ended December 31, 2007	For the period from April 27 to December 31, 2006
Operating activities		
Net (loss) income	\$ (557,598)	\$ 859,029
Non-cash items:		
Depreciation and accretion	3,246,002	1,911,783
Amortization of financing fees	-	55,832
Amortization of intangible assets	328,935	218,963
Future income tax recovery (Note 7)	(87,201)	(47,799)
Unit-based compensation (Note 6)	815,117	251,432
(Gain) loss on sale of property and equipment	(8,773)	34,295
Loss on write-off of property and equipment (Note 11)	746,332	-
Change in non-cash working capital	(685,719)	575,718
Cash flow from operating activities	3,797,095	3,859,253
Investing activities		
Financial security deposits	1,433,474	(1,408,120)
Business acquisitions (net of cash of \$259,925) (Note 3)	-	(42,792,931)
Purchase of property and equipment	(11,199,255)	(6,808,996)
Proceeds on sale of property and equipment	101,980	55,500
Change in non-cash investing working capital	648,521	1,738,578
Cash flow from investing activities	(9,015,280)	(49,215,969)
Financing activities		
Net proceeds from issuance of units	15,475,066	36,930,377
(Repayments to) proceeds from long-term debt	(6,700,000)	11,500,000
Proceeds from demand loan	550,000	-
Distributions paid to unitholders	(4,176,279)	(2,949,088)
Financing fees	-	(95,712)
Cash flow from financing activities	5,148,787	45,385,577
(Decrease) increase in cash	(69,398)	28,861
Cash, beginning of period	28,861	-
(Bank indebtedness) cash, end of period	\$ (40,537)	\$ 28,861
Supplementary information		
Interest paid in cash	\$ 590,491	\$ 359,740

DEEPWELL ENERGY SERVICES TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 1, 2007 TO DECEMBER 31, 2007
AND THE PERIOD FROM APRIL 27, 2006 TO DECEMBER 31, 2006

1. Nature of the Organization

Deepwell Energy Services Trust (the "Trust" or "Deepwell") is an open ended un-incorporated 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 and are reported in Canadian dollars. 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 below.

(b) Changes in Accounting Policies

On January 1, 2007, the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", and Section 3861 "Financial Instruments – Disclosure and Presentation".

- i. Comprehensive Income** - Section 1530 describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Unitholders equity, which results from transactions and events from sources other than the Trust's Unitholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments. The adoption of this Section had no impact on the Trust as there have been no transactions resulting in other comprehensive income.
- ii. Equity and Comprehensive Income** - On January 1, 2007, the Trust adopted Section 3251 of the CICA Handbook, "Equity", replacing Section 3250 "Surplus". It describes standards for the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, "Comprehensive Income". The adoption of this Section had no impact on the Trust as there have been no transactions resulting in other comprehensive income.
- iii. Financial Instruments** – Section 3855 prescribes when a financial asset, financial liability or non-financial derivative instrument is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is de-recognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Trust designated its accounts receivable as loans and receivables, which are measured at amortized cost. The Trust's bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other financial liabilities, which are measured at amortized cost. The Trust has chosen to expense its debt transaction costs in the period incurred. For the year ended December 31, 2007,

\$114,043 of transaction costs were expensed. Other than these changes the adoption of the standard had no material impact on the Trust's consolidated financial statements.

Non-financial derivative instruments, including embedded derivatives, are to be recorded in the statement of income at fair value unless exempted because they are a part of normal purchase and sale activities. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Trust applied this accounting treatment for all embedded derivatives in host contracts active as of January 1, 2007. The Trust has determined it currently has no derivative or embedded derivative instruments and as such is not impacted by the change in accounting policy.

- iv. Hedges** - Section 3855 expands the guidelines required by Accounting Guideline 13 (AcG-13) "Hedging Relationships". This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. The adoption of this Section had no impact on the Trust as the Trust does not follow hedge accounting at this time.
- v. Financial instruments – disclosure and presentation** - Section 3861 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 our 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.
- vi. Capital disclosures, financial instruments disclosures and presentation** - New CICA Handbook Sections have been issued which will require additional disclosure in the Trust's consolidated financial statements commencing January 1, 2008. Sections 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Trust's objectives, policies and processes for managing capital. Sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation" will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. Handbook section 3031 "Inventories", which prescribes the recognitions, measurement, disclosure and presentation issues related to inventories, will become effective January 1, 2008. The Trust believes that the adoption of these standards will not have a material impact on the consolidated financial statements.
- vii. International financial reporting standards** - The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) over a transition period with full convergence expected by January 1, 2011. The impact of the transition to IFRS on the Trusts' consolidated financial statements has not yet been determined.

