

BlackWatch Energy Services Trust
Consolidated Balance Sheets
(\$ thousands)
(unaudited)

	September 30, 2006	June 23, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,956	\$ 1
Accounts receivable	16,339	-
Inventory (Note 4)	1,613	-
Prepaid expenses and deposits	1,403	-
Income taxes recoverable	33	-
Other current assets (Note 17)	2,077	-
	35,421	1
Property and equipment (Note 5)	73,093	-
Intangible assets (Note 6)	14,163	-
Goodwill (Note 3)	151,114	-
	\$ 273,791	\$ 1
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 9b)	\$ 6,489	-
Income taxes payable (Note 3)	3,177	-
Distributions payable (Note 12)	2,217	-
Bank debt (Note 7)	26,554	-
Current portion of obligations under capital leases and finance contracts (Note 8)	954	-
	39,391	-
Obligations under capital leases and finance contracts (Note 8)	932	-
	40,323	-
UNITHOLDERS' EQUITY		
Trust units (Note 10)	238,947	1
Contributed surplus (Note 11)	190	-
Accumulated earnings (deficit) (Note 12)	(5,669)	-
	233,468	1
	\$ 273,791	\$ 1

See accompanying notes to unaudited interim consolidated financial statements

BlackWatch Energy Services Trust
Consolidated Statement of Income (Loss) and Deficit
(\$ thousands except per unit amounts)
(unaudited)

	Initial period ended September 30, 2006 (Note 1)
Revenue	
Service	\$ 10,926
Product	195
Rental	20
	11,141
Expenses	
Operating expenses	8,121
Selling, general and administration	1,586
Depreciation and Amortization (Note 5 and 6)	2,347
Unit based compensation (Note 9)	49
Interest on debt	317
	12,420
Income (loss) before other items	(1,279)
Other income	(23)
Other interest	(23)
	(1,233)
Income (loss) from operations before income taxes	(1,233)
Net income (loss) for the period	(1,233)
Distributions for the period	(4,436)
Accumulated earnings (deficit), beginning of period	-
Accumulated earnings (deficit), end of period	\$ (5,669)
Earnings (loss) per unit - basic (Note 10)	(0.05)
Earnings (loss) per unit - diluted (Note 10)	(0.05)

BlackWatch Energy Services Trust
Consolidated Statement of Cash Flow
(\$ thousands)
(unaudited)

Initial period ended
September 30, 2006
(Note 1)

Operating Activities	
Income (loss) before other items	\$ (1,233)
Items not requiring an outlay of cash:	
Depreciation and amortization	2,347
Funds from operations	1,114
Change in non-cash working capital (Note 20)	(4,084)
	(2,970)
Financing Activities	
Issue of Trust units, net of issue costs	28,485
Increase (decrease) in capital lease obligation	(576)
Increase (decrease) in short-term debt	26,554
Increase (decrease) in shareholder loans (Note 3)	(4,752)
Increase (decrease) in long term debt (Note 3)	(25,513)
Distributions to unitholders	(2,219)
	21,979
Investing Activities	
Business acquisitions	70
Purchase of property, plant and equipment	(5,124)
	(5,054)
Increase in cash	13,955
Cash at beginning of period	1
Cash at end of period	\$ 13,956

1. Nature of operations

BlackWatch Energy Services Trust (the “Trust” or “BlackWatch”) is an open-ended unincorporated investment trust governed by the laws of the province of Alberta and created pursuant to a Trust Indenture dated June 23, 2006. The Trust commenced operations on August 4, 2006. The Trust and its subsidiaries provide a range of services to its customers operating in the Western Canadian Sedimentary Basin. These services include drilling, electric wireline services, rig transportation and hauling, coil tubing well servicing, production services and oilfield equipment rentals and leasing.

On August 4, 2006, 14,449,649 trust units and 6,615,496 Exchangeable Units were issued on a private placement basis for the acquisition of certain assets of Austin’s Transport (1990) Ltd., Strata Completions Limited, Ammonite Assets Inc., Caliber Energy Services Corp., Brantfords Consolidated Inc. and Brantfords Consolidated Ltd. The Exchangeable Units are Class B exchangeable limited partnership units of the Investment Partnership issued from time to time in accordance with the Investment Limited Partnership Agreement, these Units are convertible into Class A Trust units on a one for one basis. On August 11, 2006 the Trust completed its Initial Public Offering (“IPO”) whereby 2,500,000 Trust units were issued at \$10 per Trust unit for gross proceeds of \$25,000,000.

