

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF

## **DEEPWELL ENERGY SERVICES TRUST**

FOR THE THREE MONTHS ENDED MARCH 31, 2007

Under National Instrument 51-102, Part 4, subsections 4.3(3)(a), an auditor has not performed a review of the interim financial statements as at and for the three months ended March 31, 2007.

The accompanying unaudited interim financial statements of the Trust at March 31, 2007 have been prepared and are the responsibility of the Trust's management.

# DEEPWELL ENERGY SERVICES TRUST

## INTERIM CONSOLIDATED BALANCE SHEET

As at	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$ 28,861
Accounts receivable	3,329,353	2,729,106
Inventory	68,132	80,205
Prepaid expenses and deposits	149,988	242,990
	3,547,473	3,081,162
Property and equipment	38,786,145	39,565,606
Intangible assets	3,171,803	3,254,037
Goodwill	7,157,402	7,157,402
Financial security deposits	1,448,052	1,433,474
	\$ 54,110,875	\$ 54,491,681
<b>Liabilities</b>		
Current liabilities:		
Bank indebtedness	\$ 1,249,226	\$ -
Accounts payable and accrued liabilities	1,481,952	3,538,986
Distributions payable	261,360	417,305
Current portion of long-term debt	1,772,104	-
	4,764,642	3,956,291
Long-term debt	11,194,444	11,500,000
Future income taxes	62,651	87,201
Asset retirement obligations	729,198	713,744
	16,750,935	16,257,236
<b>Unitholders' Equity</b>		
Trust units (Note 3)	40,440,860	40,490,377
Contributed surplus	426,569	251,432
Deficit	(3,507,489)	(2,507,364)
	37,359,940	38,234,445
	\$ 54,110,875	\$ 54,491,681

See accompanying notes to interim consolidated financial statements.

# DEEPWELL ENERGY SERVICES TRUST

## INTERIM CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED DEFICIT

(unaudited)

For the three months ended March 31

2007

<b>Revenues</b>	\$	4,427,510
<b>Expenses</b>		
Operating		1,919,221
Selling and administrative		596,545
Depreciation and accretion		816,507
Amortization of intangible assets		82,234
Unit-based compensation		175,137
Interest on short-term debt		17,500
Interest on long-term debt		188,061
Amortization of deferred financing costs		23,928
Loss on sale of property and equipment (Note 5)		7,261
Loss on write-off of property and equipment (net of accrued insurance proceeds) (Note 6)		367,701
Fire related expenses (Note 6)		162,119
		4,356,214
<b>Income before taxes</b>		71,296
Future income tax recovery		(24,550)
<b>Net income</b>		95,846
<b>Accumulated deficit, beginning of period</b>		(2,507,365)
Distributions to unitholders		(1,095,970)
<b>Accumulated deficit, end of period</b>	\$	(3,507,489)
<b>Net income per trust unit:</b>		
Basic	\$	0.02
Diluted	\$	0.02
<b>Weighted average number of trust units outstanding:</b>		
Basic		4,356,000
Diluted		4,356,000

See accompanying notes to interim consolidated financial statements.

# DEEPWELL ENERGY SERVICES TRUST

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

For the three months ended March 31

2007

<b>Operating activities</b>	
Net income	\$ 95,846
<b>Non-cash items:</b>	
Depreciation and accretion	816,507
Amortization of deferred financing costs	23,928
Amortization of intangibles	82,234
Future income tax recovery	(24,550)
Unit-based compensation	175,137
Loss on write-off of property and equipment (Note 6)	746,332
Loss on sale of property and equipment (Note 5)	7,261
Change in non-cash working capital	(1,324,969)
<b>Cash flow from operating activities</b>	<b>597,726</b>
<b>Investing activities</b>	
Financial security deposits	(14,578)
Purchase of property and equipment	(776,186)
Proceeds on sale of property and equipment	1,000
Change in non-cash investing working capital	(1,284,617)
<b>Cash flow from investing activities</b>	<b>(2,074,381)</b>
<b>Financing activities</b>	
Net proceeds from long-term debt	1,500,000
Unit issuance costs	(49,517)
Distributions to unitholders	(1,251,915)
<b>Cash flow from financing activities</b>	<b>198,568</b>
Change in cash	(1,278,087)
<b>Cash (bank indebtedness), beginning of period</b>	<b>28,861</b>
<b>Cash (bank indebtedness), end of period</b>	<b>\$ (1,249,226)</b>
<b>Supplementary Information</b>	
Cash interest paid	\$ 205,561

See accompanying notes to interim consolidated financial statements.

# DEEPWELL ENERGY SERVICES TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(unaudited)

## 1. Nature of the Organization

Deepwell Energy Services Trust (the "Trust" or "Deepwell") [is an open ended un-incorporated investment trust governed by the laws of the Province of Alberta and created pursuant to a Declaration of Trust dated April 21, 2006. Therefore, no comparative numbers are presented within the interim consolidated financial statements. The principal undertaking of the Trust is to engage in the oilfield waste management business indirectly through its wholly owned subsidiary, Deepwell Energy Services LP ("Deepwell LP") and its subsidiaries Deepwell Energy Services Commercial Trust and Deepwell Energy Services Ltd. Deepwell LP provides oilfield waste management services, including treating, processing and disposing of oilfield wastes and custom treating of oil/water emulsions.

