



---

## 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 May 15, 2007 and should be read in conjunction with the Trust's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2007 and in conjunction with the Trust's MD&A and audited consolidated financial statements for the period from April 27, 2006 to December 31, 2006. This MD&A discusses operations and events for the three-month period ended March 31, 2007. Unless otherwise noted, references to the "period" or "quarter" in this MD&A refer to the three-month period ended March 31, 2007. Because the Trust commenced operations on April 27, 2006, no comparative financial figures or discussion can be provided for the previous year's comparable quarter.

---

### 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);
- Funds from operations, which refers to cash flow from operating activities before changes in non-cash working capital; and
- Normalized net income, which refers to net income excluding expenses and losses relating to the December 7, 2006 fire at Grande Cache.

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 through increasing capacity and services provided at existing facilities;
- Operational efficiency: Attain and maintain efficient operations and a high standard of customer service within a safe working environment; and
- Environmental stewardship: Meet or exceed regulatory requirements and industry standards.

---

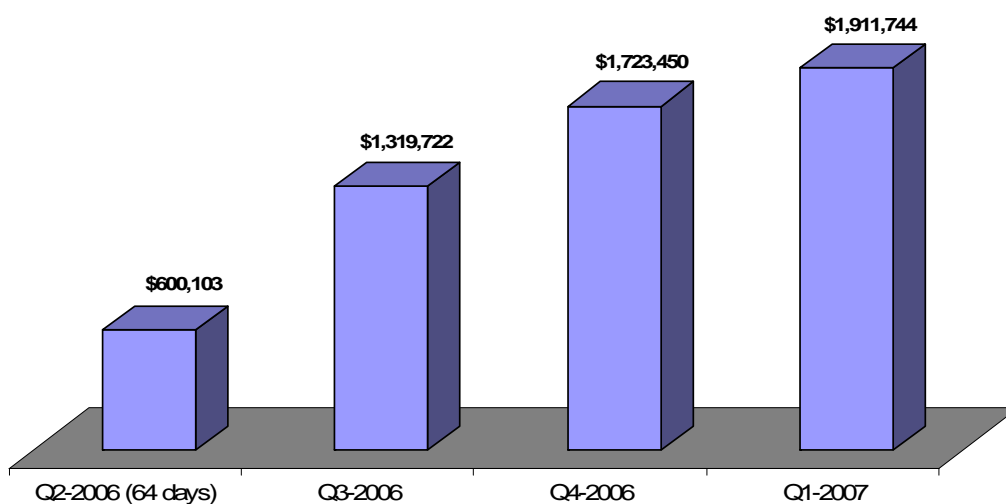
## Selected financial information

---

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

<b>Financial Highlights</b>	For the three months ended March 31, 2007	
Revenue	\$	4,427,510
Operating costs		1,919,221
<b>Gross Margin</b>		<b>2,508,289</b>
Selling and administrative		596,545
<b>Earnings before interest, taxes, depreciation &amp; amortization (EBITDA)</b>		<b>1,911,744</b>
Depreciation, accretion and amortization		922,669
Unit-based compensation		175,137
Interest		205,561
Loss on sale of property and equipment		7,261
Loss on write-off of property and equipment (net of accrued insurance proceeds)		367,701
Fire related expenses		162,119
Future income taxes		(24,550)
<b>Net income</b>		<b>95,846</b>
Add:		
Depreciation, accretion and amortization		922,669
Unit-based compensation expense		175,137
Loss on sale of property and equipment		7,261
Loss on write-off of property and equipment		746,332
Future income taxes		(24,550)
<b>Funds from operations</b>	<b>\$</b>	<b>1,922,695</b>

