



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 6, 2007 and should be read in conjunction with the Trust's unaudited interim consolidated financial statements as at and for the three months ended September 30, 2007 and in conjunction with the Trust's audited consolidated financial statements as at December 31, 2006. This MD&A discusses operations and events for the three-month period ended September 30, "2007" and unless otherwise noted, references to the "period" or "quarter" in this MD&A refer to the three-month period ended September 30, 2007. References to "2006" refer to the three months ended September 30, 2006. References to "2007" refer to the nine months ended September 30, 2007. Due to the difficulty in comparing periods of different lengths, Deepwell has not analyzed the 154 day period ending September 30, 2006.

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 of the Trust 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: 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 consolidated financial statements of the Trust.

Financial Highlights	For the three months ended Sept 30, 2007	For the three months ended Sept 30, 2006	For the nine months ended Sept 30, 2007	154 days ended Sept 30, 2006
Revenue	\$3,513,654	\$3,808,795	\$10,473,315	\$5,587,724
Operating costs	1,584,125	2,040,285	4,693,785	2,989,222
Gross Margin	1,929,529	1,768,510	5,779,530	2,598,502
Selling and administrative	520,071	448,787	1,675,765	668,065
EBITDA	1,409,458	1,319,723	4,103,765	1,930,437
Depreciation, accretion and amortization	915,875	712,640	2,736,408	1,219,156
Unit-based compensation	141,673	53,621	676,111	53,621
Interest	110,841	102,469	545,852	194,826
Gain on sale of property and equipment	-	-	(10,239)	-
Loss on write-off of property and equipment	-	-	367,702	-
Fire-related expenses	-	-	162,119	-
Future income taxes	-	-	(87,201)	-
Net income (loss)	241,069	450,993	(286,987)	462,834
Add:				
Depreciation, amortization and accretion	915,875	712,640	2,736,408	1,219,156
Unit-based compensation expense	141,673	53,621	676,111	53,621
Loss on sale of property and equipment	-	-	(10,239)	-
Loss on write-off of property and equipment	-	-	746,332	-
Future income taxes	-	-	(87,201)	-
Funds from operations	\$1,298,617	\$1,217,254	\$3,774,424	\$1,735,611
Changes in non-cash working capital	(442,031)	2,729,106	(716,908)	3,430,511
Cash flow from operating activities	\$856,586	\$3,946,360	\$3,057,516	\$5,166,122
Net income (loss)	\$241,069	\$450,993	\$(286,987)	\$462,834
Per unit, basic	0.04	0.10	(0.06)	0.11
Per unit, diluted	0.04	0.10	(0.06)	0.10
EBITDA	\$1,409,458	\$1,319,723	\$4,103,765	\$1,930,437
Per unit, basic	0.22	0.30	0.82	0.44
Per unit, diluted	0.22	0.29	0.82	0.44
Funds from operations	\$1,298,617	\$1,217,254	\$3,774,424	\$1,735,611
Per unit, basic	0.21	0.28	0.75	0.40
Per unit, diluted	0.21	0.27	0.75	0.39
Distributions paid to Unitholders	\$1,284,092	\$1,669,220	\$3,164,607	\$2,114,478
Per unit, basic	0.20	0.38	0.63	0.49
Per unit, diluted	0.20	0.37	0.63	0.48
Gross margin as a percentage of revenue	55%	46%	55%	47%
Selling and administrative as a percentage of revenue	15%	12%	16%	12%
EBITDA as a percentage of revenue	40%	35%	39%	35%
Capital expenditures	\$2,846,290	\$3,313,792	\$5,298,219	\$3,507,560
Total assets, end of period	\$55,349,356	\$51,554,944	\$55,349,356	\$51,554,944
Long-term debt, end of period (includes current portion)	\$0	\$7,000,000	\$0	\$7,000,000
Trust units, end of period	\$56,175,472	\$40,509,489	\$56,175,472	\$40,509,489
Weighted average Trust units, basic	6,324,139	4,356,000	5,015,016	4,356,000
Weighted average Trust units, diluted	6,327,260	4,477,793	5,015,143	4,427,827

Revenue for the quarter was \$3,513,654 (\$3,808,795 - 2006), with a gross margin of \$1,929,529 or 55 percent of revenue (\$1,768,510 or 46 percent of revenue - 2006), EBITDA of \$1,409,458 or 40 percent of revenue, (\$1,319,723 or 37 percent of revenue - 2006) and net income of \$241,069 (\$450,993 - 2006).

On a basic and diluted per unit basis, net income for the period was \$0.04 per unit, (\$0.10 - 2006) and funds from operations were \$0.21 per unit (\$0.28 per unit basic and \$0.27 per unit diluted - 2006). Basic and diluted distributions declared to Unitholders in the quarter were \$1,284,092 or \$0.20 per unit, (\$1,669,220 or \$0.38 per unit basic and \$0.27 per unit diluted - 2006).