## 2. Significant Accounting Policies

### Basis of presentation

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

Certain information and disclosure normally required to be included in notes to annual consolidated financial statements have been condensed or omitted from these notes. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Trust's annual report for the year ended December 31, 2006. The consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2006 except for the adoption of the following new accounting standards, which were effective for the Trust as of January 1, 2007:

- As of January 1, 2007 the Trust adopted Handbook Section 1530 "Comprehensive Income" for the reporting and disclosure of comprehensive income. Unrealized gains and losses on financial assets that will be held as available for sale, unrealized foreign currency translation amounts arising from self-sustained foreign operations, and changes in the fair value of cash flow hedging instruments will be in a Consolidated Statement of Other Comprehensive Income until recognized in the consolidation statements of earnings. The Trust has determined that it had no comprehensive income nor accumulated other comprehensive income for the period.
- As of January 1, 2007 the Trust adopted Handbook Section 3855 "Financial Instruments – Recognition and Measurement" and Handbook section 3861 "Financial Instruments – Disclosure and Presentation". Under the new standards, all financial instruments will be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading and available for sale. Financial assets and liabilities held for trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost. Available for sale instruments will be measured at fair value with gains and losses recognized in other comprehensive income. As a result of these standards, the balance of deferred financing charges, previously included in prepaids and deposits, is netted against the corresponding balances in the respective credit facility.
- As of January 1, 2007 the Trust adopted Handbook Section 1506 "Accounting changes" ("CICA 1506"). CICA 1506 requires that voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information; changes in accounting policy are applied retrospectively unless doing so is impracticable or the change in accounting policy is made on initial application of a primary source of GAAP; a change in accounting estimate is generally recognized prospectively; material prior period errors are corrected retrospectively; new disclosures required in respect of changes in accounting policies, changes in accounting estimates, and correction of errors. The adoption of CICA 1506 has had no impact on the interim consolidated financial statements.

### 3. Unitholders' equity

#### (a) Trust Unit Options and unit-based compensation

As at March 31, 2007 a total of 301,000 options issued pursuant to the Trust incentive unit option plan ("Option Plan") were outstanding at an average exercise price of \$9.34. No options are exercisable at March 31, 2007, and the weighted average contractual life remaining is 4.4 years. The total number of outstanding options shall not exceed 10 percent of the outstanding Trust Units. The options carry a five-year term and vest equally over a period of three years from the date of grant. The exercise price of each option is based upon the weighted average trading price for a period prior to the date of grant. The exercise price is adjusted downwards by 100 percent of the amount of distributions paid on outstanding Trust Units. As at March 31, 2007, the exercise prices of outstanding options range from \$9.33 to \$9.98 per unit and the weighted average exercise price of granted options is \$9.34 per unit.

The Trust recorded unit option compensation expense and contributed surplus of \$175,137 during the period. No unit options were granted during the period.

#### (b) Cash distributions

During the period, the Trust declared and paid distributions to the Unitholders in accordance with the following schedule:

Period	Record date	Payment date	Cash per Trust unit	Amount
January 2007	January 31, 2007	February 15, 2007	\$ 0.0958	417,305
February 2007	February 28, 2007	March 15, 2007	0.0958	417,305
March 2007	March 31, 2007	April 13, 2007	0.0600	261,360
Distributions declared to unitholders during the period			\$	1,095,970

#### (c) Per Trust unit information

Weighted average basic and diluted Trust units outstanding for the period were 4,356,000.

### 4. Related party transactions

During the period the Trust made payments in the amount of \$6,176 to a partnership of which one of the Trustees is a partner. The payments were made for settlement of legal expenses outstanding in accounts payable and accrued liabilities at December 31, 2006. The amount outstanding at March 31, 2007 was nil.

### 5. Loss on sale of assets

During the first quarter, a plant vehicle was sold for total proceeds of \$1,000 and a recognized loss on disposal of \$7,261.

### 6. 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 reopen was received, and operations were limited until February 1, 2007 when a temporary waste receiving system was implemented; since that time the facility has operated using the temporary system while a new permanent receiving system is being installed. The damaged equipment has been dismantled and removed and reconstruction is near completion. 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 continuing 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 \$746,333 was written off, net of an accrued provision for insurance proceeds of \$378,631. Deepwell submitted a claim for the property loss however no proceeds have been received and it is anticipated that actual proceeds will be no lower than the accrued amount. The change in the nature of the restoration and the change in estimated insurance proceeds have been reflected as changes in estimates in the current interim period.

Direct fire-related expenses of \$162,119 were incurred primarily for emergency services, legal expenses, and other professional fees and these are recognized as expenses in the current quarter. 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.

## **7. Subsequent events**

On April 17, 2007 the Trust declared a cash distribution for the period April 1, 2007 to April 30, 2007 at \$0.06 per unit, to be paid on May 15, 2007 to Unitholders of record on April 30, 2007.

On April 17, 2007 the Trust adopted a Distribution Reinvestment Plan (the "Plan"). Eligible unitholders may elect to participate in the Plan commencing with the monthly cash distribution payable on May 15, 2007. The Plan 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. either by acquiring Trust units issued from treasury at 95 percent of the average market price (as defined in the Plan) or by acquiring Trust units at prevailing market rates.