

Consolidated Financial Statements of

DEEPWELL ENERGY SERVICES TRUST

As at, and for the 64-day period
ended June 30, 2006

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 64-day period ended June 30, 2006.

The accompanying unaudited interim financial statements of the Trust at June 30, 2006 have been prepared and are the responsibility of the Trust's management.

The Trust's independent auditor has not performed a review of these statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

DEEPWELL ENERGY SERVICES TRUST

CONSOLIDATED BALANCE SHEET (unaudited)

AS AT JUNE 30, 2006

Assets

Current assets:

Cash and cash equivalents	\$	455,921
Accounts receivable		1,836,955
Inventory		123,129
Prepaid expenses		90,295
		<u>2,506,300</u>

Deposits		104,310
Property and equipment		34,946,579
Intangible assets		3,572,762
Goodwill		6,196,849
Financial security deposits		1,219,648
Deferred financing costs		69,388
		<u>46,109,536</u>

\$ 48,615,836

Liabilities and Unitholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$	793,482
Long term debt - current		194,444
		<u>987,926</u>

Long term debt		6,805,556
Asset retirement obligations		687,051
		<u>7,492,607</u>

Unitholders' equity:

Unitholders' capital		<u>40,568,721</u>
Accumulated distributions		(445,258)
Net earnings for the period		11,840
Accumulated deficit		<u>(433,418)</u>

\$ 48,615,836

See accompanying notes to financial statements.

On behalf of the board of trustees:

Trustee

Trustee

DEEPWELL ENERGY SERVICES TRUST

CONSOLIDATED STATEMENT OF EARNINGS (unaudited)

FROM COMMENCEMENT OF OPERATIONS ON APRIL 27, 2006 TO JUNE 30, 2006

Revenue:	\$	1,778,628
Expenses:		
Direct operating		948,937
Selling and administrative		229,889
		<u>1,178,826</u>
Earnings before depreciation, amortization, accretion and interest		599,802
Depreciation, amortization and accretion (Note 4)		469,705
Financing		<u>118,557</u>
Earnings before undernoted item:		11,540
Interest income		300
Net Income	\$	<u>11,840</u>
Accumulated distributions		(445,258)
Accumulated deficit		<u>(433,418)</u>
Net earnings per trust unit (basic and diluted)	\$	0.0027

DEEPWELL ENERGY SERVICES TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited -internally prepared)
FROM COMMENCEMENT OF OPERATIONS ON APRIL 27, 2006 TO JUNE 30, 2006

Cash provided by (used in):

Operations

Net earnings	\$	11,840
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Items not involving cash:

Depreciation, amortization and accretion		480,317
		<u>492,157</u>

Changes in non-cash working capital:

Accounts receivable		455,477
Accounts payable and accrued liabilities		381,071
Prepaid expenses		62,905
Inventory		(92,891)
Deposits		(78,956)
		<u>727,606</u>

Investments:

Security deposits		(1,219,648)
Business acquisition - PDS/Rycroft		(42,833,889)
Purchase of Property, plant and equipment		(193,768)
		<u>(44,247,305)</u>

Financing:

Proceeds from issuance of units		37,008,721
Proceeds from long term debt		6,920,000
Distributions to unitholders		(445,258)
		<u>43,483,463</u>

Increase in cash flow and cash equivalents		455,921
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Cash and cash equivalents - beginning of period		-
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Ending cash balance	\$	<u>455,921</u>
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**DEEPWELL ENERGY SERVICES TRUST
NOTES TO FINANCIAL STATEMENTS
FROM COMMENCEMENT OF OPERATIONS ON APRIL 27, 2006 TO JUNE 30, 2006**

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. The principal undertaking of the Trust is to engage in the oilfield waste business indirectly through its wholly owned subsidiary, Deepwell Energy Services LP (the "Company").

On April 27, 2006, the Trust completed its private placement offering (the "Offering") whereby 4,000,000 Trust units were issued at \$10 per Trust unit for gross proceeds of \$40 million.

2. Significant accounting policies

(a) Basis of presentation

The combined 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 periods. The most significant estimates relate to depreciation, asset retirement obligations, and accretion. 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.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Trust and its subsidiaries. All subsidiaries are directly or indirectly wholly owned and their operations are fully reflected in the consolidated financial statements. All intercompany transactions have been eliminated.

(c) Cash and cash equivalents

Cash consists of cash on deposit, and cash held in trust.

(d) Inventory

Inventory consists of oilfield supplies and crude oil, which are valued at the lower of weighted average cost and net realizable value.