The beneficiaries of the trust are the holders of Trust units. The Trust intends to make monthly distributions to unitholders of record on the last business day of each calendar month.

2. Significant accounting policies

a) Basis of presentation and use of estimates

The financial statements of the Trust have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involve the use of estimates and approximations based on information available as of the date of the disclosure of assets and liabilities and revenues and expenses for the period reported. The most significant of these are the estimates used for amortization, goodwill and intangibles. Accordingly, actual results could differ from those estimates. The financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust’s accounting policies summarized below.

b) Principles of consolidation

These consolidated financial statements include the accounts of all of the subsidiaries of the Trust, including BlackWatch Energy Services Holding Trust, BlackWatch Energy Services Commercial Trust, BlackWatch Energy Services Limited Partnership, BlackWatch Energy Services Operating Corp., BlackWatch Energy Services Ltd. and BlackWatch Energy Services Operating Limited Partnership. All significant inter-entity transactions and balances have been eliminated upon consolidation.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities less than three months.

d) Inventory

Inventory values are recorded at cost and are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Refer to *Note 4* for additional detail on inventory.

e) Property and equipment

Property and equipment are recorded at cost. The table below details the depreciation rates that are applied against the various asset classes recorded by the Trust.

<u>Asset Class</u>	<u>Rate</u>
Drilling rigs	3,300 drill days
Coil tubing stands	20% declining balance
Field service equipment	15% declining balance
Shop tools and equipment	20% declining balance
Computer equipment	40% declining balance
Vehicles	30% declining balance
Furniture and fixtures	20% declining balance
Buildings	4% declining balance
Leaseholds	Straight line over the term of the lease

The Company performs impairment testing on its property and equipment at least annually and whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in earnings for the period.

f) Goodwill and intangibles

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of net tangible and identifiable intangible assets acquired and is not subject to amortization.

Intangibles with a limited life consist of employment contracts and customer lists, which are amortized using the straight line method over their expected useful lives of 3 years.

Goodwill is tested for impairment at least 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 fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill.

Intangibles with a limited life are tested for impairment whenever events and circumstances are deemed to have caused a permanent decrease in value.

g) Revenue recognition

The Company recognizes revenue from all fixed price construction contracts using the percentage of completion method which is measured by the percentage of cost incurred to date compared to estimated total cost for each contract.

The Company recognizes revenue from oilfield hauling upon delivery of hauled product to the contracted destination for contracted services.

The Company recognizes revenue on the sale of products when title and ownership are transferred upon delivery.

The Company recognizes revenue for all other services when services are performed.

h) Income taxes

Under the Income Tax Act (Canada) the Trust and its trust subsidiary entities are taxable only on income that is not distributed or distributable to their Unitholders. As both the Trust and its Trust subsidiaries distribute all of their taxable income to their respective Unitholders pursuant to the requirements of their trust indentures, neither the Trust nor its trust subsidiaries make provisions for future income taxes.

The Trust follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of the corporate subsidiaries and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs.

i) Segmented information

The Trust views its operations as six distinct operating divisions. These divisions are Coil Tubing, Completion Services, Transport, Drilling, Production Services and Corporate. The Trust has segregated its divisions based on the services and equipment that each division provides to customers.

j) Unit-based compensation

The Trusts Unit based compensation plan is considered to be compensatory, as the holder of the Units has the option to compel the Trust to settle amounts in cash. The Trust determines compensation expense for its Trust Unit Option Plan and its Unit Award Incentive Plan by estimating the intrinsic value of the rights at each period end and recognizing the amount in income over the vesting period. After the rights have vested, further changes in the intrinsic value are recognized in income in the period of change.

The intrinsic value is the difference between the market value of the Units and the exercise price of the right in the case of the Trust Unit Incentive Plan, and the market value of the Units in the case of the Unit Award Incentive Plan. Under the Trust Unit Incentive Plan, the intrinsic value method is used as participants in the plan have the option to either purchase the Units at the exercise price or to receive a cash payment or Trust Unit equivalent, equal to the excess of the market value of the Units over the exercise price.

k) Earnings per unit

Basic earnings per unit are calculated using the weighted average number of Trust units and Exchangeable Units outstanding during the period. Diluted per unit amounts reflect the dilutive effect of options and unit awards outstanding. Diluted earnings per unit is calculated using the treasury stock method whereby outstanding options and unit awards are only dilutive if, and to the extent that, they are "in the money". The treasury stock method assumes that any proceeds obtained on exercise of options would be used to purchase Trust units at the average market price during the periods. The weighted average number of units outstanding is then adjusted by this net change.

