Deepwell

Energy Services

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Deepwell Energy Services Trust (the "Trust") has been prepared taking into consideration information available to March 26, 2008 and should be read in conjunction with the Trust's audited consolidated financial statements as at and for the year ended December 31, 2007. This MD&A discusses operations and events for the year ended December 31, 2007. Unless otherwise noted, references to "2007" or the "year" in this MD&A refer to the year ended December 31, 2007, references to "2006" refer to the 247-day period ended December 31, 2006, references to "Q4/2007" or the "quarter" in this MD&A refer to the three months ended December 31, 2007, and references to "Q4/2006" refer to the three months ended December 31, 2006.

The Trust is an unincorporated investment trust governed by the laws of the Province of Alberta. The business of the Trust is conducted through its direct and indirect wholly owned subsidiaries, Deepwell Energy Services Commercial Trust, Deepwell Energy Services Ltd., and Deepwell Energy Services LP ("Deepwell LP"). The Trust and its subsidiaries (collectively "Deepwell") are based in Calgary, Alberta and were established to acquire and operate businesses that engage in oilfield waste management services. The principal undertaking of Deepwell is to provide a variety of services to oil and natural gas exploration and production companies in western Canada.

Forward-looking statements

Certain statements in this MD&A constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Trust or Deepwell LP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, such statements use such words as "may", "will", "intend", "should", "expect", "believe", "plan", "anticipate", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements.

Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, the Trust cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A. The Trust does not assume any obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities legislation.

Non-GAAP measures

The MD&A has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Certain supplementary information and measures not recognized under GAAP are also provided where management believes they assist the reader in understanding the Trust's results. These measures include:

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

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

2007 overview

For Deepwell, 2007 was characterized by achievement of positive operating cash flow during a significant downturn for the energy services industry in Alberta. Exploration and production companies curtailed drilling activity in the Western Canada Sedimentary Basin (WCSB) in response to low natural gas prices, low oil prices in the early part of the year, the significant strengthening of the Canadian dollar and uncertainty around the proposed royalty structure announced by the Government of Alberta in October 2007. In addition, the second quarter of 2007 saw a prolonged spring break-up in the WCSB, which was followed by unusually inclement weather – both of which led to more road bans than are typical.

Because the Trust's cash flow is more dependent on activity in the production of oil and natural gas (as opposed to exploration), Deepwell suffered a lesser impact than many energy services companies. During these challenging circumstances, Deepwell generated positive cash flow from operating activities, and executed several key growth initiatives in 2007.

Key growth initiatives:

- In June 2007, Deepwell received approval from the Alberta Energy and Utilities Board (EUB, subsequently restructured and re-named the Energy Resources Conservation Board (ERCB)) to construct and operate the Trust's first greenfield oilfield waste management facility. This facility is located near Claresholm, Alberta. Construction commenced in July 2007 and the facility was completed and commenced revenue-generating operations in late February 2008.
- The Trust completed a rights offering and private placement during the second quarter of 2007, with total gross proceeds of $16,604,891, positioning the Trust with a strong balance sheet to support future growth.
- Deepwell added a second disposal well at its Rycroft facility in the second quarter of 2007. This addition, coupled with Deepwell's initiatives to enhance performance of the first well, have significantly improved disposal capacity at Rycroft. During 2007, Deepwell also made application for approval of Rycroft as an oilfield waste management facility (WM). Rycroft was previously approved as an injection facility (IF). Under the IF approval, Rycroft's services were limited to disposal of produced water; as a WM facility

Rycroft will also be permitted to accept other, higher-margin waste streams and will be permitted to offer custom treating of oil emulsions. The ERCB approved Rycroft as a WM facility on March 17, 2008.

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 summarized below.

