



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Deepwell Energy Services Trust ("Deepwell" or the "Trust") has been prepared taking into consideration information available to August 10, 2007 and should be read in conjunction with the Trust's unaudited interim consolidated financial statements as at and for the three-months ended June 30, 2007 and in conjunction with the Trust's audited consolidated financial statements as at and for the 247-day period ended December 31, 2006. This MD&A discusses operations and events for the three-month period ended June 30, 2007 and unless otherwise noted, references to the "period" or "quarter" in this MD&A refer to the three-month period ended June 30, 2007. References to "2006" refer to the 64 days ended June 30, 2006. References to "2007" refer to the six months ended June 30, 2007. Due to the difficulty in comparing periods of different lengths, we have not analyzed the 64 day period ending June 30, 2006. Our analysis refers to management expectations for the second quarter of 2007.

Non-GAAP measures

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

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

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

Deepwell overview

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

Strategy

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

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

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 three months ended June 30, 2007	For the six months ended June 30, 2007	For the 64 days ended June 30, 2006
Revenue	\$2,532,151	\$6,959,661	\$1,778,929
Operating costs	1,190,739	3,109,961	948,937
Gross Margin	1,341,412	3,849,700	829,992
Selling and administrative	558,849	1,155,393	229,889
EBITDA	782,563	2,694,307	600,103
Depreciation, accretion and amortization	897,865	1,820,534	480,317
Unit-based compensation	359,600	534,737	-
Interest	229,450	435,011	107,946
Gain on sale of property and equipment	(17,500)	(10,239)	-
Loss on write-off of property and equipment	-	367,702	-
Fire-related expenses	-	162,119	-
Future income tax recovery	(62,651)	(87,201)	-
Net income (loss)	(624,201)	(528,356)	11,840
Add:			
Depreciation, accretion and amortization	897,865	1,820,535	480,317
Unit-based compensation expense	359,600	534,737	-
Gain on sale of property and equipment	(17,500)	(10,239)	-
Loss on write-off of property and equipment	-	746,332	-
Future income tax recovery	(62,651)	(87,201)	-
Funds from operations	\$553,113	\$2,475,808	\$492,157
Net income (loss)	(\$624,201)	(\$528,356)	\$11,840
Per unit, basic	(0.14)	(0.12)	0.00
Per unit, diluted	(0.14)	(0.12)	0.00
EBITDA	\$782,563	\$2,694,307	\$600,103
Per unit, basic	0.18	0.62	0.14
Per unit, diluted	0.18	0.62	0.14
Funds from operations	\$553,113	\$2,475,808	\$492,157
Per unit, basic	0.13	0.57	0.11
Per unit, diluted	0.13	0.57	0.11
Distributions paid to Unitholders	\$753,183	\$1,849,153	\$445,258
Per unit, basic	0.17	0.42	0.10
Per unit, diluted	0.17	0.42	0.10
Gross margin as a percentage of revenue	53%	55%	47%
Selling and administrative as a percentage of revenue	22%	17%	13%
EBITDA as a percentage of revenue	31%	39%	34%
Capital expenditures	\$1,613,245	\$2,451,930	\$193,768
Total assets, end of period	\$53,839,846	\$53,839,846	\$48,546,448
Long-term debt, end of period (includes current portion)	\$13,500,000	\$13,500,000	\$7,000,000
Trust units, end of period	\$40,443,363	\$40,443,363	\$40,568,721
Weighted average Trust units, basic	4,357,724	4,356,867	4,356,000
Weighted average Trust units, diluted	4,357,744	4,356,867	4,356,000

Revenue for the quarter was \$2,532,151 (2007 - \$6,959,661, 2006 - \$1,778,929), with a gross margin of \$1,341,412 or 53 percent of revenue, (2007 - \$3,849,700 or 55 percent of revenue, 2006 - \$829,992 or 47 percent of revenue), EBITDA of \$782,563 or 31 percent of revenue, (2007 - \$2,694,307 or 39 percent of revenue, 2006 - \$600,103 or 34 percent of revenue), and a net loss of \$624,201 (2007 - \$528,356, and a net income for 2006 - \$11,840).