BlackWatch Energy Services Trust
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1) Financial instruments

The net carrying value of accounts receivable, net of the allowance for doubtful accounts, approximates fair value due to the short-term nature of these instruments. The Trust has a large number of diverse customers, which minimizes overall accounts receivable credit risk.

The carrying value of accounts payable and accrued liabilities and distributions payable approximates the fair value of these financial instruments due to their short-term nature. The carrying value of term loans differs from its fair value in circumstances where a fixed interest rate is applied over a multi period repayment term loan. (See Note 7 for a detailed description of the term debt.)

3. Acquisition

On August 4, 2006, the Trust acquired 100% of the issued and outstanding common shares of the following private companies; Austin's Transport (1990) Ltd. ("Austins"), Strata Completions Limited ("Strata"), Ammonite Assets Inc. ("Ammonite"), Caliber Energy Services Corp. ("Caliber"), Brantfords Consolidated Inc. ("BCI") and Brantfords Consolidated Ltd ("BCL"). These acquisitions were accounted for by the purchase method. The results of the operations of the acquired companies have been included in the consolidated financial statements from the date of acquisition.

The total purchase consideration was Units valued at \$144.5 million and Exchangeable Units valued at \$66.2 million less the cash acquired of \$70,000 for a total purchase consideration of \$210.6 million.

A summary of the fair value of the net assets acquired and the allocation of the purchase price are as follows:

Purchase Method (\$ thousands)	Strata	Caliber	Ammonite	BCI	BCL	Austins	Totals
Net working capital acquired	\$ 618	\$ 2,769	\$ (393)	\$ 1,113	\$ 631	\$ 2,976	\$ 7,714
Property and equipment	5,016	12,009	29,391	6,986	5,262	10,300	68,964
Intangible assets	552	2,086	4,491	1,685	1,749	4,426	14,989
Debt assumed, including current portion	(3,305)	(8,790)	(12,491)	(4)	(751)	(172)	(25,513)
Obligations under capital leases	(40)	-	(52)	(976)	(852)	(15)	(1,935)
Due to related parties	-	(825)	-	-	-	(3,927)	(4,752)
Goodwill	9,106	26,344	59,463	20,456	10,973	24,772	151,114
Fair value of net asset acquired	\$ 11,947	\$ 33,593	\$ 80,409	\$ 29,260	\$ 17,012	\$ 38,360	\$ 210,581
Purchase Price Paid:							
Cash ¹	\$ (149)	\$ (389)	\$ (194)	\$ 650	\$ 238	\$ (226)	\$ (70)
Trust Units	8,467	20,828	56,422	20,027	11,742	27,010	144,496
Exchangeable Partnership Units	3,629	13,154	24,181	8,583	5,032	11,576	66,155
Purchase Consideration:	\$ 11,947	\$ 33,593	\$ 80,409	\$ 29,260	\$ 17,012	\$ 38,360	\$ 210,581

¹ Cash acquired as part of the working capital of the acquired companies.

The allocation process has not been completed prior to the completion of the current financial statements due to the timing of the acquisitions. Therefore, in subsequent periods if changes arise they will be evaluated based on the nature and amount of adjustments required and based on the assessment a determination will be made on adjusting the initial purchase price allocation.

4. Inventory

Inventory of \$1.6 million is comprised of held for resale and consumable inventory in the amount of \$201,000 and \$1.4 million respectively. These inventory items will be used within the next operating year.