- Focus on oilfield waste management: Deepwell currently operates exclusively in the oilfield waste management business, and intends to continue that focus. The oilfield waste management business in Alberta has significant barriers to entry, which support the long-term cash flow of current and future facilities.
- Growth: Deepwell is primarily focused on organic growth through adding new facilities and increasing capacity and services provided at existing facilities. Deepwell added capacity and services at existing facilities in 2007, and completed a new oilfield waste management facility near Claresholm, Alberta in the first quarter of 2008.
- Operational efficiency: Another key objective is to attain and maintain efficient operations and a high standard of customer service within a safe working environment. Deepwell received its provincial Certificate of Recognition for health and safety in 2007 and had no lost time incidents during the year.
- Environmental stewardship: Deepwell intends to meet or exceed regulatory requirements and industry standards. Deepwell's facilities are audited annually by regulatory bodies, and Deepwell has developed innovations to enhance environmental stewardship at new and existing facilities.

Selected financial information

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

Financial Highlights	For the twelve months ended Dec 31, 2007	For the period from April 27 to Dec 31, 2006
Revenue	$14,124,051	$9,647,020
Operating	6,635,001	4,594,714
Gross Margin	7,489,050	5,052,306
Selling and administrative	2,518,213	1,409,031
EBITDA	4,970,837	3,643,275
Depreciation, accretion and amortization	3,574,937	2,186,578
Financing fees	114,043	-
Unit-based compensation	815,117	251,432
Interest	590,491	359,740
(Gain) loss on sale of property and equipment	(8,773)	34,295
Loss on write-off of property and equipment	367,702	-
Fire-related expenses	162,119	-
Future income tax recovery	(87,201)	(47,799)
Net (loss) income	(557,598)	859,029
Add:		
Depreciation, amortization and accretion	3,574,937	2,186,578
Unit-based compensation	815,117	251,432
(Gain) loss on sale of property and equipment	(8,773)	34,295
Loss on write-off of property and equipment	746,332	-
Future income tax recovery	(87,201)	(47,799)
Funds from operations	$4,482,814	$3,283,535
Changes in non-cash working capital	(685,719)	575,718
Cash flow from operating activities	$3,797,095	$3,859,253

Net (loss) income	($557,598)	$859,029
Per unit, basic	(0.10)	0.20
Per unit, diluted	(0.10)	0.20
EBITDA	$4,970,837	$3,643,275
Per unit, basic	0.89	0.84
Per unit, diluted	0.89	0.84
Funds from operations	$4,482,814	$3,283,535
Per unit, basic	0.80	0.75
Per unit, diluted	0.80	0.75
Distributions to Unitholders	$4,440,462	$2,949,088
Per unit, basic	0.80	0.68
Per unit, diluted	0.80	0.68
Gross margin as a percentage of revenue	53%	52%
Selling and administrative as a percentage of revenue	18%	15%
Capital expenditures	$11,199,255	$6,808,996
Total assets, end of period	$60,246,358	$54,491,681
Long-term debt, end of period	$4,800,000	$11,500,000
Total long-term liabilities, end of period	$4,883,116	$12,300,945
Trust units, end of period	$56,229,626	$40,490,377
Weighted average Trust units, basic	5,569,288	4,356,000
Weighted average Trust units, diluted	5,570,403	4,357,187

Revenues for the year were $14,124,051, with a gross margin of $7,489,050 (53 percent of revenue), EBITDA of $4,970,837 (35 percent of revenue) and a net loss of $557,598. Revenues for the quarter were $3,650,736, with a gross margin of $1,709,520 (47 percent of revenue), EBITDA of $867,072 (24 percent of revenue) and a net loss of $270,611.

Net loss for the year was $0.10 per unit basic and diluted (2006 – net income per unit of $0.20 basic and diluted) and funds from operations for the year was $0.80 per unit basic and diluted (2006 – $0.75 basic and diluted). Distributions paid to unitholders for the year, including distributions to participants under the Trust's Distribution Reinvestment Plan (DRIP), were $4,440,462 or $0.80 per unit (2006 – $0.68 per unit).

In general, demand in the oilfield waste management business was weaker than previously, particularly in the most recent three quarters.