(c) Principles of consolidation

The consolidated financial statements include the accounts of the Trust and its wholly owned subsidiaries: Deepwell Energy Services Commercial Trust, Deepwell Energy Services Ltd. and Deepwell Energy Services LP. All subsidiaries are directly or indirectly wholly owned and their operations are fully reflected in the consolidated financial statements. All inter-company transactions and balances have been eliminated.

(d) Capitalization of costs

The Trust capitalizes all costs directly relating to plant construction including carrying costs such as property taxes and insurance specifically related to the project, and other direct costs.

(e) Cash

Cash includes cash on hand, balances with banks including overdraft, and cash held in trust.

(f) Inventory

Inventory consists of drilling fluids, oilfield supplies and crude oil, all of which are valued at the lower of weighted average cost and net realizable value. As of January 1, 2008, Deepwell will replace the existing inventory accounting policy. The new policy requires inventory to be valued on a first-in, first-out or weighted average basis. The application of this standard is not expected to have a material impact on the Trust's consolidated financial statements.

(g) Property and equipment

Property and equipment is recorded at cost. Depreciation on additions and disposals is prorated from the subsequent month of purchase or disposal. Depreciation is provided at the following rates:

<u>Assets</u>	<u>Method</u>	<u>Rate</u>
Buildings	Declining balance	4%
Tanks	Declining balance	4%
Oilfield services equipment	Declining balance	20%
Vehicles	Declining balance	20%
Disposal wells	Straight-line	5-20 years
Site improvements	Declining balance	8%
Pipelines	Declining balance	5%
Furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	30%
Leasehold improvements	Straight-line	5 years

(h) Long lived assets

Management assesses the carrying value of long lived assets for impairment when events or circumstances indicate that the carrying value of those assets may not be recoverable. Such events or circumstances include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present the Trust tests for impairment by comparing the carrying value of the asset to its net recoverable amount. Impairment is recognized if the carrying value of the asset exceeds the sum of the undiscounted cash flows expected to result from that asset. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

(i) Intangible assets

Intangible assets are comprised of values attributable to customer relationships, certificates of approval or completion, and non-competition agreements. The carrying value of these assets will be assessed whenever an event or changes in circumstances indicate their carrying value may not be recoverable. Amortization is provided at the following annual rates:

Completions and contracts	(5% - Straight line)
Non competition agreements	(33% - Straight line)
Customer relationships	(17% - Straight line)

(j) Goodwill

Goodwill is recognized when the total purchase price of a business acquisition exceeds the fair value of the net identifiable assets acquired and liabilities assumed of the acquired business. The goodwill balance is assessed for impairment annually at year end or as events occur that may result in impairment. To assess impairment, the fair value of the Trust is compared to the respective book value. If the fair value is less than the book value a second test is performed to determine the amount of impairment. The amount of impairment is measured by allocating the fair value of identifiable assets and liabilities as if they had been acquired in a business combination for a purchase price equal to their fair value to determine the implied fair value of goodwill. If the goodwill determined in this manner is less than the carrying value of goodwill, an impairment loss is recognized in the period in which it occurs. Goodwill is stated at cost less impairment and is not amortized.

(k) Asset retirement obligation

The Trust recognizes as a liability the estimated fair value of the future retirement obligations associated with property and equipment. The fair value is capitalized and amortized over the same period as the underlying asset. The Trust estimates the liability based on the estimated costs to abandon and reclaim its ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods. This estimate is evaluated on a periodic basis and any adjustment to the estimate is prospectively applied. As time passes, the change in net present value of the future retirement obligation is expensed through accretion. Retirement obligations settled during the period reduce the future retirement liability.

(l) Revenue recognition

The Trust's services include the processing and separation of oilfield waste, the disposal of oilfield waste water and the custom treating of oil. Revenue is recorded in the period when treatment services are provided or performed and when collection is reasonably assured. Processing and disposal revenue are recorded at the time of sale. Oil sales are recorded at the time of sale.

(m) Income taxes

The Trust is a taxable entity for purposes of the Income Tax Act (Canada), and is only subject to statutory income taxes on taxable income not distributed to unitholders. *Bill C-52 Budget Implementation Act, 2007* (“Bill C-52”) was substantively enacted by the Canadian government in June of 2007 and imposes a tax on certain distributions from publicly traded specified income flow-through trusts (“SIFT”) and will apply to distributions made by the Trust to its unitholders. The SIFT tax measures take effect January 1, 2011, or earlier if the Trust exceeds certain permitted growth guidelines established by the Canadian Department of Finance.