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5. Property and equipment

	Cost	Accumulated Depreciation	Net book value September 30, 2006	Net book value June 23, 2006
	(\$ thousands)	(\$ thousands)	(\$ thousands)	(\$ thousands)
Drilling rigs	30,563	(215)	30,348	-
Coil tubing stands	338	(11)	327	-
Field service equipment	29,431	(708)	28,723	-
Shop tools and equipment	1,513	(49)	1,464	-
Computer equipment	211	(13)	198	-
Vehicles	10,411	(513)	9,898	-
Furniture and fixtures	199	(9)	190	-
Buildings	581	(2)	579	-
Leaseholds	37	(1)	36	-
	73,284	(1,521)	71,763	-
Land	258	-	258	-
Assets under construction	1,072	-	1,072	-
	74,614	(1,521)	73,093	-

6. Intangible assets

	Cost	Accumulated Amortization	Net book value September 30, 2006	Net book value June 23, 2006
	(\$ thousands)	(\$ thousands)	(\$ thousands)	(\$ thousands)
Customer lists	13,559	(747)	12,812	-
Employee contracts	1,430	(79)	1,351	-
	14,989	(826)	14,163	-

7. Credit facilities

The Company has two operating facilities as follows:

Roynat Capital 160-day bridge financing facility authorized to \$28.8 million of which \$26.6 million is drawn and the remaining amount of \$2.2 million is held in trust by Roynat Capital. The facility is secured via a first charge right on all fixed assets and a first floating charge on all other assets of the Trust and its subsidiary entities. The Facility is to be repaid on January 7, 2007 and the interest rate charged on the facility is 3.125% plus the Bankers' Acceptance rate for the applicable period and interest is payable on the 15th day of each month. The Trust has incurred financing fees of \$325,000 in relation to this credit facility and the entire amount has been expensed in the period as it is a working capital item.

The Trust has a demand revolving credit facility with a Canadian chartered bank. The authorized borrowing amount under this facility is \$20 million, of which \$nil is drawn as at September 30, 2006. Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and ranges from bank prime plus .25% to bank prime plus 1.375%, depending upon the Company's funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Under the credit facility, borrowings through the use of bankers' acceptances and standby letters of credit with maturities of 30 to 180 days are also available. Interest rates fluctuate based on the same pricing grid as the operating line and ranges from the base rate of the debt obtained plus 1.75% to 2.875%. Security for the operating line is provided by a priority agreement between Bank of Nova Scotia and Roynat Capital, providing the bank with a first charge priority on all accounts receivable of the Trust and a second charge over all other assets. The Trust has incurred financing fees of \$70,000 in relation to this credit facility and the entire amount has been expensed in the period as the classification of the expense was a one time administration fee that was charged.

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8. Obligation under capital leases and finance contracts

September 30, 2006

(\$ thousands)

Loan payable, which is secured by a conditional sale agreement on excavation equipment, is repayable by monthly installments of \$6,789 up to December 29, 2006 and bears interest at 1.9% per annum.	21
Loan payable, which is secured by a conditional sale agreement on excavation equipment, is repayable by monthly installments of \$8,683 up to December 29, 2006 and bears interest at 1.9% per annum.	26
Citicapital Commercial Corporation loan bearing interest at 8.06% per annum, repayable in monthly installments of \$1,533. The loan matures on October 18, 2007 and is secured by related assets.	18
DaimlerChrysler Truck Financial loan bearing interest at 9.5% per annum, repayable in monthly installments of \$9,469. The loan matures on April 18, 2011 and is secured by related assets, which is currently under construction, and personal guarantee by a shareholder.	419
Pacar Financial conditional finance contract payable in monthly installments of \$6,476 including interest at 7.25%, secured by related assets, due June 14, 2009.	191
DaimlerChrysler term loan payable in installments of \$2,796, excepting Oct 2006 where the installment is \$12,971 including interest at 10.00%, secured by related assets, due June 2011.	136
Pacar Financial conditional finance contract payable in monthly installments of \$12,309 including interest at prime plus 3.00%, secured by related assets, due November 14, 2009.	399
Ford Credit term loans payable in monthly installments totaling \$3,286 including interest at 0.90%, secured by related assets, due on dates ranging from July 2008 to August 2009.	88
Conditional finance contract payable in monthly installments of \$1,098 including interest at 14.2%, secured by the related asset, maturing December 30, 2008.	19
Ford Credit Canada Ltd. Conditional sales contract payable in monthly installments of \$1,611 including interest at .10%, secured by related asset, maturing October 2006.	2
GE Capital Canada conditional sales contracts payable in monthly installments of \$3,429 including interest of 6.7%, secured by the related asset, Maturing in October, 2007.	3
The Trust has acquired a lease agreement in the acquisition described in Note 2. The expiry date of the lease is February 2009 and requires monthly payments of \$1,324. The lease has an effective annual interest rate of 2.359% and is secured by equipment. At the end of the 36-month lease term, the Trust has the option of purchasing the equipment for a purchase price amounting to \$1.00 plus applicable taxes.	38
During the period the Trust entered into new leases to purchase excavation equipment. The expiry dates of the leases are September 2007. Monthly installments of \$44,000 are required and all of these leases are non-interest bearing. The leases are secured by related assets.	526
	1,886
Less: current portion	954
Long-term obligations under capital lease	932