(e) Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation is prorated from the month of purchase or disposal and is provided over the estimated useful lives of the assets using the following methods and rates:

Assets	Method	Rate
Buildings/Tanks	Declining balance	4%
Oilfield Services Equipment	Declining balance	20%
Vehicles	Declining balance	20%
Deposit Wells	Straight-line over estimated life of well	5-20 years
Site Improvements	Declining balance	8%
Pipelines	Declining balance	5%
Furniture and Fixtures	Declining balance	20%
Computer Equipment	Declining balance	30%
Asset retirement obligations	Straight-line	20 years
Leasehold improvements	Straight-line	5 years
Future Sites	No amortization	-

(f) Long lived assets

Management assesses the carrying value of long lived assets for impairment when events or circumstances indicate that the carrying value of those assets may not be recoverable. Such events or circumstances include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

(g) Intangibles

Intangible assets are comprised of values attributable to customer relationships, assembled workforce, certificates of approval or completion and non-competition agreements. Amortization of these assets is based on the term or estimated life of the asset and is included in amortization.

(h) Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of net assets acquired and is not subject to amortization. Goodwill is tested for impairment annually to determine if events or circumstances indicate the asset might be impaired. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying value of goodwill exceeds its estimated value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of the goodwill.

(i) Asset retirement obligation

These statements reflect the new Canadian accounting standards for future environmental clean up and site closure costs. Under the standard, the Trust recorded an estimate of the discounted cash flows of the cleanup and site closure costs. Management periodically reviews the estimates to ensure adequacy of the liability.

(j) Revenue Recognition

The Trusts' services include the processing and separation of oilfield waste, the disposal of oilfield waste water and solids, and the custom treating of oil. Revenue is recorded in the period when collectibility is reasonably assured and when treatment services are provided or performed. Upon completion of treatment services, no further obligations to the customers exist. Processing and disposal revenue are recorded at the time of sale. Oil sales are recorded at the time of sale.

(k) Segmented Information

Deepwell views its operations as a single business segment due to the integration of the operations, common customer bases, geographic concentration in the Western Sedimentary Basin, and the focus on oilfield waste management.

(l) Income Taxes

The Trust and its subsidiaries are taxable entities under the Income Tax Act but are taxable only on income that is not distributed to the Unitholders. As the Trust has distributed all of its taxable income to the Unitholders no provision for income tax has been made in these consolidated financial statements.

(m) Deferred financing costs

Costs associated with the establishment of long-term debt arrangements are deferred and amortized using the straight line method over the term of the debt. Costs are included in others assets and amortization is included in interest expense.

(o) Earnings per unit

Basic earnings per unit is calculated using the weighted average number of Trust units.

3. Business Acquisitions

On April 27, 2006, a subsidiary of the Trust purchased all of the issued and outstanding shares of Deepwell Disposal Services Inc. in exchange for 356,000 Class B Trust Units valued at \$3,560,000 and, on a consolidated basis, incurred transaction costs of \$26,523.

On April 28, 2006, a subsidiary of the Trust purchased the oilfield waste management assets of Producers Disposal Services Ltd. and Rycroft Disposal Well Inc. for cash consideration of \$42,754,509, net of interim adjustments of \$1,245,491 and the Trust incurred transaction costs of \$79,380. A subsidiary of the Trust acquired all of the assets of PDS and Rycroft excluding security deposits held by the Alberta Energy and Utilities Board. The Trust assumed the asset retirement obligations of PDS and Rycroft; however the Trust assumed only those operating liabilities accruing to PDS and Rycroft subsequent to March 31, 2006. The Trust also did not assume any bank indebtedness or amounts due to affiliates.

Purchase price	PDS and Rycroft	Deepwell Disposal	Total
Trust Units issued	\$ -	\$ 3,560,000	\$ 3,560,000
Cash	42,754,509	-	42,754,509
Transaction costs	79,380	26,523	105,903
	<u>\$ 42,833,889</u>	<u>\$ 3,586,523</u>	<u>\$ 46,420,412</u>

Allocation of purchase price	PDS and Rycroft	Deepwell Disposal	Total
Working Capital	\$ 1,866,010	\$ 173,232	\$ 2,039,242
Property, plant and equipment	34,937,000	175,000	35,112,000
Intangibles	3,496,000	202,000	3,698,000
Goodwill	3,205,147	2,991,702	6,196,849
Due from the Trust	-	26,523	26,523
Deposits	-	25,354	25,354
Asset retirement obligations	(670,268)	(7,288)	(677,556)
	<u>\$ 42,833,889</u>	<u>\$ 3,586,523</u>	<u>\$ 46,420,412</u>