## QUARTERLY EBITDA



<b>Financial Highlights (continued)</b>	For the three months ended March 31, 2007
Net income	\$ 95,846
add back:	
Loss on write-off of property and equipment (net of accrued proceeds)	367,701
Fire related expenses	162,119
<b>Normalized net income</b>	<b>\$ 625,666</b>
Per unit, basic	0.14
Per unit, diluted	0.14
<b>Net income</b>	<b>\$ 95,846</b>
Per unit, basic	0.02
Per unit, diluted	0.02
<b>EBITDA</b>	<b>\$ 1,911,744</b>
Per unit, basic	0.44
Per unit, diluted	0.44
<b>Funds from operations</b>	<b>\$ 1,922,695</b>
Per unit, basic	0.44
Per unit, diluted	0.44
<b>Cash distributions paid to Unitholders</b>	<b>\$ 1,251,915</b>
Per unit, basic	0.29
Per unit, diluted	0.29
<b>Cash distributions declared to Unitholders</b>	<b>\$ 1,095,970</b>
Per unit, basic	0.25
Per unit, diluted	0.25
Gross margin as a percentage of revenue	57%
Selling and administrative as a percentage of revenue	13%
EBITDA as a percentage of revenue	43%
Capital expenditures	\$ 776,186
Total assets, end of period	\$ 54,110,875
Long-term debt , end of period (includes current portion)	\$ 12,966,548
Trust units, end of period	\$ 40,440,860
Weighted average Trust units, basic	4,356,000
Weighted average Trust units, diluted	4,356,000

Revenue for the period was \$4,427,510, with a gross margin of \$2,508,289 (57 percent of revenue), EBITDA of \$1,911,744 (43 percent of revenue) and net income of 95,846. After adjusting for the impact of losses and expenses relating to the fire at Grande Cache the fire, normalized net income for the period was \$625,666.

On a basic and diluted per unit basis, net income for the period was \$0.02 per unit and funds from operations were \$0.44 per unit. Basic and diluted distributions declared to unitholders in the quarter were \$1,095,970 or \$0.25 per unit. Distributions paid during the quarter were \$1,251,915 or \$0.29 per unit, basic and diluted.

---

## **Results of operations**

---

### **Revenue**

All facilities experienced strong demand for services during the period. Revenues for the quarter were \$4,427,510, generated approximately 64 percent from processing and disposal fees and 36 percent from the sale of recovered oil. Revenues exceeded management's expectations primarily due to gains at Deepwell's Rycroft facility. The Grande Cache facility performed reasonably well considering the operational limitations in January due to the December fire (discussed in the Trust's 2006 annual report). The Mayerthorpe facility continued to meet management's expectations.

### **Expenses**

#### **Operating expenses**

Operating expenses were \$1,919,221 for the quarter and the relationship to revenues remained consistent with management's expectations. Operating expenses include \$656,820 in oil credits repaid to customers, which mitigates the impact of changes to 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 expenses**

Selling and administrative expenses for the quarter were \$596,545 or 13 percent of revenue and were consistent with management's expectations.

#### **Depreciation, amortization and accretion**

Depreciation, amortization and accretion expense was \$922,669 for the period and consisted of depreciation of fixed assets of \$801,053, accretion of \$15,454, amortization of intangible assets of \$82,234, and amortization of deferred financing charges of \$23,928. Intangible assets consist of regulatory approvals, customer relationships and non-competition agreements.

### **Interest**

Total cash interest expense for the quarter was \$205,561, comprised of interest on long-term debt of \$188,061 and interest on the Trust's operating loan of \$17,500. 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 quarter ranged from 0.125 percent to 0.625 percent over the lender's prime rates.

### **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.

### **Grande Cache Fire**

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.

#### **Income taxes**

The trust recognized a future income tax recovery of \$24,550 for the quarter.

---

#### **Distributions to Unitholders**

---

During the quarter, distributions declared to unitholders were \$1,095,970, and distributions paid were \$1,251,915. On March 19, 2007 the Trust announced a change in the monthly distribution rate and that the cash distribution for the period of March 1 to March 31, 2007 had been set at \$0.06 per Trust unit. This cash distribution was paid on April 13, 2007 to unitholders of record on March 30, 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. In further efforts to retain more cash for growth, and to provide an opportunity for investors to reinvest in the Trust, Deepwell has adopted a Distribution Reinvestment Plan.

---

#### **Investing activities**

---

Net cash used in investing activities during the quarter was \$2,069,122, consisting of capital expenditures of \$770,917, a change in non-cash investing working capital of \$1,284,617, security deposit interest, and proceeds from the sale of a plant truck.

#### **Capital expenditures**

In the first quarter of 2007 the Trust invested in property and equipment valued at \$770,917. During the period, \$557,190 was invested in the reconstruction of property and equipment damaged during the December 7, 2006 fire at Grande Cache. Other investments were primarily to improve wellhead pressure and complete a boiler installation at Grande Cache, and for various engineering and future site costs.

