



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 November 13, 2008 and should be read in conjunction with the Trust's unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008. This MD&A discusses operations and events for the three and nine months ended September 30, 2008. Unless otherwise noted, references to the "quarter" or "current quarter" refer to the three months ended September 30, 2008. References to "2008" or the "year" or "year-to-date" refer to the nine months ended September 30, 2008. References to "third quarter of 2007" or "same period last year" or "same period of 2007" refer to the three months ended September 30, 2007. References to "2007" or the "prior year" refer to the nine months ended September 30, 2007.

The Trust is an unincorporated investment trust governed by the laws of the Province of Alberta. The business of the Trust is conducted through its direct and indirect wholly owned subsidiaries, Deepwell Energy Services Commercial Trust, Deepwell Energy Services Ltd., and Deepwell Energy Services LP ("Deepwell LP") and through its 50 percent equity interest in Palko Energy Ltd. ("Palko"). The Trust and its subsidiaries are based in Calgary, Alberta and Palko is based in Midale, Saskatchewan (collectively "Deepwell"), 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 upstream oilfield water disposal and waste management 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 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 words as "may", "will", "intend", "should", "expect", "believe", "plan", "anticipate",

“estimate”, “predict”, “potential”, “continue” or the negative of these terms or other similar terminology are intended to identify forward-looking statements. Such forward looking statements include the likelihood that more drilling activity and production is likely in the Bakken play, that the Trust’s client base will continue drilling activity, that drilling and completion activities in the Western Canada sedimentary basin will accelerate over time and that such activities will require the development of additional oilfield water disposal and waste management services. These statements are based on the assumptions that market prices for oil and natural gas and equity markets and credit markets will become less volatile, that the shift to non-conventional oil and gas resources will continue and that increased activity will require additional oilfield water disposal and waste management services. The risks are that oil or natural gas prices will decrease or remain volatile, that the market will remain volatile, that the shift to non-conventional oil and gas will not continue and that any increased drilling and production activity will not require additional oilfield water disposal and waste management services. 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 document. The Trust does not assume any obligation to update or revise any forward-looking statements used in this MD&A 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:

- EBITDA, which refers to earnings before internal restructuring charges, unit-based compensation, interest, taxes, depreciation, amortization, and write-down of goodwill; and EBITDA per unit is calculated as EBITDA for the period divided by the weighted average trust units outstanding over the period; and

- Funds from operations, which refers to cash flow from operating activities before changes in non-cash working capital. Funds from operations per unit is calculated as funds from operations for the period divided by the weighted average trust units outstanding over the period.

These measures are identified and presented, where appropriate, together with reconciliations to the equivalent GAAP measure. Readers should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of the Trust's performance. The Trust's method of calculating these measures may differ from that of other organizations and, accordingly, may not be comparable with measures of other organizations.

Strategy

Deepwell is committed to building value for its unitholders through disciplined management and the implementation of its long-term strategy. The core principles of Deepwell's strategy are summarized below.