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Principal and interest repayments on obligations under capital lease in each of the next five years required are:

Year	(\$ thousands)
2007	954
2008	367
2009	349
2010	132
2011	84
	1,886

9. Employee unit incentive plans

a) Trust Unit Option Plan

The Trust unit plan was established in 2006. The Trust Unit Option Plan provides that the maximum number of Trust units reserved for issuance from time to time pursuant to the rights granted and outstanding thereunder at any time shall not exceed a number of Trust Units equal to 10% of the aggregate number of (i) issued and outstanding Trust units; plus (ii) the number of trust Units issuable upon exchange or conversion of outstanding Exchangeable Securities. The initial exercise price of Trust unit options are granted to employees at the market price of the Trust Units and the maximum term of each right is 5 years. The rights vest equally over four years commencing on the first anniversary of the grant date. The exercise price of rights granted may be reduced by an amount up to the amount of cash distributions made on the Trust Units subsequent to the date of grant of the respective right, provided the Trust's net operating cash flow for the month exceeds 0.833% of the Trust's recorded cost of capital assets less all debt, working capital deficiency (surplus) or debt equivalent instruments, depletion, depreciation and amortization charges, asset retirement obligations and any future income tax liability associated with such capital assets at the end of the month.

As at September 30, 2006, a total of 1,905,200 Trust options were outstanding under the Trust Unit Option Plan at an average exercise price of \$9.82.

The following summarizes the Trust Units reserved for issuance under the Trust Unit Option Plan.

	Period ended September 30, 2006	
	Options Outstanding	Weighted Average Exercise Price
Trust unit options outstanding as at August 4, 2006	-	\$ -
Granted	1,975,700	9.82
Exercised	-	-
Forfeited	(70,500)	9.82
Trust unit options outstanding as at September 30, 2006	1,905,200	9.82
Trust units exercisable at year end	-	
Range of exercise prices (per unit)	9.82 – 10.44	
Weighted average remaining contractual life (years)	4.9	

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The Trust recorded unit-based compensation expense in respect of Trust unit options of \$nil for the period of June 23 to September 30, 2006. No expense has been recorded as the weighted average exercise price of \$9.82 is greater than the September 30, 2006 closing price of Trust shares of \$9.10.

b) Unit Award Incentive Plan

As at September 30, 2006, a total of 37,250 Unit Awards were outstanding under the Unit Award Incentive Plan. Unitholders approved the issuance of up to 0.5% of the aggregate number of issued and outstanding Trust Units; plus the number of Trust Units issuable upon exchange or conversion of outstanding exchangeable units. Unit Awards vest annually over a four year period and upon vesting, entitle the holder to receive the number of Trust Units subject to the award or the equivalent cash amount. The number of Units to be issued is adjusted at each distribution date for an amount approximately equal to the foregone distribution. The fair value associated with the Trust Units granted under the Unit award plan is expensed in the statement of income (loss) over the vesting period.

The following summarizes the Trust Units reserved for issuance under the Unit Award Incentive Plan.

	Period ended September 30, 2006
	Unit Awards Outstanding
Outstanding, beginning of period	-
Granted	40,500
Exercised	-
Cancelled	(3,250)
Outstanding, end of period	37,250
Adjusted for distributions	729
Total Trust Units issuable for Unit Awards	37,979

For the period ended September 30, 2006, the Trust has recorded an expense and an accrued liability for the estimated cost associated with the Unit Award Incentive Plan of \$49,000. All units in the period were granted when the market price was \$10. The expense includes the amount attributable to the 729 units that have been adjusted for the distributions on the basis of the fair value of the units on the relevant distribution record date.

10. Trust units

Authorized

An unlimited number of Class A Trust Units, Class B Exchangeable Units and Special Voting units. Special Voting Units shall not be entitled to any interest or share in the distributions or net assets of the Trust and shall be issued in conjunction with Class B Exchangeable Units that have been issued in the investment partnership.