---

#### **Unitholders' equity**

---

##### **Trust unit option plan**

As at March 31, 2007 a total of 301,000 options issued pursuant to the Trust incentive stock option plan ("Option Plan") were outstanding. 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 ranged from \$9.33 to \$9.98 per unit and the weighted average exercise price of granted options was \$9.34 per unit. The Trust recorded unit option compensation expense and contributed surplus of \$175,136 during the period.

---

### **Related party transactions**

---

During the period the Trust made payments in the amount of \$6,176 to a partnership of which one of the partners is a Director of Deepwell Energy Services Ltd. and a Trustee of Deepwell Energy Services Commercial Trust. The payments were made for settlement of legal expenses outstanding in accounts payable and accrued liabilities at December 31, 2006. The amount currently outstanding is nil.

---

### **Liquidity**

---

As at March 31, 2007, the Trust had issued cheques in excess of bank balance of \$1,249,226. The Trust also has credit facilities in place in the aggregate of \$17,500,000.

Net cash provided by financing activities for the quarter was \$198,568. As at March 31, 2007, the Trust had drawn \$13,000,000 on its long-term credit facility, an increase of \$1,500,000 from December 31, 2006. Deferred financing costs of \$17,500 were paid relating to an amendment of the Trust's credit facilities. A total of \$23,928 of deferred financing costs was amortized during the period. Other financing activities include the payment of \$1,251,915 in distributions to Unitholders related to the periods from December 1, 2006 to February 28, 2007.

### **Credit facilities**

As at March 31, 2007, the borrowing base for the demand revolving loan was \$1,719,079 and the amount drawn was \$472,500. As at March 31, 2007 an aggregate of \$13,000,000 was drawn on the revolving term loan.

---

### **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.

<b>Summary of Quarterly information</b>	Three months ended Mar 31, 2007	Three months ended Dec 31, 2006	Three months ended Sep 30, 2006	64 days ended Jun 30, 2006
Revenue	\$ 4,427,510	\$ 4,059,296	\$ 3,808,795	\$ 1,778,929
Operating costs	1,919,221	1,605,492	2,040,285	948,937
<b>Gross Margin</b>	2,508,289	2,453,804	1,768,510	829,992
Selling and administrative	596,545	730,354	448,788	229,889
<b>Earnings before interest, taxes, depreciation &amp; amortization (EBITDA)</b>	1,911,744	1,723,450	1,319,722	600,103
Depreciation, amortization and accretion	922,669	993,621	712,640	480,317
Unit-based compensation	175,137	197,812	53,620	-
Interest	205,561	149,325	102,469	107,946
Loss on sale of property and equipment	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 taxes	(24,550)	(47,799)	-	-
<b>Net income (loss)</b>	95,846	396,196	450,993	11,840
Add:				
Depreciation, amortization and accretion	922,669	993,621	712,640	480,317
Unit-based compensation	175,137	197,812	53,620	-
Loss on sale of property and equipment	7,261	34,295	-	-
Loss on write-off of property and equipment	746,332	-	-	-
Future income taxes	(24,550)	(47,799)	-	-
<b>Funds from operations</b>	\$ 1,922,695	\$ 1,574,125	\$ 1,217,253	\$ 492,157
<b>Net income (loss) per trust unit:</b>				
Basic	\$ 0.02	\$ 0.09	\$ 0.10	\$ 0.00
Diluted	\$ 0.02	\$ 0.09	\$ 0.10	\$ 0.00
<b>Weighted average number of Trust Units outstanding</b>				
Basic	4,356,000	4,356,000	4,356,000	4,356,000
Diluted	4,356,000	4,356,000	4,477,793	4,356,000

## Outlook

The Trust has grown EBITDA each quarter since inception and the outlook is positive. Demand for services has remained strong to date in 2007, although an early spring break-up softened results in March and April. The Trust's management expects that facilities will operate at or near capacity after spring break-up.

The addition of the second Class 1b disposal well at the Rycroft facility is expected to be complete in the second quarter, and indications are that demand will be strong enough to support the additional capacity.

Deepwell is also in the final stages of the approval process with the Alberta Energy and Utilities Board (EUB) for its fourth facility, near Claresholm, Alberta. Deepwell believes that it is nearing approval of the facility, although no date for approval has been provided by the EUB. Construction commencement cannot be confirmed at this time, but Deepwell remains optimistic that construction of the facility will be completed during 2007.

---

## **Accounting policies**

---

The unaudited 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.

---

## **Internal controls**

---

During the quarter, no changes were made that materially affected, 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.