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

Selected financial information

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

	Three months ended Sept 30, 2008	Three months ended Sept 30, 2007 (restated - note 14)	Nine months ended Sept 30, 2008	Nine months ended Sept 30, 2007 (restated - note 14)
Revenue	\$ 4,861,607	\$3,513,654	\$14,727,987	\$10,473,315
Operating expenses	2,856,716	1,584,125	8,437,299	4,693,785
Gross Margin	2,004,891	1,929,529	6,290,688	5,779,530
General and administrative expenses	746,382	520,071	1,821,511	1,675,765
EBITDA	1,258,509	1,409,458	4,469,177	4,103,765
Internal restructuring charges	748,171	-	839,010	-
Depreciation, accretion and amortization	979,964	906,330	3,182,484	2,669,483
Financing fees	-	35,000	22,910	92,380
Unit-based compensation	94,226	141,673	336,165	676,111
Interest	186,407	110,841	426,041	545,852
Loss on sale or disposal of property and equipment	858	-	12,316	(10,239)
Loss on write-off of property and equipment	-	-	-	367,702
Impairment of goodwill	7,157,402	-	7,157,402	-
Fire-related expenses	-	-	-	162,119
Future income tax recovery	-	-	-	(87,201)
Current income tax	7,432	-	7,432	-
Net income (loss)	(7,915,951)	215,614	(7,514,583)	(312,442)
Non-cash items:				
Depreciation, amortization and accretion	893,792	824,096	2,926,151	2,422,782
Amortization of intangible assets	86,172	82,234	256,333	246,701
Impairment of goodwill	7,157,402	-	7,157,402	-
Financing fees	-	-	-	39,880
Unit-based compensation	94,226	141,673	336,165	676,111
Loss on sale or disposal of property and equipment	858	-	12,316	(10,239)
Loss on write-off of property and equipment	-	-	-	746,332
Future income tax recovery	-	-	-	(87,201)
Funds from operations	\$316,499	\$1,263,617	\$3,173,784	\$3,721,924
Changes in non-cash working capital	137,915	(606,991)	(1,273,649)	(728,092)
Cash flow from operating activities	\$454,414	\$656,626	\$1,900,135	\$2,993,832
Net income (loss)	(\$7,915,951)	\$215,614	(\$7,514,583)	(\$312,442)
Per unit, basic and diluted	(1.10)	0.03	(1.05)	(0.06)
EBITDA	\$1,258,509	\$1,409,458	\$4,469,177	\$4,103,765
Per unit, basic and diluted	0.17	0.22	0.62	0.82
Funds from operations	\$316,499	\$1,263,617	\$3,173,784	\$3,721,924
Per unit, basic and diluted	0.04	0.20	0.44	0.74
Distributions to Unitholders	\$1,293,434	\$1,284,092	\$3,876,289	\$3,164,607
Per unit, basic and diluted	0.18	0.20	0.54	0.63
Gross margin as a percentage of revenue	41%	55%	43%	55%
General and administrative expenses as percentage of revenue	15%	15%	12%	16%
EBITDA as a percentage of revenue	26%	40%	30%	39%
Capital expenditures	\$915,923	\$2,846,290	\$4,686,106	\$5,298,219
Total assets, end of period	\$ 60,967,069	\$55,349,356	\$ 60,967,069	\$55,349,356
Long-term debt, end of period	\$16,871,530	\$0	\$16,871,530	\$0
Total long-term liabilities, end of period	\$16,691,153	\$760,106	\$16,691,153	\$760,106
Trust unit equity, end of period	\$56,357,672	\$56,175,472	\$56,357,672	\$56,175,472
Weighted average Trust units, basic	7,188,578	6,324,139	7,188,578	5,015,016
Weighted average Trust units, diluted	7,193,174	6,327,260	7,192,047	5,015,143

Third quarter 2008 overview

Deepwell generated revenue of \$4,861,607 for the third quarter of 2008, an increase of \$1,347,953 or 38 percent over the same period in 2007. Operating costs were \$2,856,716 for the quarter compared to \$1,584,125 in the third quarter of 2007, the increase being primarily due to higher trucking charges and increased oil repayments to exploration and production clients. Gross margin decreased to 41 percent in the third quarter of 2008 from 55 percent during the same period in 2007 due to operating costs increasing by a greater amount than revenue. General and administration costs were \$746,382 in the quarter compared to \$520,071 in the third quarter of 2007 due to higher staffing costs to accommodate growth. EBITDA declined by 11 percent in the third quarter of 2008 to \$1,258,509 from \$1,409,458 for the same period in 2007. This decrease in EBITDA is a direct result of higher operating costs, and general and administrative costs. During the current quarter, the Trust incurred internal restructuring costs of \$748,171 (\$839,010 year-to-date), which included staff recruitment and other employee costs, legal and professional costs. Funds from operations for the third quarter of 2008 decreased by \$947,118 from the same period in 2007 to \$316,499 due to a lower operating margin, higher general and administrative expenses, and internal restructuring costs. During the quarter, the Trust recognized a non-cash impairment of goodwill in the amount of \$7,157,402 relating to the acquisition of the Producers Oilfield assets in 2006 – Deepwell's founding acquisition.

The net loss for the quarter was \$1.10 per unit on a basic and diluted basis compared to net income of \$0.03 per unit on a basic and diluted basis in the same period of 2007. Funds from operations for the quarter were \$0.04 per unit on a basic and diluted basis compared to \$0.20 per unit on a basic and diluted basis for the same quarter of 2007.

During the quarter, the Trust had net drawdowns on its credit facility of \$6,871,530 and incurred interest expense at a rate of approximately 5.625 percent. At September 30, 2008 the Trust's available capacity on its short-term credit facilities was approximately \$2,000,000 and on its long-term credit facility was approximately \$1,200,000. For the current quarter, distributions to unitholders were maintained at \$0.06 per unit per month. Total distributions paid to unitholders for the quarter, including distributions to participants under the Trust's Distribution Reinvestment Plan (DRIP), were \$1,293,434 or \$0.18 per unit compared to \$0.20 per unit in the third quarter of 2007. 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 reinvested 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.