Results of operations

Revenue

Revenues for the quarter were \$3,513,654 (\$3,808,795 - 2006) generating 67 percent (65 percent - 2006) from processing and disposal fees and 33 percent (37 percent - 2006) from the sale of recovered oil. Deepwell experienced a reduction of \$295,141 (8 percent) in overall revenue from the third quarter of 2006. Unusually inclement weather conditions led to more road bans than are generally seen in the third quarter – limiting customers' ability to move equipment and transport waste to Deepwell's facilities. Gross oil revenues decreased by 49 percent, or \$760,000, primarily due to a reduction of waste and frac oil volumes during the quarter. Water revenues increased by 18 percent or \$310,000 due primarily to increased capacity at the Trust's Rycroft facility. Waste revenues increased from the prior year's quarter by 27 percent or \$194,000 due to the receipt of more dry solids. Flushes and trucking revenues decreased slightly from the third quarter of 2006.

Operating expenses

Operating expenses were \$1,584,125 for the third quarter of 2007 (\$2,040,285 - 2006) and the relationship to revenues remained consistent with management's expectations. The decrease is primarily due to lower oil credits repaid to customers on recovered oil. Operating expenses for the quarter include \$134,757 (\$574,121 - 2006) in oil credits repaid to customers. 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 \$520,071 or 15 percent of revenue (\$448,787 or 12 percent of revenue - 2006) exceeding management's expectations primarily due to public issuer-associated costs and computing costs.

Depreciation, accretion and amortization

Depreciation, accretion and amortization expenses totalled \$915,875 for the third quarter (\$712,640 - 2006) and were in line with management's expectations. During the third quarter of 2007, the Trust recorded depreciation on fixed assets of \$808,642, (\$546,006 - 2006), accretion of \$15,454 (\$14,243 - 2006), amortization of intangible assets of \$82,234, (\$136,803 - 2006), and amortization of deferred financing charges of \$9,545 (\$15,588 - 2006). Intangible assets consist of regulatory approvals, customer relationships, and non-competition agreements. Accretion represents the recognition of future closure costs for facilities.

Interest

Total cash interest expense for the period was \$110,841 (\$102,469 - 2006), comprised of interest on long-term debt of \$99,606 (\$97,868 - 2006) and interest on short-term debt of \$11,235 (\$4,601 - 2006). 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.

Investing activities

Net cash used in investing activities during the period was \$1,507,598 (\$3,556,231 - 2006).

Capital expenditures

In the third quarter of 2007, the Trust invested in property and equipment at a cost of \$2,846,290 (\$3,331,792 - 2006). A significant portion of the capital expenditures were for the Trust's first expansion facility near Claresholm, Alberta. Construction of the Claresholm Facility is continuing and proceeding well and expectations are that the facility will be operational in the first quarter of 2008, with construction costs in line with the previous estimates of

\$9,000,000. Other capital investments during the third quarter include site improvements, oilfield service equipment, buildings, pipelines, computing equipment and in the development of a production accounting and billing system.

Unitholders' equity

Trust unit option plan

As at September 30, 2007, a total of 506,971 options issued pursuant to the Trust incentive unit option plan ("Option Plan") were outstanding (nil – September 2006). On September 17, 2007, 130,171 Trust Unit options were granted at an exercise price of \$6.30. At September 30, 2007, 170,133 options were exercisable and the weighted average contractual life remaining was 4.29 years. The total number of outstanding options shall not exceed 10 percent of the outstanding trust units. The options (except the 73,800 issued in the second quarter) 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 September 30, 2007, the exercise prices of outstanding options ranged from \$6.30 to \$9.62 per unit and the weighted average exercise price of granted options was \$7.93 per unit. The Trust recorded unit option compensation expense and contributed surplus of \$141,673 during the period.

Private Placement and rights offering

On July 9th, 2007, Deepwell closed a private placement of 582,362 units for gross proceeds of \$3,499,996. On July 31, 2007, the Trust completed its rights offering and issued 2,180,515 units for gross proceeds of \$13,104,895. Combined gross proceeds of the offerings were \$16,604,891 with expenses of \$1,059,725 for total net proceeds of \$15,545,166. Proceeds were initially used to repay outstanding debt, which can be redrawn. The purposes of the offerings were to fund the estimated \$9,000,000 construction cost of an oilfield waste management facility near Claresholm, Alberta, to fund improvements and expansions at existing facilities, to fund preliminary costs of future facilities and for general corporate purposes.

Distributions to Unitholders

During the quarter, distributions declared to Unitholders were \$1,284,092 (\$1,669,220 - 2006).

Distribution re-investment plan

During the quarter 17,508 units were issued under the Trust's distribution re-investment plan at an average price of \$6.22 per unit.

Liquidity

As at September 30, 2007, the Trust had issued cheques in excess of bank balance of \$898,261. On the date of this MD&A the Trust has credit facilities in place of \$17,500,000.