These acquisitions were accounted for using the purchase method whereby the assets acquired and the liabilities assumed are recorded at their fair values. These Financial Statements have been prepared using the estimated fair values of assets and liabilities acquired from PDS and Rycroft as at March 31, 2006, adjusted for working capital adjustments from the interim statement of adjustments from the acquisition of the assets of PDS and Rycroft, and adjusted for working capital adjustments for operations from April 1 to

April 28, 2006. The Trust and Deepwell Disposal were related parties at the time of the Deepwell Disposal acquisition, and the Pro Forma Financial Statements have been prepared using the estimated fair values of assets and liabilities acquired from Deepwell Disposal as at March 31, 2006, adjusted for working capital adjustments for operations from April 1 to April 27, 2006. Estimated fair values of property, plant and equipment, intangibles and goodwill for both acquisitions were provided by an independent valuator.

4. Property, plant and equipment:

As at June 30, 2006	Cost	Accumulated Depreciation	Net Book Value
Buildings/Tanks	4,404,860	30,872	4,373,988
Oilfield Service Equipment	1,578,468	42,303	1,536,165
Vehicles	228,000	7,904	220,096
Deposit Wells	25,753,000	356,729	25,396,271
Site Improvements	941,500	13,131	928,369
Pipelines	1,990,000	17,372	1,972,628
Furniture and Fixtures	34,721	684	34,037
Computer Equipment	45,735	712	45,023
Future sites	440,000	-	440,000
	<u>35,416,284</u>	<u>469,705</u>	<u>34,946,579</u>
Intangibles	3,698,000	118,557	3,579,443
	<u>\$39,114,284</u>	<u>\$588,262</u>	<u>\$38,526,022</u>

5. Income Taxes

The Trust will be taxable on its net income determined under the Tax Act (Canada) for each taxation year (which will be the calendar year) less the portion of net income that the Trust deducts in respect of amounts payable by the Trust in the year to its Unitholders. Because cash distributions exceeded net income for the period ending June 30, 2006, no provision has been made for income taxes payable.

6. Credit Facilities

The Trust established credit facilities on April 27, 2006 with a Canadian chartered bank (the "Credit Facilities") which consist of the following:

a) Demand Loans

\$2,000,000 demand revolving operating loan, interest bearing at lender's prime plus 0.125%, with no principal repayments required until May 2007 unless otherwise extended. As of June 30, 2006 the borrowing base for the demand loan was at \$1,192,250 and the amount drawn was nil.

b) Long-Term Debt

\$15,500,000 364-day extendible revolving term loan committed to May 31, 2010. No set principal repayment has been established, having the ability to repay, borrow and repay again until the 364 day term expires. Interest is based on the Funded Debt to EBITDA ratio calculation representing the lender's prime rate plus 1/8 of 1 (one) percent per annum (P + 0.125% p.a.) and is calculated monthly and paid in arrears. As at June 30, 2006, an aggregate of \$7,000,000 principal amount was drawn on the loan.

As security for the Credit Facilities, Deepwell Energy Services LP (“Deepwell LP”), a subsidiary of the Trust, granted lenders a security interest over all of its assets. In addition, each of the Trust, Deepwell Energy Services Commercial Trust and Deepwell Energy Services Ltd. 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 above mentioned guarantees, the lenders, as creditors, will have a prior ranking claim relative to the Unitholders.

7. Asset retirement obligation

It is management's estimate that the remaining lives of the disposal sites are approximately 20 years, at which time the cost to close the disposal sites will approximate \$3.43 million. The discounted cash flows required to retire the assets was determined using a rate of 8.50% which was determined by the risk free rate of 4.20% plus a 4.30% credit risk premium. The accrued liability for closure of the disposal sites is recognized over the estimated remaining life of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets and are depreciated over its estimated useful life.

Changes in the asset retirement obligation balance is summarized below:

June 30, 2006	
Asset retirement obligations, beginning of period	\$677,556
Accretion expense	9,495
Asset retirement obligations, end of period	\$687,051

8. Related Party Transactions

During the period the Trust made payments in the amount of \$174,351 for legal expenses to a Partnership in which a Deepwell Trustee is a partner. These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the parties.

9. Unitholders' equity

(a) Authorized:

The Trust is authorized to issue an unlimited number of Trust units.