As a result of Bill C-52, the Trust must now recognize (on a prospective basis) future income tax assets or liabilities on “temporary differences” (differences between the accounting basis and the tax basis of the assets and liabilities) in the Trust, unless those temporary differences are expected to reverse before the SIFT tax comes into effect.

The Trust is subject to certain provincial capital taxes and corporate income taxes and follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on “temporary differences”, and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense is the sum of the Trust’s provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

(n) Unit based compensation

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. 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 Trust Units.

(o) Income per unit

Basic net income per Trust Unit is computed by dividing net income by the weighted average number of Trust Units outstanding during each reporting period. Trust Units issued during the year and Trust Units reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted net income per Trust Unit is calculated using the treasury stock method.

3. Business acquisitions

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.

On April 28, 2006, the Trust purchased the oilfield waste management assets of Producers Disposal Services Ltd. (“PDS”) and Rycroft Disposal Well Inc. (“Rycroft”) for cash consideration of \$42,754,509. The Trust acquired all of the assets of PDS and Rycroft excluding security deposits held by the Alberta Energy and Utilities Board. The Trust assumed the asset retirement obligations of PDS and Rycroft; however the Trust was only responsible for those operating liabilities accruing to PDS and Rycroft subsequent to March 31, 2006.

Purchase Price		PDS/Rycroft		DDSI		Total
Cash	\$	42,754,509	\$	-	\$	42,754,509
Transaction costs		241,279		57,068		298,347
		42,995,788		57,068		43,052,856
Trust Units issued		-		3,560,000		3,560,000
	\$	42,995,788	\$	3,617,068	\$	46,612,856

The consolidated financial statements have been prepared using the estimated fair values of assets and liabilities. Due to common management and directors, the Trust and DDSI were related parties at the time of the acquisition. The transaction was not in the normal course of business and the exchange amount being that agreed to by the parties, 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.

Allocation of Purchase Price	PDS/Rycroft		DDSI		Total
Cash	\$	-	\$	259,925	\$ 259,925
Working capital		1,823,356		(35,625)	1,787,731
Property and equipment		34,547,000		175,000	34,722,000
Intangible assets		3,160,500		312,500	3,473,000
Goodwill		4,135,200		3,022,202	7,157,402
Deposits		-		25,354	25,354
Future income taxes		-		(135,000)	(135,000)
Asset retirement obligations		(670,268)		(7,288)	(677,556)
	\$	42,995,788	\$	3,617,068	\$ 46,612,856

4. Property and equipment

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

December 31, 2006	Cost		Accumulated depreciation		Net book value
Disposal wells	\$	28,122,383	\$	1,240,536	\$ 26,881,847
Pipelines		3,152,585		103,490	3,049,095
Tanks		2,685,586		62,499	2,623,087
Oilfield service equipment		2,630,147		290,086	2,340,061
Site improvements		2,270,902		81,218	2,189,684
Future sites		1,009,241		-	1,009,241
Buildings		963,750		26,193	937,557
Computer equipment		246,023		25,303	220,720
Vehicles		229,411		25,385	204,026
Furniture and fixtures		106,185		7,775	98,410
Leasehold improvements		12,784		906	11,878
	\$	41,428,997	\$	1,863,391	\$ 39,565,606

Included in future sites, are \$8,222,166 (2006 - \$1,009,241) in capitalized costs for the Claresholm plant construction which have not been subject to depreciation. Included in disposal wells, are \$181,000 (2006 - \$175,000) for the acquisition of the disposal wells which have not been subject to depreciation. Depreciation and amortization will be provided on these assets once the construction has been completed.

5. Intangible assets

December 31, 2007	Cost	Accumulated amortization	Net book value
Completions and contracts	\$ 2,115,000	\$ 150,208	\$ 1,964,792
Customer relationships	1,310,000	371,023	938,977
Non competition agreements	48,000	26,667	21,333
	\$ 3,473,000	\$ 547,898	\$ 2,925,102

December 31, 2006	Cost	Accumulated amortization	Net book value
Completions and contracts	\$ 2,115,000	\$ 68,750	\$ 2,046,250
Non competition agreements	48,000	9,460	38,540
Customer relationships	1,310,000	140,753	1,169,247
	\$ 3,473,000	\$ 218,963	\$ 3,254,037

Included in completion and contracts is \$312,500 (2006 - \$312,500) which is not subject to amortization as the Claesholm facility is not yet complete.