On a basic and diluted per unit basis, net loss for the period was \$0.14 per unit, (2007 - \$0.12) and funds from operations were \$0.13 per unit, (2007 - \$0.57, 2006 - \$0.11 per unit). Basic and diluted distributions declared to unitholders in the quarter were \$784,243 or \$0.18 per unit, (2007 - \$1,880,213 or \$0.43, 2006 - \$445,258 or \$0.10).

Results of operations

Revenue

Revenues for the quarter were \$2,532,151 (2007 - \$6,959,661, 2006 - \$1,778,929), generating 67 percent (2007 & 2006 - 65 percent) from processing and disposal fees and 33 percent (2007 & 2006 - 35 percent) from the sale of recovered oil. During the second quarter, Deepwell experienced low volumes primarily due to poor weather, spring break-up and, to a lesser extent, due to continued uncertainty over the economics in the oil and gas sector leading our customers to limit spending. In particular, Grand Cache and Mayerthorpe were substantially under quarterly norms in waste and water processing, although decreased activity and revenue is consistent within the industry. The seasonal decline was partially offset with custom treating revenues doubling management's expectations. In contrast, Deepwell's Rycroft facility experienced unprecedented quarterly water volumes due to well capacity improvements.

Operating expenses

Operating expenses were \$1,190,739 for the quarter, (2007 - \$3,109,961, 2006 - \$948,937) and the relationship to revenues remained consistent with management's expectations. Operating expenses for the quarter include \$27,168, (2007 - \$683,988, 2006 - \$188,638) in oil credits repaid to customers which mitigates the impact of changes to oil prices or 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 for the period were \$558,849 or 22 percent of revenue, (2007 - \$1,155,393 or 17 percent of revenue, 2006 - \$229,889 or 13 percent of revenue) and exceeded management's expectations primarily due to legal and public company costs associated with the first full year of operations.

Depreciation, amortization and accretion

Depreciation, amortization and accretion expense was \$897,865 for the quarter (2007 - \$1,820,534, 2006 - \$480,317) and consists of depreciation of fixed assets of \$766,725 (2007 - \$1,567,778, 2006 - \$469,705), amortization of intangible assets of \$82,234 (2007 - \$164,468), accretion of \$15,454 (2007 - \$30,908), amortization of deferred financing charges of \$33,452 (2007 - \$57,380, 2006 - \$10,612). Intangible assets consist of regulatory approvals, customer relationships, and non-competition agreements.

Interest

Total cash interest expense for the period was \$229,450 (2007 - \$435,011, 2006 - \$107,946), comprised of interest on long-term debt of \$216,309 (2007 - \$404,370, 2006 - \$107,946) and interest on the Trust's operating loan of \$13,141. 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. The effective interest rate for the period was 7.03%.

Income taxes

On June 22, 2007, Bill C-52, an Act to implement certain provisions of the March 19, 2007 federal budget, received royal assent. Bill C-52 includes legislative provisions, the SIFT Trust Legislation, to implement proposals originally announced on October 31, 2006, which are now in force, relating to the taxation of certain publicly-traded trusts and their unitholders under the Tax Act. The SIFT Trust Legislation generally will apply to trusts that are resident in Canada for purposes of the Tax Act, that hold one or more "non-portfolio properties", and the units of which are listed on a stock exchange or other public market (a "specified investment flow-through trust" or "SIFT trust"). A SIFT trust effectively is subject to tax on its income from non-portfolio properties and taxable capital gains from dispositions of non-portfolio properties paid, or made payable, to unitholders at a rate comparable to the combined federal and provincial corporate income tax rate. Distributions of such income to unitholders should be treated as eligible dividends paid by a taxable Canadian corporation.

GAAP requires Deepwell to recognize future income tax assets and liabilities based on estimated temporary differences expected as at January 1, 2011 and on the basis of its structure at the balance sheet date. The Trust has completed preliminary consolidated analysis and has estimated a future income tax asset. A valuation allowance has been applied against this amount and therefore the potential impact is not reflected in the interim consolidated financial statements as at and for the six months ended June 30, 2007.

Distributions to Unitholders

On April 25, 2007, the Trust announced the adoption of a distribution reinvestment plan (the "DRIP"). The DRIP, to the extent that Unitholders participate, will provide the Trust with additional cash for growth. The DRIP allows eligible Unitholders of the Trust to direct that their cash distributions be reinvested in additional trust units. The cash distributions are reinvested at the discretion of Deepwell Energy Services Ltd. either by acquiring trust units issued from treasury at 95% of the Average Market Price (as defined in the DRIP) or by acquiring trust units at prevailing market prices. The Trust issued 5,030 Trust Units resulting in \$31,060 being reinvested during the period.