(b) Issued:

The Trust issued 4,000,000 Class B Trust Units on April 27, 2006 for proceeds of \$37,008,711 net of estimated issuance costs of \$2,991,289. Also on April 27, 2006 The Trust purchased all of the issued and outstanding shares of Deepwell Disposal Services Inc. in exchange for 356,000 Class B Trust Units valued at \$3,560,000

Date	Number and Class of Trust Units	Price per unit	Proceeds
April 21, 2006	1 Class B Unit	\$10.00	\$ 10
April 27, 2006	356,000 Class B Units	\$10.00	3,560,000
April 21, 2006	4,000,000 Class B Units	\$10.00	40,000,000
			43,560,010
	Less: Estimated issuance costs		(2,991,289)
	Unitholders equity		\$ 40,568,721

(c) Escrowed Trust units

As required by National Policy 46-201 (Escrow for Initial Public Offerings), the Unitholders of the Trust have entered into an escrow agreement ("The Agreement") with CIBC Mellon and the Trust to which such Unitholders will agree to deposit 389,368 Units into escrow. The Agreement provides that 25% of the number of securities held thereunder will be released when the Trust lists its Units on a Canadian exchange, ("Listing Date") and an additional 25% of the number of units originally held thereunder shall six months, twelve months and eighteen months from the Listing Date.

(d) Unit option plan

The Trustees of the Trust have adopted an incentive unit option plan (the "Option Plan"), which provides that the Trustees may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Trust, or any subsidiary of the Trust the option to purchase Units, provided that the number of Units reserved for issuance under the Option Plan shall not exceed 10% of the units outstanding. No options had been granted as at June 30, 2006.

10. Cash Distributions

The Trust declares monthly distributions of cash to Unitholders of record as at the close of business on each Distribution Record Date. Pursuant to its policy, the Trust intends to pay distributions to its Unitholders subject to satisfying its financial covenants. Such distributions are recorded as reductions of equity upon declaration of the distribution. During the period, the Trust paid distributions to the Unitholders in accordance with the following schedule:

Period	Record Date	Date of Distribution	Cash Distributions	
			Per unit	Total
April 28-30, 2006	April 28, 2006	April 28, 2006	\$0.006 \$	27,878
May 1-31, 2006	May 30, 2006	June 15, 2006	\$0.096	417,380
Total Distributions paid during the period			\$	445,258

11. Commitments

The Trust is committed to future minimum payments under lease contracts for office space as follows:

2011	\$78,732
2012	\$156,744
2013	\$156,744
2014	\$156,744
2015	\$156,744
Thereafter	\$78,732

12. Seasonality of Operations

The Trust's operations are carried out exclusively in Western Canada. The industry's ability to move heavy equipment in exploration and production areas is dependant on weather conditions. With the onset of spring, melting snow together with frost coming out of the ground render many secondary roadways incapable of supporting heavy equipment until sufficient time has passed for them to dry out. In addition exploration areas in northern Canada are typically only accessible during winter months when the surface is frozen enough to support heavy equipment. As a result, the activity levels of the Trust are directly impacted by this seasonality, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third.

13. Subsequent Events

Three distributions have been declared and two distributions have been paid subsequent to the end of the period. On July 14, 2006, the Trust paid a cash distribution to unitholders of \$0.0958 per unit with respect to the period June 1, 2006 to June 30, 2006 at \$0.0958 per unit. On August 15, 2006, the Trust paid a cash distribution to unitholders of \$0.0958 per unit with respect to the period July 1, 2006 to July 31, 2006 at \$0.0958 per unit. The Trust has also declared a cash distribution for the period July 1, 2006 to July 31, 2006 at \$0.0958 per unit, to be paid on September 15, 2006 to unitholders of record on August 31, 2006.

On August 22, 2006, pursuant to a Prospectus dated August 18, 2006, the Trust issued 4,356,000 Trust Units, in exchange for all issued and outstanding Class B Trust Units, on a one-for-one basis.

On August 22, 2006, the Trust granted 272,000 unit purchase options to directors, officers employees and consultants at an exercise price of \$10. These options have a five year term and vest over a three year period.

On August 24, 2006, the units of the Trust began trading on the Toronto Stock Exchange under the symbol "DWL.UN".

The Trust is an unincorporated, open-ended, investment trust established under the laws of the Province of Alberta on April 21, 2006. The principal undertaking of the Trust, through its indirect wholly owned subsidiary, Deepwell Energy Services LP (Deepwell LP) is to provide oilfield waste management services to oil and natural gas production and exploration companies operating in the Western Canada Sedimentary Basin. Deepwell LP provides oilfield waste management services, including treating, processing and disposing of oilfield wastes and custom treating of oil/water emulsions. Deepwell LP operates from the three facilities, located in Mayerthorpe, Grande Cache and Rycroft, Alberta. The head office of the Trust and Deepwell LP is located in Calgary, Alberta.

Additional information about the Trust is available at www.sedar.com and on the Trust's website at www.deepwellenergy.com.

Certain statements in this press release 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 press release, 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 press release.

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 or not 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 press release 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 press release. 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.

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