Results of operations

Due to the difficulty in comparing periods of different lengths, Deepwell has not compared the nominal differences in results between the 2007 and 2006 years, but has analyzed results on a percentage basis as appropriate.

Revenue

Revenues for the year were $14,124,051 (Q4/2007 – $3,650,736) comprised approximately 68 percent of processing and disposal fees and 32 percent of revenue from the sale of recovered oil (Q4/2007 – 64 percent and 36 percent, respectively). In 2007 oil sales as a percentage of total revenue declined from 40 percent in 2006 (Q4/2006 – 43 percent) due to reduced drilling activity, with a higher proportion of revenue coming from less oily production-related waste streams.

Revenue in the quarter was reduced from the same period in 2006 due to reduced industry activity. While the fourth quarter is traditionally strong, Q4/2007 remained softer with no improvement in revenue over the third quarter of 2007. Although more of Deepwell's volumes come from production-based activity, a portion of revenues is still sensitive to drilling and completion-related activity, which declined by 20 percent from Q4/2006 to Q4/2007. Factors in the decline in activity include weak prices for natural gas coupled with high exchange rates, the caution associated with this trend, and the overhang following the Government of Alberta's announcement on October 25, 2007 to increase royalties beginning in 2009.

During the first four months of the year, the Grande Cache facility's operating capabilities were limited due to required repairs as a result of the December 7, 2006 fire at the facility's waste receiving area. From the time the facility reopened, one week after the incident, until February 1, 2007, the facility was only capable of receiving waste transported in tanker trucks which could be offloaded directly into Deepwell's receiving tanks. On February 1, 2007 Deepwell resumed receiving waste loads from vacuum trucks, and used a temporary vacuum truck offloading system until the end of April 2007.

During the second and third quarters of 2007, Deepwell's revenues were negatively impacted by an unusually long period of spring breakup, followed by higher than normal rainfall. Other than the above noted limitations in the first four months at Grande Cache, all facilities operated effectively during 2007 and operational improvements and capital investments led to efficiencies and capacity increases which helped to offset industry weakness during the year.

Expenses

Operating expenses

Operating expenses were $6,635,001 for the year, and the relationship to revenues was generally consistent with management's expectations, with an operating margin of 53 percent for the year, compared with 52 percent in 2006. Operating expenses include $1,202,849 in oil credits repaid to customers ($380,504 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.

Selling and administrative

Selling and administrative costs, which represent primarily the costs associated with the Trust's head office, senior management and public company costs, were $2,518,213 or 18 percent of revenue for the year (2006 – 15 percent). The increase in costs was due to higher public company, legal and consulting costs. The increased costs relate to the initial completion of annual regulatory requirements, internal activities related to the Trust's rights offering, internal staffing requirements as the Trust developed a proprietary revenue accounting system, staff vacancies in 2006 as the Trust recruited the full staff complement, and accrual of cash bonuses to senior management in 2007, as 2006 senior management bonuses were made in the form of unit options and included in unit-based compensation expense disclosed separately. A portion of the costs related to implementation of the revenue accounting system and initial completion of annual regulatory requirements are one-time costs, or higher than might be expected in future years.

Depreciation, amortization and accretion

Depreciation and accretion expense was $3,246,002 for the year (2006 – $1,911,783) and consisted of depreciation of fixed assets of $3,184,186 (2006 – $1,873,801) and accretion of $61,816 (2006 – $37,982). In 2007, amortization of intangible assets totalled $328,935 (2006 – $218,963) and consisted of the amortization of completions and contracts, customer relationships, and non-competition agreements.

Interest

Total cash interest expense for the year was $590,491 (2006 – $359,740), comprised of interest on long-term debt of $551,611 and interest on the Trust's operating loan of $38,880. 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 1.4 percent over the lender's prime rate.

Gain on sale of assets

During the year, Deepwell realized an $8,773 gain on the sale of railcar tanks, a plant truck and recovered insurance proceeds from an injection pump.

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.

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.