During the quarter, distributions declared to unitholders were \$784,243 (2007 - \$1,880,213, 2006 - \$445,258). Cash distributions for the period were decreased by \$31,060 from distributions re-invested.

Investing activities

Net cash used in investing activities during the period was \$1,277,961, (2007 - \$3,352,341, 2006 - \$44,247,305).

In the second quarter of 2007, the Trust invested in property and equipment valued at \$1,613,245 (2007 - \$2,451,930, 2006 - \$193,768). The Trust invested \$592,053 to restore assets damaged in the December 2006 fire at Grande Cache. \$482,000 was committed to Claresholm, \$432,510 for the Rycroft pipeline and \$106,682 in various costs for oilfield service equipment, computing equipment and software.

During the period, Deepwell secured three letters of guarantee in the aggregate amount of \$1,909,296. These letters automatically renew and carry an initial term of one year. Two of the letters of guarantee replace \$1,377,648 in cash deposits previously held by the Alberta Energy Utilities Board for abandonment and reclamation – refund of these deposits was received subsequent to the end of the period. The third letter of guarantee establishes security for the Trust's Claresholm facility.

Unitholders' equity

Trust unit option plan

As at June 30, 2007, a total of 375,300 options issued pursuant to the Trust incentive stock option plan ("Option Plan") were outstanding (2006 - nil). At June 30, 2007 73,800 options were exercisable, and the weighted average contractual life remaining is 4.31 years. The total number of outstanding options shall not exceed 10 percent of the outstanding Trust Units. Except for the 73,800 options issued to executives during the period in lieu of a cash bonus for 2006 (vesting immediately), all options carry a five-year term and vest equally over a period of three years from the date of grant. The exercise price of each option is based upon the weighted average trading price for a period prior to the date of grant. The exercise price is adjusted downwards by 100 percent of the amount of distributions paid on outstanding Trust Units. As at June 30, 2007, the exercise prices of outstanding options ranged from \$6.42 to \$9.80 per unit and the weighted average exercise price of granted options was \$9.00 per unit. The Trust recorded unit option compensation expense and contributed surplus of \$359,600 during the quarter, (2007- \$534,737).

Financings

During the quarter, the Trust announced two financings, both of which closed subsequent to June 30, 2007. On July 9, 2007, the Trust closed a private placement of Trust units (the Private Placement). Upon closing 582,362 units of the Trust were issued for gross proceeds of \$3,500,000. The issue price for the Private Placement was set at the same price as the Trust's rights offering, which expired on July 31, 2007 (the Rights Offering). The Rights Offering was fully subscribed and a total of 2,180,515 Trust units were issued at a price of \$6.01 per Trust unit for gross proceeds of \$13,104,895.

Liquidity

As at June 30, 2007, the Trust had issued cheques in excess of bank balance of \$1,160,266. The Trust also has credit facilities in place in the aggregate of \$17,500,000.

Net cash used by financing activities for the quarter was \$590,379, (2007 - \$236,227, 2006 - \$43,483,463). As at June 30, 2007, the Trust had drawn \$13,500,000 on its long-term credit facility, an increase of \$500,000 from March 31, 2007. A total of \$16,726 of deferred financing costs were amortized during the period. Other financing activities include the payment of \$753,183 in distributions to Unitholders. Prepaid unit issue costs of \$337,556 were incurred during the period for the rights offering.

Credit facilities

As at June 30, 2007, the borrowing base for the demand revolving loan was \$1,719,079 and the amount drawn was \$1,150,000. As at June 30 2007, an aggregate of \$13,500,000 was drawn on the revolving term loan. During the quarter, Deepwell renewed its credit agreements to May 31, 2008.

Summary of Quarterly Results

The following table shows selected financial information for the past three quarters plus the partial quarter representing the Trust's initial operating period. The information has been obtained from quarterly financial statements, which have been prepared in accordance with Canadian GAAP and, in the opinion of management, have been prepared using accounting policies consistent with the audited financial statements and include all adjustments necessary for the fair presentation of the results of the interim periods. The Trust expects its operating results to vary significantly from quarter to quarter and they should not be relied upon to predict future information.