Net cash received from financing activities for the quarter was \$913,017 (net cash used by financing activities of \$1,768,279 - 2006). As at September 30, 2007, the Trust had \$15,500,000 available on its long-term credit facility. A total of \$9,545 of deferred financing costs was amortized during the quarter. Other financing activities for the quarter include the payment of \$1,284,092 in distributions to Unitholders.

Credit facilities

As at September 30, 2007, the borrowing base for the demand revolving loan was \$1,877,268 and the amount drawn was \$850,000.

Summary of Quarterly Results

The following table shows selected financial information for the past five 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 Sep 30, 2007	Three months ended Jun 30, 2007	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	\$3,513,654	\$2,532,151	\$4,427,510	\$4,059,296	\$3,808,795	\$1,778,929
Operating costs	1,584,125	1,190,739	1,919,221	1,605,492	2,040,285	948,937
Gross Margin	1,929,529	1,341,412	2,508,289	2,453,804	1,768,510	829,992
Selling and administrative	520,071	558,849	596,545	730,354	448,787	229,889
EBITDA	1,409,458	782,563	1,911,744	1,723,450	1,319,723	600,103
Depreciation, amortization and accretion	915,875	897,865	922,669	993,621	712,640	480,317
Unit-based compensation	141,673	359,600	175,137	197,812	53,621	-
Interest	110,841	229,450	205,561	149,325	102,469	107,946
Loss 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 taxes	-	(62,651)	(24,550)	(47,799)	-	-
Net income (loss)	241,069	(624,201)	95,845	396,196	450,993	11,840
Add:						
Depreciation, amortization and accretion	915,875	897,865	922,669	993,621	712,640	480,317
Unit-based compensation	141,673	359,600	175,137	197,812	53,621	-
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 taxes	-	(62,651)	(24,550)	(47,799)	-	-
Funds from operations	1,298,617	553,113	1,922,694	1,574,125	1,217,254	492,157
Changes in non-cash working capital	(442,031)	1,404,547	(1,324,968)	(373,713)	2,729,106	1,219,763
Cash flow from operating activities	\$856,586	\$1,957,660	\$597,726	\$1,200,412	\$3,946,360	\$1,711,920
Net income (loss) per trust unit:						
Basic	\$0.04	(\$0.14)	\$0.02	\$0.09	\$0.10	\$0.00
Diluted	\$0.04	(\$0.14)	\$0.02	\$0.09	\$0.10	\$0.00
Weighted average number of Trust Units outstanding						
Basic	6,324,139	4,357,724	4,356,000	4,356,000	4,356,000	4,356,000
Diluted	6,327,260	4,357,744	4,356,000	4,356,000	4,477,793	4,356,000

Outlook

Deepwell continues its commitment to improving results at the three existing facilities. The main tools for improving results are the targeting of higher-yield waste streams and increasing capacities by adding well capacity through the addition of new disposal wells, or stimulation to improve performance of existing wells. In addition, Deepwell believes that approval by Alberta Energy and Utilities Board (EUB) of the Rycroft Facility as an Oilfield Waste Management Facility is forthcoming. Currently, Rycroft is classified as an Injection Facility and upgrading the approval to an Oilfield Waste Management Facility will permit Rycroft to receive additional waste streams, at higher prices and permit the facility to offer custom treating.

Consistent with Deepwell's focus from inception are the efforts to grow through addition of greenfield facilities. Construction of the Claresholm facility is anticipated to be complete in January 2007 with final costs of construction near \$9 million as previously estimated. Claresholm 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 facility will include equipment and processes which are anticipated to provide improved operating efficiencies and environmental advantages over Deepwell's existing facilities. Deepwell has also initiated the approval process for its fifth facility and is prospecting for suitable sites for construction beyond 2008.

On October 25, 2007 the Premier of Alberta delivered a proposal for a new royalty framework. The proposals include increases to royalties levied on natural gas, conventional oil and oil sands produced in Alberta with most changes proposed to take effect in January 2009. Deepwell's revenues are not directly impacted by royalties or the proposed changes to royalties. However, these recommendations, if enacted as proposed, may have a negative impact on Deepwell's customers and may impact oil and natural gas activity in Alberta. Because Deepwell's cash flow is more

dependent on activity in the production of oil and natural gas than on exploration, management believes that impacts may be less pronounced than in other oilfield service sectors.

Traditionally the strongest demand for Deepwell's services is in the fourth and first quarters of the year, and Deepwell anticipates that trend to continue for the fourth quarter of 2007 and the first quarter of 2008. Deepwell is exposed to the price of oil due to sales of recovered oil and anticipates that prices will continue to be volatile but strong through the end of 2007. Deepwell anticipates that the cash flow of the Trust will be sufficient to continue distributions at the current level through the end of 2007.

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 natural 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.