Distributions to Unitholders

Distributions paid to unitholders for the year, including distributions to participants under the DRIP, were $4,440,462 (2006 – $2,949,088). Actual cash distributions paid were $4,176,279 excluding non-cash distributions to participants in the DRIP. During 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 and that a reduction in the cash distribution would provide greater financial flexibility to exploit Deepwell's high-return growth opportunities. As such, on March 19, 2007 announced that distributions would be changed to $0.06 per Trust unit per month (previously it was $0.0958 per Trust unit per month).

	2007	2006
Cash flows from operating activities	$ 3,797,095	$ 3,859,253
Net (loss) income	(557,598)	859,029
Actual cash distributions paid during the period	4,176,279	2,949,088
(Shortfall) excess of cash flows from operating activities over cash distributions paid	(379,184)	910,165
Shortfall of net (loss) income over cash distributions paid	(4,733,877)	(2,090,059)

While the cash distributions to unitholders exceeded cash flows from operating activities in 2007, and exceeded net income in 2006 and 2007, the Trust does not believe that the distributions should be regarded as an economic return of capital, as the distributions were only slightly higher than cash flows from operating activities in 2007 and the distributions increased significantly in the last two quarters of 2007 as a result of units issued to fund the construction of Deepwell's Claresholm facility, and other growth initiatives. The Claresholm facility was not completed until February 19, 2008 and returns from this investment were not yet available to fund distributions in 2007. Deepwell's distributions have generally not been based upon net income, as net income includes a number of non-cash items such as depreciation, amortization, accretion, and unit-based compensation that do not affect the Trust's ability to make distributions to unitholders. Due to the addition of the Claresholm facility and other growth initiatives, the Trust does not anticipate that distributions will continue to exceed cash flow from operations for the foreseeable future. While the Trust does not currently anticipate that there will be a need to suspend distributions in the foreseeable future, 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.

Investing activities

Net cash used in investing activities during the year was $9,015,279.

Capital expenditures

The Trust's capital expenditures for purchase of property and equipment for the year were $11,199,255.

During 2007, Deepwell invested $7,018,106 in the construction of a new oilfield waste management facility near Claresholm, Alberta. The Claresholm facility was completed in the first quarter of 2008 and opened for business on February 19, 2008. The Trust invested $1,094,283 to restore assets damaged in the December 2006 fire at Grande Cache including certain improvements which add to efficiency and vapour control at the waste receiving area. A further $1,075,308 was spent in adding a second well, and increased pump capacity at Deepwell's Rycroft facility. At Mayerthorpe, a total of $742,035 was invested in a new injection pumping system, filtration system, and increased tankage. The improvements are expected to reduce maintenance requirements, increase injection capacity, and improve oil recovery. The balance of costs relate primarily to investments in processing equipment, mobile equipment, future sites, IT and corporate capital costs.

Financial security deposits

During the year, letters of guarantee were secured to replace $1,433,474 in financial security deposits previously held by the EUB as security for abandonment and reclamation of oilfield waste management facilities.

Unitholders' equity

Rights offering and private placement

On July 9, 2007 Deepwell closed a private placement of 582,362 units for gross proceeds of $3,499,996. On July 31, 2007 the Trust completed a rights offering and issued 2,180,515 units for gross proceeds of $13,104,895. Combined gross proceeds of the offerings were $16,604,891 with expenses of $1,075,866 for total net proceeds of $15,475,066. The party to the private placement also agreed to provide a standby commitment to the rights offering; however, as a result of the strong response under the basic and additional subscriptions to the rights offering, no units were available for subscription by the standby purchaser under the standby commitment.

Proceeds were initially used to repay outstanding debt, which could be redrawn. The purposes of the offerings were to fund the estimated $9,000,000 construction cost of the oilfield waste management facility near Claresholm, Alberta, to fund improvements and expansions at existing facilities, to fund preliminary costs of future facilities and for general corporate purposes.