6. Unitholder's equity

(a) Class B Trust Units

The Trust is authorized to issue an unlimited number of Class B Trust Units.

On April 27, 2006, the Trust issued 4,000,000 Class B Trust Units at a price of \$10.00 per Unit by way of private placement for gross proceeds of \$40,000,000. An aggregate of 161,670 Class B Trust Units were issued to trustees of the Trust or, directors or officers of subsidiaries of the Trust, directly or indirectly for proceeds of \$1,616,700.

On April 27, 2006, the Trust acquired all the issued and outstanding shares of Deepwell Disposal Services Inc. Consideration of \$3,560,000 was paid by the issuance of 356,000 Class B Trust Units at an ascribed value of \$10.00 per Unit.

Each Class B Unit was exchangeable into one Trust Unit on the earlier of one day from the date of issuance of a receipt for a final prospectus filed by the Trust on a public stock exchange, and August 28, 2006. If The Trust's Units were not listed on a public stock exchange by August 25, 2006, the Trust agreed to issue to each holder of Class B Units an additional 0.10 of a regular Trust Unit. 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 and the 0.10 of a regular Trust Unit penalty was not made.

	Number	Amount
Issued to settlor of the Trust	1	\$ 10
Cancelled	(1)	(10)
Issued on business acquisition	356,000	3,560,000
Issued on private placement	4,000,000	40,000,000
Redemption of Class B Trust Units	(4,356,000)	(43,560,000)
December 31, 2006	-	\$ -

There are no Class B units outstanding at December 31, 2007.

(b) Regular Trust Units

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

On August 22, 2006, the Trust exchanged each outstanding Class B Trust Unit on a one-for-one basis with regular Trust Units.

Trust Units are redeemable at any time at the option of the unitholder. The redemption price is equal to the lesser of 90% 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.

	December 31, 2007		December 31, 2006	
	Number	Amount	Number	Amount
Balance, beginning of period	4,356,000	\$ 40,490,377	-	\$ -
Issued on redemption of Class B units	-	-	4,356,000	43,560,000
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 (DRIP)	44,323	264,184	-	-
Trust unit issue costs	-	(1,129,826)	-	(3,069,623)
Balance, end of period	7,163,200	\$ 56,229,626	4,356,000	\$ 40,490,377

(c) Special Voting Rights

The Trust is authorized to issue an unlimited number of Special Voting Units, which will enable the Trust to provide voting rights to holders of any exchangeable shares that may be issued by any direct or indirect subsidiaries of the Trust. Except for the right to vote, the Special Voting Units do not confer any other rights. No Special Voting Units have been issued since inception of the Trust.

(d) 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% of the amount of distributions paid on outstanding Trust Units.

The fair value of options issued during the period was \$2.71 (2006 - \$3.81) and estimated using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 4.25% (2006 - 4.25%); volatility of 35% to September 2007 and 45% to the end of the period (2006 - 35%). 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.

	December 31, 2007		December 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	303,500	\$ 8.81	-	\$ -
Granted	208,971	6.12	304,000	9.63
Expired/Cancelled	(5,500)	9.27	(500)	10.26
Exercised	-	-	-	-
Balance, end of period	506,971	\$ 7.70	303,500	\$ 9.63

As such, the opening weighted average exercise prices have been adjusted by \$0.82 (2006 - \$nil) to reflect the decrease in exercise price for distribution over the year.

Exercise price	Options outstanding			Options exercisable		
	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	

(e) Contributed surplus

December 31,	2007	2006
Balance, beginning of period	\$ 251,432	\$ -
Fair value attributed to unit-based compensation	815,117	251,432
Balance, end of period	\$ 1,066,549	\$ 251,432

(f) 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	Amount
Jan 2007	Jan 31, 2007	Feb 15, 2007	\$ 0.0958	\$ 417,304
Feb 2007	Feb 28, 2007	Mar 15, 2007	0.0958	417,304
Mar 2007	Mar 31, 2007	Apr 13, 2007	0.0600	261,360
Apr 2007	Apr 30, 2007	May 15, 2007	0.0600	261,360
May 2007	May 31, 2007	Jun 15, 2007	0.0600	261,523
Jun 2007	Jun 30, 2007	Jul 14, 2007	0.0600	261,662
Jul 2007	Jul 31, 2007	Aug 15, 2007	0.0600	427,655
Aug 2007	Aug 31, 2007	Sep 14, 2007	0.0600	427,952
Sep 2007	Sep 30, 2007	Oct 15, 2007	0.0600	428,485
Oct 2007	Oct 31, 2007	Nov 15, 2007	0.0600	429,119
Nov 2007	Nov 30, 2007	Dec 15, 2007	0.0600	429,433
Dec 2007	Dec 31, 2007	Jan 15, 2008	0.0600	429,792
Distributions declared to unitholders during 2007				\$ 4,452,949