Summary of Quarterly information	Three months ended June 30, 2007	Three months ended Mar 31, 2007	Three months ended Dec 31, 2006	Three months ended Sep 30, 2006	64 days ended June 30, 2006
Revenue	\$2,532,151	\$4,427,510	\$4,059,296	\$3,808,795	\$1,778,929
Operating costs	1,190,739	1,919,221	1,605,492	2,040,285	948,937
Gross Margin	1,341,412	2,508,289	2,453,804	1,768,510	829,992
Selling and administrative	558,849	596,545	730,354	448,788	229,889
EBITDA	782,563	1,911,744	1,723,450	1,319,722	600,103
Depreciation, amortization and accretion	897,865	922,669	993,621	712,640	480,317
Unit-based compensation	359,600	175,137	197,812	53,620	-
Interest	229,450	205,561	149,325	102,469	107,946
Loss (gain) on sale of property and equipment	(17,500)	7,261	34,295	-	-
Net loss on write-down of property and equipment destroyed in fire	-	367,701	-	-	-
Fire-related expenses	-	162,119	-	-	-
Future income tax recovery	(62,651)	(24,550)	(47,799)	-	-
Net income (loss)	(624,201)	95,845	396,196	450,993	11,840
Add:					
Depreciation, amortization and accretion	897,865	922,669	993,621	712,640	480,317
Unit-based compensation	359,600	175,137	197,812	53,620	-
Loss on sale of property and equipment	(17,500)	7,261	34,295	-	-
Loss on write-off of property and equipment	-	746,332	-	-	-
Future income tax recovery	(62,651)	(24,550)	(47,799)	-	-
Funds from operations	\$553,113	\$1,922,694	\$1,574,125	\$1,217,253	\$492,157
Net income (loss) per trust unit:					
Basic	(\$0.14)	\$0.02	\$0.09	\$0.10	\$0.00
Diluted	(\$0.14)	\$0.02	\$0.09	\$0.10	\$0.00
Weighted average number of Trust Units outstanding					
Basic	4,357,724	4,356,000	4,356,000	4,356,000	4,356,000
Diluted	4,357,744	4,356,000	4,356,000	4,477,793	4,356,000

Outlook

The Trust entered the third quarter with all facilities operating well, although some softness in the market for services persisted until mid-July. As a result of investments in well capacity, the Rycroft facility's capacity is significantly improved from when it was acquired in April of 2006. Because the Trust's cash flow is more dependent on activity in the production of oil and natural gas (as opposed to exploration), management believes that demand will be strong for the balance of 2007.

In July, Deepwell commenced construction of an oilfield waste management facility near Claresholm, Alberta and completion is planned approximately six months after the start of construction. The Claresholm site is located in an active region of oil and natural gas production and exploration which is not currently served by any third-party oilfield waste

management facility in the local area. The planned Deepwell facility, expected to be operational in the first quarter of 2008, would be Deepwell's fourth facility. Financing is in place for the Claresholm facility, and for other 2007 projects as a result of the completion of a private placement and rights offering in July, 2007.

Deepwell has successfully completed the first phase of public consultation for its next proposed greenfield facility. Deepwell anticipates submitting an application to the EUB in the third quarter for approval to construct and operate an oilfield waste management facility at that site in 2008. Prospecting is also in progress for suitable facility sites for construction beyond the 2008 horizon, as the Trust continues to be focused on achieving growth through addition of greenfield facilities and capacity improvements at existing facilities.

Internal controls

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

Seasonality and weather

In Canada, the level of activity in the oil and gas industry is influenced by seasonal weather patterns. Spring break-up during the second quarter of each year leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of energy services. The timing and duration of spring break-up is dependent on weather patterns and the duration of this period will have a direct impact on the level of business of Deepwell. Additionally, if an unseasonably warm winter prevents sufficient freezing, well sites may be rendered inaccessible, shortening the drilling season and reducing demand for oilfield waste management services. Additionally, a warm winter can reduce demand for oil and natural gas for heating purposes, which may reduce activity for oil and natural gas exploration and development and demand for the oilfield services offered by Deepwell.

The volatility in the weather and temperature can therefore create unpredictability in activity, demand for oilfield services and equipment utilization rates, which could have a material adverse effect on the financial results, cash flows, and the overall financial condition of the Trust and its subsidiaries.

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.