Trust unit option plan

As at December 31, 2007, a total of 506,971 options issued pursuant to the Trust's incentive unit option plan ("Option Plan") were outstanding. The options carry a five year term and, except for 73,800 options issued to executives during 2007 in lieu of a cash bonus for 2006 (vesting immediately), vest equally over a period of three years from the date of grant. The exercise price of each option is based upon the weighted average trading price for a period prior to the date of grant. The exercise price is adjusted downwards by 100% 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 has been adjusted by $0.82 (2006 - $nil) to reflect the decrease in exercise price for distribution over the year.

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

The Trust recorded unit-based compensation expense and contributed surplus of $815,117 during the period (2006 – $251,432).

Liquidity

Net cash provided by financing activities for the year was $5,148,787. The Trust realized $15,475,066 in net proceeds of its private placement and rights offering in July 2007. The Trust paid distributions to unitholders of $4,440,462 during the year of which $264,183 was realized in proceeds from its distribution reinvestment plan. During 2007, the Trust reduced its amount outstanding under long term debt by $6,700,000.

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:

Demand loan

Under the credit facilities, the Trust has a $2,000,000 demand revolving operating loan. During the year interest ranged from the lender's prime rate plus 0.125 percent to 1.4 percent and this rate is dependent on the funded debt to EBITDA ratio. As of December 31, 2007 the borrowing base for the demand loan was at $1,212,863 and the amount drawn was $550,000.

Long-term debt

Under the credit facilities, the Trust has a $15,500,000, 364-day extendible revolving term loan committed to May 29, 2008. No set principal repayment has been established and the Trust has the ability to repay, borrow and repay again until the 364-day term expires. Interest ranges from the lender's prime rate plus 0.125 percent to 1.4 percent per annum. Interest is calculated monthly and paid in arrears. As at December 31, 2007 an aggregate of $4,800,000 is 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 a three-year term with the monthly principal repayments commencing on June 26, 2008.

As security for the credit facilities, Deepwell LP granted lenders a security interest over all of its assets. In addition, the Trust and its subsidiaries guaranteed the indebtedness of Deepwell LP under the credit facilities with such guarantee being secured by all of the assets of each such guarantor. In respect of any proceeds resulting from the enforcement of the credit facilities or the aforementioned guarantees, the lenders, as creditors, will have a prior ranking claim relative to the Unitholders.

Interest rate risk

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

Contractual obligations, commitments and contingencies

The following table shows future contractual obligations by period:

Payments by period	Total	2008	2009-2010	2011-2012	Thereafter
Long-term debt	$ 4,800,000	$ 933,333	$ 3,200,000	$ 666,667	$ -
Commitments	559,267	164,577	302,986	91,704	-
Total contractual obligations	$ 5,359,267	$ 1,097,910	$ 3,502,986	$ 758,371	$ -

In addition to contractual obligations, the Trust's estimated costs of completion of the Claresholm Facility are $1,981,894 at December 31, 2007. The facility opened for business on February 19, 2008. The Trust has letters of guarantee in the amount of $2,126,896 (2006 - $nil) available, none of which have been drawn as of December 31, 2007.