Period	Record date	Payment date	Distribution per Trust unit	Amount
Apr 28-30, 2006	Apr 30, 2006	May 15, 2006	\$ 0.0064	\$ 27,953
May 2006	May 30, 2006	Jun 15, 2006	0.0958	417,305
Jun 2006	Jul 6, 2006	Jul 14, 2006	0.0958	417,305
Jul 2006	Jul 28, 2006	Aug 15, 2006	0.0958	417,305
Aug 2006	Aug 31, 2006	Sep 15, 2006	0.0958	417,305
Sep 2006	Sept 29, 2006	Oct 13, 2006	0.0958	417,305
Oct 2006	Oct 31, 2006	Nov 15, 2006	0.0958	417,305
Nov 2006	Nov 30, 2006	Dec 15, 2006	0.0958	417,305
Dec 2006	Dec 29, 2006	Jan 15, 2007	0.0958	417,305
Distributions declared to unitholders during 2006				\$ 3,366,393

(g) Weighted average Trust units outstanding

December 31,	2007	2006
Basic	5,569,288	4,356,000
Diluted	5,570,403	4,357,187

In calculating diluted unit amounts for the year ended December 31, 2007, the Trust excluded 303,000 (2006 – 16,000) options because the exercise price was greater than the average market price during the year.

(h) Dividend re-investment plan

On April 10, 2007, the Trust adopted a distribution reinvestment plan (the “DRIP”). The DRIP, to the extent that Unitholders participate, will provide the Trust with additional cash for growth. The DRIP allows eligible Unitholders of the Trust to direct that their cash distributions be reinvested in additional Trust units. The cash distributions will be re-invested at the discretion of Deepwell Energy Services Ltd.’s management either by acquiring Trust units issued from treasury at 95 percent of the average market price (as defined in the DRIP) or by acquiring Trust units at prevailing market prices.

7. Income taxes

On June 22, 2007, the Specified Investment Flow-Through (SIFT) tax included in the Government of Canada's Bill C-52, received Royal Assent, creating a new 31.5 percent tax to be applied to distributions from certain income trusts and partnerships, including Deepwell, effective January 1, 2011. With the rate of reduction enacted on December 14, 2007, the new tax is to be applied to distributions at the tax rates of 29.5 percent and 28.0 percent effective January 1, 2011 and 2012 respectively.

Based on the amount of the Trust's existing temporary differences that are anticipated to reverse after January 1, 2011, the Trust expects a future income tax asset as at January 1, 2011. However, the future income tax asset is fully offset by a valuation allowance. The anticipated amount and timing of reversals of temporary differences will be dependent on the Trust's actual results, distributions and actual acquisition and disposition of assets and liabilities. As a result, a change in estimates or assumptions could materially affect the estimate of the future tax asset.

Future income tax recovery:

December 31,	2007	2006
(Loss) income before taxes	\$ (644,799)	\$ 811,230
Combined federal and provincial income tax rate	32.12%	32.49%
	(207,109)	263,569
Increase (decrease) in income taxes resulting from:		
Change in tax status with enactment of Bill C-52	(2,622,368)	-
Non-taxable portion of Trust income	(168,841)	(313,509)
Changes in tax rate	-	(1,303)
Non-deductible items and other	100,933	3,444
Valuation allowance	2,810,184	-
Future income tax recovery	\$ (87,201)	\$ (47,799)

Future income tax liability:

December 31,	2007	2006
Future income tax assets:		
Difference in tax and book value of the Trust assets	\$ 2,215,677	\$ -
Asset retirement obligation	284,661	1,593
Unit issuance costs	123,624	-
Operating losses of a subsidiary	315,130	46,399
	<u>2,939,091</u>	<u>47,992</u>
Future income tax liabilities:		
Difference in tax and book value of a subsidiary's assets	(128,907)	(135,193)
Valuation allowance	(2,810,184)	-
Future income tax liability, end of period	\$ -	\$ (87,201)