Results of operations

Revenue

Revenues for the current quarter were \$4,861,607 compared to \$3,513,654 in the third quarter of 2007, an increase of 38 percent. During the current quarter, 64 percent of revenues were from processing and disposal fees, and 36 percent were from the sale of recovered oil, compared to 78 percent and 22 percent, respectively, for the same period in 2007. Processing revenues of \$3,105,368 for the current quarter increased by 14 percent from third quarter 2007 processing revenues of \$2,731,574. Increased volumes received in the current quarter were a result of the higher activity levels and especially oilfield waste volumes and oil for custom treating.

Year-to-date revenues were \$14,727,987 compared to \$10,473,315 for the prior year, an increase of 41 percent. The Claresholm facility provided additional capacity which was not available in 2007 and increased throughput during the quarter even though the facility was operating below expected levels.

Expenses

Operating expenses

Operating expenses were \$2,856,716 for the quarter compared to \$1,584,125 in the third quarter of 2007, yielding an operating margin of 41 percent for the quarter compared to 55 percent in the third quarter of 2007. The increase in direct operating expenses was predominantly due to the addition of the Claresholm facility as well as trucking and landfill costs, which increased along with processing costs related to higher volumes of oil for custom treating and solid wastes. Year-to-date operating expenses were \$8,437,299 compared to \$4,693,785 for 2007. The year-to-date operating margin declined to 43 percent in 2008 from 55 percent in 2007.

Earnings before internal restructuring charges, unit-based compensation, interest, taxes, depreciation, amortization, and write-off of goodwill.

Quarterly earnings before internal restructuring charges, unit-based compensation, interest, taxes, depreciation, amortization and write-off of goodwill (EBITDA) of \$1,258,509 represented an 11 percent decline from the third quarter of 2007. This decrease in EBITDA was a direct result of higher operating costs, and general and administrative expenses.

General and administrative expenses

General and administrative expenses, which represent costs associated with the Trust's head office, senior management and public entity costs, were \$746,382 or 15 percent of revenue for the quarter compared to \$520,071 or 15 percent of revenue in the third quarter of 2007. The year-to-date general and administrative expenses were \$1,821,511 or 12 percent of revenues compared to \$1,675,765 or 16 percent of revenues in 2007. The increase in general and administrative expenses reflects general inflation plus additional staff training, other employee costs and professional fees.

Internal Restructuring Charges

During the third quarter of 2008, the Trust incurred restructuring costs of \$748,171 (\$839,010 year-to-date) which include staff recruitment, other employee costs, legal and professional costs. In 2007, no internal restructuring costs were incurred.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense was \$979,964 for the quarter compared to \$906,330 for the third quarter of 2007. The expense consisted of depreciation of fixed assets of \$873,923 (\$808,642 in the third quarter of 2007), accretion of \$19,869 (\$15,454 in the third quarter of 2007) and amortization of intangible assets of \$86,172 (\$82,234 in the third quarter of 2007). Amortization of intangible assets consisted of the amortization of certificates of approvals and contracts, customer relationships, and non-competition agreements. The increase in depreciation expense resulted from the completion of the Claesholm facility in the first quarter of 2008. The year-to-date depreciation, amortization and accretion expense was \$3,182,484 compared to \$2,669,483 in 2007.

Goodwill

During the quarter, the Trust performed an assessment of the carrying value of goodwill. In view of the economic downturn within the oil and gas service sector, and the recent decline in the trading value of the Trust's units, management concluded that the carrying value of goodwill was impaired and therefore the Trust wrote-off the opening balance in goodwill of \$7,157,402.

Interest

Total cash interest expense for the quarter was \$186,407 compared to \$110,841 for the third quarter of 2007 reflecting increased bank financing. Cash interest expense was comprised of \$181,195 of interest on long-term debt (\$99,606 in the third quarter of 2007) and interest on the Trust's operating loan of \$5,212 (\$11,235 in the third quarter of 2007). Year-to-date interest costs were \$426,041 compared \$545,852 in 2007. Interest rates are floating, with a range from 0.125 percent to 1.625 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 as defined in the credit facility. Actual interest rates during the quarter ranged from 0.125 percent to 1.625 percent over the lender's prime rate.