Quarterly information

	Quarter ended Dec 2007	Quarter ended Sep 2007	Quarter ended June 2007	Quarter ended March 2007	Quarter ended Dec 2006	Quarter ended Sep 2006	64 days ended June 2006
Revenue	$3,650,736	$3,513,654	$2,532,151	$4,427,510	$4,059,296	$3,808,795	$1,778,929
Operating	1,941,216	1,584,126	1,190,437	1,919,222	1,605,492	2,040,285	948,937
Gross Margin	1,709,520	1,929,528	1,341,714	2,508,288	2,453,804	1,768,510	829,992
Selling and administrative	842,448	520,373	558,848	596,544	730,354	448,788	229,889
EBITDA	867,072	1,409,155	782,866	1,911,744	1,723,450	1,319,722	600,103
Depreciation, amortization and accretion	838,528	915,875	897,865	922,669	993,621	697,052	480,317
Financing fees	114,043	-	-	-	-	15,588	-
Unit-based compensation	138,706	141,372	359,902	175,137	197,812	53,620	-
Interest	44,639	110,841	229,450	205,561	149,325	102,469	107,946
Loss (gain) on sale of property and equipment	1,466	-	(17,500)	7,261	34,295	-	-
Loss on write-off of property and equipment	-	-	-	367,702	-	-	-
Fire-related expenses	-	-	-	162,119	-	-	-
Future income tax recovery	-	-	(62,651)	(24,550)	(47,799)	-	-
Net (loss) income	$ (270,310)	$ 241,067	$ (624,200)	$ 95,845	$ 396,196	$ 450,993	$ 11,840
Net (loss) income per Trust unit:							
Basic	($0.04)	$0.04	($0.14)	$0.02	$0.09	$0.10	$0.00
Diluted	($0.04)	$0.04	($0.14)	$0.02	$0.09	$0.10	$0.00
Weighted average number of Trust units outstanding							
Basic	7,154,344	6,324,139	4,357,724	4,356,000	4,356,000	4,356,000	4,356,000
Diluted	7,154,344	6,327,260	4,357,744	4,356,000	4,357,187	4,477,793	4,356,000

The Trust’s business is seasonal with the first and fourth quarters traditionally being the two strongest quarters for the industry and the second quarter being the weakest. The underlying causes of the seasonality are variations in prevailing weather conditions, which in turn have effects on the ability to carry out field operations. While Deepwell’s facilities remain open and accessible throughout the year, its customers are, at times, restricted from moving waste due to spring breakup or periods of rainfall. In the Grande Cache region restrictions also occur at certain times of the year in designated wildlife areas.

Financial instruments

All of the Trust’s financial instruments as at December 31, 2007 relate to standard working capital and credit facility items. There are no significant differences between the carrying value of these financial instruments and their estimated fair values. There are no unusual off-balance sheet arrangements and the Trust does not use any financial instruments such as derivatives. Of the Trust’s financial instruments, only accounts receivable represent credit risk, and management views the credit risk related to accounts receivable as minimal. The operating loan and the extendible revolving term loan bear interest at a floating interest rate. Therefore, to the extent that the Trust borrows under these facilities, the Trust is at risk to rising interest rates.

Outlook

In general Deepwell expects an improved year of business for the Trust amid another relatively weak year in the service/supply and exploration/production sectors of the oil and natural gas industry. Industry forecasts are almost unanimous in calling for flat to slightly lower industry capital expenditures (excluding the oil sands) and overall field activities in 2008. In addition some producers have announced they will redeploy capital outside Alberta in response to the provincial government's plan to increase oil and natural gas royalties in 2009. The first quarter of 2008 appears to have exceeded initial pessimistic forecasts, with higher rates of drilling and field activities amid natural gas prices at times exceeding US$9 per mmbtu on the Nymex and crude oil prices exceeding US$100 per bbl WTI. However, the balance of the year is still forecast to be relatively weak in the industry.

Within this industry context Deepwell foresees the opportunity to increase its annual revenue and EBITDA over 2007. Growth prospects are promising with the Claresholm facility now on-stream, a full year of increased injection well capacity at Rycroft, the anticipated approval to upgrade Rycroft to a waste management facility, which will enable the plant to process a higher-margin waste stream, and other initiatives for increasing capacities and improving efficiencies at existing plants. All of these point to higher waste management activity, revenue and EBITDA year-over-year. In furtherance of its long-term strategy for growth, Deepwell is pursuing approvals for a location to construct a new facility in 2009.

Critical accounting estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods. The most significant estimates relate to depreciation, amortization, asset retirement obligations, accretion, income taxes, unit-based compensation and recoverability of goodwill and intangibles. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the Trust's accounting policies as disclosed in the Trust's consolidated financial statements.