The Trust has non-capital loss carry forwards from its subsidiary of approximately \$1,003,000. The expiration of the losses is as follows:

2013	\$ 111,000
2014	229,000
2025	168,000
2026	178,000
2027	317,000

8. 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% to 1.400% and is dependent on the funded debt to EBITDA ratio. As of December 31, 2007 the borrowing base for the demand loan was at \$1,212,863 (2006 - \$1,808,000) and the amount drawn was \$550,000 (2006 - \$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% to 1.400% per annum. Interest is calculated monthly and paid in arrears. As at December 31, 2007 an aggregate of \$4,800,000 (2006 - \$11,500,000) was outstanding of which \$933,333 (2006 - \$nil) 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 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 Unitholders.

9. Asset retirement obligation

It is management's estimate that the remaining lives of the disposal sites are approximately 20 years, at which time the cost to close and reclaim the disposal sites will approximate \$3,430,000. The discounted cash flows required to retire the assets was determined using a credit adjusted rate of 8.50% and an inflation rate of 2%. The accrued liability for closure of the disposal sites is recognized over the estimated remaining life of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets and are depreciated over their estimated useful lives.

Changes in the asset retirement obligation balance are summarized below:

December 31,	2007	2006
Asset retirement obligation, beginning of period	\$ 713,744	\$ -
Asset retirement obligation, upon acquisition	-	675,762
New obligations	240,889	-
Accretion	61,816	37,982
Asset retirement obligation, end of period	\$ 1,016,449	\$ 713,744

10. Financial Instruments

All significant financial assets and financial liabilities of the Trust are either recognized or disclosed in the financial statements together with other information relevant for making a reasonable assessment of future cash flows, interest rate risk and credit risk.

(a) Fair value of financial instruments

The carrying values of the Trust's bank indebtedness, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to their short term maturity. As the Trust's revolving credit facility and long term debt bear interest at floating market rates, the respective carrying values approximate fair value.

(b) 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.

(c) 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. The Trust has the option to renew these loans annually.

11. Fire-related expenses and losses

On December 7, 2006, a fire at the Grande Cache facility damaged the waste receiving area. The facility was shut down for one week until regulatory approval to re-open was received, and operations were limited until February 1, 2007 when a temporary waste receiving system was implemented. The facility operated to the end of April 2007 using the temporary system, while a new permanent receiving system was installed. The damaged equipment has been dismantled and removed and reconstruction is complete. Assets damaged in the incident include the waste receiving pit, solids treatment pad, a conveyor system used for waste separation, and miscellaneous piping and electrical components. During the process of restoring the facility to its full operating condition and subsequent to the release of the December 31, 2006 financial statements it was determined that efforts to restore the damaged assets were more extensive than anticipated and had taken on the nature of a replacement rather than a repair. As a result of the change in the nature of the restoration, the net book value of assets valued at \$746,332 was written off, net of an accrued provision for insurance proceeds of \$378,630.

Direct fire-related expenses of \$162,119 were incurred primarily for emergency services, legal expenses, and other professional fees and these were recognized as expenses in the first quarter of 2007. No provision has been made for recovery of these direct fire-related costs through insurance although Deepwell is pursuing a claim. In the December 31, 2006 financial statements, all fire-related expenses incurred to date were reflected as insurance proceeds receivable. Subsequent to the December 31, 2006 financial statement date, indications from the insurer indicated less certainty as to the amount collectible, and in recognition of the decreased certainty of the amount collectible the full amount of costs have been applied to the current period as a change in estimate and any future insurance proceeds will be recorded against these expenses when the amounts have been received or collection is reasonably certain and estimable.

12. Commitments and contingencies

The Trust is committed to the following future minimum payments under lease contracts for office space and two vehicles with varying expiration dates.

2008	\$	164,577
2009		163,024
2010		139,962
2011		91,704
Thereafter		-
	\$	559,267

The Trust has letters of guarantee in the amount of \$2,126,896 (2006 - \$nil) available, none of which have been drawn as of year end.

13. Related party transactions

There were no transactions with related parties for the twelve months ended December 31, 2007. During 2006, 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.

Also see Note 3 for the Trust's purchase of all the issued and outstanding shares of DDSI.

14. Subsequent events

The Trust declared a cash distribution for the period January 1, 2008 to January 31, 2008 at \$0.06 per unit to be paid on February 15, 2008.

The Trust declared a cash distribution for the period February 1, 2008 to February 29, 2008 at \$0.06 per unit to be paid on March 15, 2008.

15. Comparative figures

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