Funds from operations

Funds from operations for the third quarter of 2008 were \$316,499, a decrease of \$947,118 from the same quarter in 2007, reflecting lower gross margins and higher general and administrative expenses, internal restructuring costs and interest expense. Year-to-date funds from operations were \$3,173,784 compared to \$3,721,924 in 2007, reflecting internal restructuring charges in 2008 with higher interest costs in 2007.

Distributions to unitholders

Distributions declared to unitholders for the quarter, including distributions to participants under the DRIP, were \$1,293,434 (\$1,284,092 in the third quarter of 2007). Actual cash distributions paid were \$1,249,312 (\$1,008,400 in the third quarter of 2007) excluding non-cash distributions to participants in the DRIP. Distributions were higher period-over-period due to the larger number of units outstanding in the current period.

For the three months ended, Sept 30	Three months ended		Nine months ended	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
Cash flows from operating activities	\$ 454,414	\$ 656,626	\$ 1,900,135	\$ 2,993,832
Net income (loss)	(7,915,951)	215,614	(7,514,583)	(312,442)
Actual cash distributions paid during the period	(1,249,312)	(1,008,400)	(3,746,720)	(3,013,494)
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Excess (shortfall) of cash flows from operating activities over cash distributions paid	(794,898)	(351,774)	(1,846,585)	(19,662)
Shortfall of net income (loss) over cash distributions paid	\$ (9,165,771)	\$ (959,609)	\$ (11,262,826)	\$ (3,337,120)

While the cash distributions to unitholders exceeded net income in the first nine months of 2008, Deepwell's distributions have generally not been based upon net income, as net income includes a number of non-cash items such as depreciation, amortization, accretion, and unit-based compensation that do not affect the Trust's ability to make distributions to unitholders. The actual amounts of distributions paid by the Trust to the unitholders will depend upon numerous factors, including profitability of operations, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors beyond the control of Deepwell.

Investing activities

Cash used in investing activities during the quarter was \$5,006,060 compared to \$1,507,598 in the same quarter of 2007. The increase in cash used in investing in the current quarter reflects the purchase of Palko for \$3,960,753 after post-closing adjustments, as well as the purchase by Deepwell of property, plant and equipment for \$915,923.

Capital expenditures

The Trust's capital expenditures for purchase of property and equipment for the quarter were \$915,923 compared to \$2,846,290 in the third quarter of 2007. The investment in property and equipment included investment in tank and containment upgrades, safety equipment, future sites, computing equipment, and other oilfield service equipment. The larger amount in 2007 reflects the construction of the Claresholm plant.

Unitholders' equity

Trust unit option plan

As at September 30, 2008, a total of 487,971 options were issued and outstanding pursuant to the Trust's incentive unit option plan. The options carry a five-year term and, except for 73,800 options issued to executives during 2007 in lieu of a cash bonus for 2006 (vesting immediately), vest equally over a period of three years from the date of grant. The exercise price of each option is based upon the weighted average trading price for a period prior to the date of grant. The exercise price is adjusted downwards by 100 percent of the amount of distributions paid on outstanding Trust units. During the quarter, no options were granted.

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

The Trust recorded unit-based compensation expense and contributed surplus of \$ 94,226 during the quarter compared to \$141,673 in the third quarter of 2007.

Liquidity

Cash provided by financing activities for the quarter was \$4,953,468 compared to \$852,835 for the same period in 2007. The Trust paid distributions to unitholders of \$1,293,434 compared to \$1,284,092 in the third quarter of 2007, of which \$43,614 was realized in proceeds from its DRIP (\$108,869 in the third quarter of 2007).

Credit facilities

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

Demand loan

Under the credit facilities, the Trust has a \$2,000,000 demand revolving operating loan. During the quarter interest ranged from the lender's prime rate plus 0.125 percent to 1.625 percent and this rate is dependent on the funded debt to EBITDA ratio. As at September 30, 2008 the borrowing base for the demand loan was approximately \$2,000,000. As at December 31, 2007 the borrowing base for the demand loan was \$1,212,863 and the amount drawn was \$550,000.

Long-term debt

Under the credit facilities, the Trust has a \$25,000,000, 364-day extendible revolving term loan committed to May 29, 2009. No set principal repayment has been established and the Trust has the ability to repay, borrow and repay again until the 364-day term expires. The interest rate ranges from the lender's prime rate plus 0.125 percent to 1.625 percent per annum. Interest is calculated monthly and paid in arrears. As at September 30, 2008 an aggregate of \$16,871,530 was outstanding of which \$1,874,614 was current. The revolving period extends to May 29, 2009, at which time the credit facility is eligible for renewal. At September 30, 2008 the Trust's available capacity on its long-term credit facility was approximately \$1,200,000. As at December 31, 2007, an aggregate of \$4,800,000 was outstanding of which \$933,333 was current.