Risks and uncertainties

Cyclicality of the oil and natural gas industry

The demand for oilfield services is largely dependent on the activity levels of oil and natural gas exploration and development companies. Industry conditions are influenced by numerous factors over which the Trust has no control, including: the level of oil and natural gas prices and production; expectations about future oil and natural gas prices; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining production from maturing basins; the discovery of new oil and natural gas reserves; available pipeline and other oil and natural gas transportation capacity; weather conditions; global political stability, military actions, regulatory and economic conditions; the ability of oil and natural gas companies to raise capital; fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas; and technological advances in fuel economy and energy generation devices.

Oil and natural gas prices

The revenue, cash flow and earnings of the Trust are substantially dependent upon and affected by the level of activity associated with oil and natural gas exploration and production. Both short-term and long-term trends in oil and natural gas prices affect the level of such activity. Worldwide military, political and economic events, including initiatives by the Organization of Petroleum Exporting Countries, may affect both the demand for and the supply of oil and natural gas. Weather conditions, governmental regulation, levels of consumer demand, the availability of pipeline capacity and other factors beyond Deepwell's control may also affect the supply of and demand for oil and natural gas, leading to future price volatility.

Seasonal weather

In Canada, the level of activity in the oil and natural gas industry is influenced by seasonal weather patterns. Spring break-up during the second quarter of each year leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions on the provision of energy services. The timing and duration of spring break-up are dependent on weather patterns and the duration of this period will have an impact on the level of business of the Trust.

Dependence on key personnel

The success of the Trust will likely continue to be dependent on the skills and expertise of the officers of the Trust. Deepwell does not currently carry "key man" insurance that would compensate the Trust for the loss of any senior executives.

Competition for human resources

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

Reliance on major customers

It is estimated that the top 10 customers of Deepwell accounted for approximately 53 percent of revenue for the year, the largest customer accounting for 16 percent. Deepwell does not generally enter into long-term contracts with its customers and there can be no assurance that the current customers will continue their relationships with Deepwell.

Competition

Deepwell faces competition from a variety of competitors. Many of these competitors have strong financial, marketing and other resources. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of oilfield services that compete with those of Deepwell or that new competitors will not enter the various markets in which Deepwell is active.

Operating risks and insurance

The business of Deepwell will be subject to hazards inherent in the oil and natural gas industry, such as equipment defects, malfunction and failures; accidental release; natural disasters which result in fires; vehicle accidents and explosions that can cause personal injury; loss of life; suspension of operations; damage to formations; damage to facilities; business interruption; and damage to or destruction of property, equipment and the environment. These risks could expose Deepwell LP to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

Management will monitor the activities of Deepwell LP for quality control and safety. However, there are no assurances that Deepwell LP's safety procedures will always prevent such damages. Although Deepwell maintains insurance coverage that management believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover such liabilities.

Environmental risks

The Canadian oil and natural gas industry is regulated by a number of federal and provincial governmental bodies and agencies under a variety of complex federal and provincial legislation that sets forth numerous prohibitions and requirements with respect to planning and approval processes related to land use, sustainable resource management, waste management, responsibility for the release of presumed hazardous materials, protection of wildlife and the environment and the health and safety of workers. Legislation provides for restrictions and prohibitions on the transport of dangerous goods and the release or emission of various substances, including substances used and produced in association with certain oil and natural gas industry operations. The legislation addresses various permits required for drilling, access road construction, camp construction, well completion, installation of surface equipment, air monitoring, surface and ground water monitoring in connection with these activities, waste management and access to remote or environmentally sensitive areas.

Deepwell is subject to a complex and increasingly stringent array of legal requirements and potential liabilities, including with respect to the ownership and management of property, the need to obtain and comply with permits and approvals, the health and safety of employees, and the handling, use, storage, disposal, intentional or accidental release, and transportation of certain substances, including hazardous materials and dangerous goods. Failure to comply with these requirements could expose Deepwell to substantial potential penalties. There can be no assurance that Deepwell will not be required, at some future date, to incur significant costs to comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by existing conditions or by the requirements or potential liability under current or future environmental laws.