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 long-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:

<u>Payments by period</u>	<u>Total</u>	<u>2008</u>	<u>2009-2010</u>	<u>2011-2012</u>	<u>Thereafter</u>
Long-term debt	\$ 16,871,530	\$ -	\$ 11,247,687	\$ 5,623,843	\$ -
Commitments	436,553	41,863	163,024	139,962	91,704
Total contractual obligations	\$ 17,308,083	\$ 41,863	\$ 11,410,711	\$ 5,763,806	\$ 91,704

Financial instruments

All of the Trust's financial instruments as at September 30, 2008 relate to standard working capital and credit facility items. There are no significant differences between the carrying value of these financial instruments and their estimated fair values. There are no unusual off-balance-sheet arrangements and the Trust does not use any financial instruments such as derivatives. Of the Trust's financial instruments, only accounts receivable represent credit risk, and management views the credit risk related to accounts receivable as minimal. The operating loan and the extendible revolving long-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.

Quarterly information

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 break-up or periods of rainfall. In the Grande Cache region restrictions also occur at certain times of the year in designated wildlife areas.

	Quarter Ended							
	September 2008	June 2008	March 2008	December 2007	September 2007	June 2007	March 2007	December 2006
Revenue	\$4,861,607	\$4,738,690	\$5,127,690	\$3,650,736	\$3,513,654	\$2,532,151	\$4,427,510	\$4,059,296
Operating expenses	2,856,716	2,852,928	2,727,653	1,941,216	1,584,126	1,190,437	1,919,222	1,605,492
Gross Margin	2,004,891	1,885,762	2,400,037	1,709,520	1,929,528	1,341,714	2,508,288	2,453,804
General and administrative	746,382	597,415	477,714	842,448	520,371	558,848	596,544	730,354
EBITDA	1,258,509	1,288,347	1,922,323	867,072	1,409,157	782,866	1,911,744	1,723,450
Internal restructuring charges	748,171	90,839	-	-	-	-	-	-
Depreciation, amortization and accretion	979,964	1,213,804	1,011,626	838,528	906,330	897,865	922,669	993,621
Write-off of goodwill	7,157,402	-	-	-	-	-	-	-
Financing fees	-	-	-	114,043	35,000	-	-	-
Unit-based compensation	94,226	121,509	120,430	138,706	141,372	359,902	175,137	197,812
Interest	186,407	133,536	106,098	44,639	110,841	229,450	205,561	149,325
Loss (gain) on sale of property and equipment	858	42	11,416	1,466	-	(17,500)	7,261	34,295
Loss on write-off of property and equipment	-	-	-	-	-	-	367,702	-
Fire-related expenses	-	-	-	-	-	-	162,119	-
Income taxes payable	7,432	-	-	-	-	(62,651)	(24,550)	(47,799)
Net income (loss)	\$ (7,915,951)	\$ (271,383)	\$ 672,753	\$ (270,310)	\$ 215,614	\$ (624,200)	\$ 95,845	\$ 396,196
Net income (loss) per Trust unit:								
Basic	(\$1.10)	(\$0.04)	\$0.09	\$(0.04)	\$0.04	\$(0.14)	\$0.02	\$0.05
Diluted	(\$1.10)	(\$0.04)	\$0.09	\$(0.04)	\$0.04	\$(0.14)	\$0.02	\$0.05
Weighted average number of Trust units outstanding								
Basic	7,188,578	7,180,086	7,173,770	7,154,344	6,324,139	4,357,724	4,356,000	4,356,000
Diluted	7,193,174	7,184,666	7,173,770	7,154,344	6,327,260	4,357,744	4,356,000	4,357,187

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 such estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the Trust's accounting policies as disclosed in the Trust's consolidated financial statements.

In light of the current financial instability, Deepwell has reviewed the method used and calculations of critical accounting estimates and in particular the impairment and obsolescence of its fixed assets, intangible assets and goodwill. Management believes the critical accounting estimates are reasonable under the current circumstances except for the impairment of goodwill which was recorded this quarter.

Risks and uncertainties

Cyclicality of the oil and natural gas industry

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

The current financial instability has increased the uncertainty in the oil and natural gas industry, and the uncertainty in the oil and natural gas service industry in which Deepwell operates. In Alberta, the Trust operates in mature areas of oil and natural gas development and most of its services are for producing wells. In Saskatchewan, Palko is located in a developing area of oil and natural gas production that relies more on the water production from existing wells and development of new wells.

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.

The large fluctuations in oil and natural gas prices which have occurred during this financial crisis have resulted in fluctuations in Deepwell's revenues. Future changes in oil and natural gas prices could result in increases or decreases in total revenues and volumes processed through the Trust's facilities. Prolonged financial instability could result in oil and natural gas projects being deferred or cancelled limiting new revenue streams to service providers such as Deepwell.

Seasonal weather

In Canada, the level of activity in the oil and natural gas industry is influenced by seasonal weather patterns. Spring break-up, which normally occurs 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 its ability to retain the services of experienced and skilled employees and its 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 33 percent of revenue for the nine months ended September 30, 2008, with the largest customer accounting for 14 percent. Deepwell does not generally enter into long-term contracts with its customers and there can be no assurance that the current customers will continue their relationship 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 to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents are likely to affect operating costs, insurability and relationships with customers, employees and regulators.

Management will monitor the activities of Deepwell for quality control and safety. However, there are no assurances that Deepwell's safety procedures will always prevent such damages. Although Deepwell maintains insurance coverage that management believes to be reasonable 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 and fines. 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 reductions 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 its ongoing operations, 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 costs of labour and equipment have 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 drilling and completion activities of exploration and production companies and lower the demand for Deepwell's services.

Related-party transactions

During the current quarter, the Trust made payments in the amount of \$65,680 for professional services to a partnership in which one of Deepwell's board members is a partner. These transactions were conducted

in the normal course of operations, on commercial terms established and agreed to by the parties. There were no such transactions for the year ended December 31, 2007.

Internal controls

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

Outlook

Although Deepwell and the oil and natural gas industry continue to deal with the uncertainty in the business environment in the provinces of Alberta and Saskatchewan, the Trust has identified a number of growth opportunities, including its recent 50 percent acquisition of Palko Energy Ltd., which operates in the heart of the Bakken oil play in southeast Saskatchewan. This acquisition provides Deepwell with a strategic foothold in a new geographic region with a bright future due to increased drilling activity, well licences and producing wells. The strong growth in land sales indicates that more drilling activity in the fourth quarter and through 2009 is likely in the Bakken play, which is expected to increase water production and other related water volumes for Palko to process. Accordingly, a key focus for Deepwell for the upcoming year will be to work with Palko to take advantage of the favourable investment climate in southeast Saskatchewan. Expansion of the existing facility and growth in the southeast Saskatchewan market area will be a key focus in the upcoming months and into 2009.

The Trust's outlook for the fourth quarter remains cautiously optimistic. The fourth quarter is historically one of the Trust's most active quarters. Although all of the Trust's facilities experienced increased activity through the second half of October 2008 and the Trust experienced a 38 percent year-over-year increase in third quarter revenue, there is a general climate of uncertainty. The Trust's client base of small, medium and large exploration and production companies have generally had encouraging third quarter results in 2008 and this provides some indication that activity is expected to continue in the fourth quarter, particularly if changes in oil and natural gas prices, equity markets and credit markets become less volatile.

In the fourth quarter, the Trust is planning to increase the injection capacity at its Grande Cache facility to satisfy increased demand for water and waste disposal in that market area. The Trust will also continue to dedicate some of its available capital to its existing facilities in Alberta by upgrading its current processes to provide higher through-put, new services or both to meet the increasing demand from its clients.

In spite of the recent challenges facing the oil and natural gas industry, the Trust remains focused on capitalizing on the increasing water production from existing oil and natural gas fields and increasing oilfield wastes associated with the increasing drilling and completions activities required to maintain oil and natural gas production in the Western Canada Sedimentary Basin (WCSB). Despite a soft short-term outlook, drilling and completions activities are expected to accelerate over the longer term because the rate of decline of oil and natural gas production in the WCSB has generally been increasing and the shift to non-conventional oil and natural gas resources generally requires more drilling and completions work to unlock the reserves. Accordingly, the Trust is basing its generally optimistic long-term outlook on water disposal and oilfield waste services business expanding as exploration and production companies attempt to maintain or enhance production of oil and natural gas from the WCSB.