Credit risk

All of the accounts receivable of Deepwell are with customers involved in the oil and natural gas industry whose revenues may be impacted by fluctuations in commodity prices. Collection of these receivables could be negatively influenced by any prolonged substantial reduction in oil and/or natural gas prices, which could have a material adverse effect on the financial results and cash flows of Deepwell.

Access to additional financing

Deepwell may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations of Deepwell, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to Deepwell when needed or on terms acceptable to Deepwell. The inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit Deepwell's growth and may have a material adverse effect on the financial results and cash flows of Deepwell.

Capital expenditures

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

Leverage and restrictive covenants

Deepwell has credit facilities which contain a number of financial covenants that require Deepwell to meet certain financial ratios and financial condition tests. Failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could result in a termination of distributions by Deepwell and would permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of Deepwell would be able to repay in full that indebtedness, which could result in the lenders realizing on the assets of Deepwell. There is no assurance that Deepwell will be able to refinance any or all of the credit facilities at their maturity dates on acceptable terms, or on any basis.

Uncertainty of cash distributions

The actual amounts of distributions paid by the Trust to the Unitholders will depend upon numerous factors, including profitability of operations, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors beyond the control of Deepwell.

Government regulations

The Trust's operations are subject to a variety of Canadian federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the protection of the environment, and taxation.

The planned changes in the structure of oil and natural gas royalties payable to the Province of Alberta, intended to commence in 2009, could impact the exploration and development activities of E&P companies and lower the demand for Deepwell's services.

Related-party transactions

There were no payments made to related parties in the 12 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 Directors of the General Partner 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 was 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

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".

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.

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.

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.

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.

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.

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.

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.

Disclosure and internal controls

The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of Deepwell's disclosure controls and procedures for the period ending December 31, 2007. This evaluation considered the functions performed by its Disclosure Committee, the review and oversight of all executive officers and the Board of Directors, as well as the process and systems in place for filing regulatory and public information. Deepwell's established review process and disclosure controls are designed to ensure that all required information, reports and filings required under Canadian securities legislation are properly submitted and recorded in accordance with those requirements over financial reporting as of December 31, 2007 pursuant to the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators. The Trust engaged third-party consultants to assist with the design, documentation, and testing of original internal control systems, new proposed improvements, interim measures during the conversion and planned implementation on completion of the conversion. In light of management's review, and the results of findings by third-party consultants, Deepwell has concluded that the following weakness existed in the design of internal controls over financial reporting:

Entity controls

While the CEO and CFO of the Trust informally confirm with other members of management that they have designed and implemented adequate controls, no formal sub-certification process is in place. Management has indicated their intent to implement a formal sub-certification process for all direct reports to the CEO and the CFO to be performed at least quarterly.

While the Trust has an insider trading and reporting policy, there is no disclosure controls and procedures policy to ensure that all disclosure obligations are met. The Board of Directors have indicated their intent to adopt a disclosure controls and procedure policy to be reviewed at least on an annual basis.

Notwithstanding the weaknesses identified, based on the evaluation performed, the CEO and CFO concluded that the design and operation of the Trust's disclosure controls and procedures were effective as at December 31, 2007 to ensure that information required to be disclosed by the Trust in reports filed under Canadian securities laws is gathered, recorded, processed, summarized and reported within the times specified under Canadian securities laws and is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure as required under Canadian securities laws. Further, based on the Trust's mitigating procedures, the CEO and the CFO have satisfied themselves that the weaknesses identified have not resulted in material errors in the financial statements. Management and the Board of Directors are committed to transparency and completeness of financial reporting and disclosure.

The existence of the identified control weakness need not be interpreted as evidence of a lack of integrity, of unsound business practices or of unacceptable risks to an entity's shareholders and related parties. It should be noted that while Deepwell's principal executive officer and principal financial officer believe that Deepwell's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that Deepwell's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.