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Class A Trust Units ¹		
	Units	Amount (\$ thousands)
Balance, beginning of period	100	1
Units issued in the period	3,160,000	31,600
Consideration for acquisitions (Note 3)	14,449,649	144,496
Trust units returned to treasury	(13,274)	(132)
Conversion of exchangeable units	35,308	353
Unit issue costs		(3,115)
Balance, end of period	17,631,783	173,203

Class B Exchangeable Units ²		
	Units	Amount (\$ thousands)
Balance, beginning of period	-	-
Units issued in the period	-	-
Consideration for acquisitions (Note 3)	6,615,496	66,155
Exchangeable units returned to treasury	(5,831)	(58)
Conversion of exchangeable units	(35,308)	(353)
Unit issue costs		-
Balance, end of period	6,574,357	65,744
Total units outstanding	24,206,140	238,947

¹Of the total Class A Trust Units that were issued, 5,701,467 are escrowed and will be released one half on August 4, 2007 and one half on August 4, 2008.

²The Class B Exchangeable Units are exchangeable into Class A Trust Units on a one to one basis at any time at the option of the holder. Of the 6,615,496 units that were issued 2,628,332 of these units are escrowed and will be released and allowed to trade as to one half on August 4, 2007 and one half on August 4, 2008. The Units are entitled to receive the same distributions as the Class A Units. The Exchangeable Units are not freely traded securities and must be converted to Class A Unit prior to trading.

The basic and diluted weighted average values used in the calculation of earnings per share for the period are 24.1 million. It has been determined that if the Trust had not been in a net loss position for the period the Trust Unit Options and the Incentive Awards would have had a dilutive affect on earnings per share.

11. Contributed surplus

Contributed surplus of \$190,000 has been recorded in the current period. The employees of one of the acquired companies were granted warrants by virtue of their relation to the acquired company. These warrants were convertible into shares of the acquired company and therefore were exchangeable, upon receipt of payment of the exercise price, into Trust units and Exchangeable units of the Trust on the completion of the acquisition on August 4, 2006 (*see Note 3*). Subsequent to the completion of the acquisition, certain employees chose not to exercise their rights to the Trust units and Exchangeable units and this capital was cancelled and returned to Treasury. Due to the fact that the acquisition was successfully completed and no monies are owed to said employees, treatment of these forfeited assets is recorded as contributed surplus. The value of the units returned to treasury is detailed in *Note 10*.

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12. Cash distributions

The Trust declares monthly distributions of cash to Unitholders and Exchangeable Unitholders of record as at the close of business on each Distribution Record Date. The Trust intends to pay distributions on each Trust Unit and Exchangeable Unitholders depending on numerous factors including the condition of the oil and gas industry, the Operating Partnership's financial performance, debt covenants and obligations, working capital requirements and future capital requirements. Such distributions are recorded as reductions of equity upon declaration of the distribution. During the period, the Trust paid distributions to its Unitholders and exchangeable Unitholders in accordance with the following schedule:

(\$ thousands, except per Unit amounts)			<u>Cash Distribution</u>	
Distribution Period 2006	Distribution Record Date	Date of Distribution	Per Unit	Total
August 11 to August 31	August 31, 2006	September 15, 2006	\$0.0916	\$2,219
September 1 to September 30	September 29, 2006	October 16, 2006	\$0.0916	2,217
Total distributions during period				4,436
Accumulated distributions, beginning of period				-
Accumulated distributions, end of period				<u>\$4,436</u>

13. Segmented information

The Trusts operates in six main industry segments which are in one geographic region. Management has identified reportable segments based on the type of service and the equipment that is used to perform the service. Revenue is generated in the identifiable segments from the following services:

Coil Tubing – Specializes in coil tubing equipment performs services including perforating, cleaning, logging, stimulation and the installation of production and instrumentation strings. In addition Coil Tubing also has product sales made up of sales of tubing.

Completion Services – provides cased-hole logging, cement bond logging, fracturing, tube-conveyed fracturing, and other well completion and abandonment services.

Transport – rig relocation and general oil and gas hauling

Drilling – contract drilling services

Production Services – pipeline and facility construction, swab rig services, crude oil and water hauling, vacuum units, steamers, hot-oilers and high pressure washers.

(\$ thousands)	Completion			Production			Total
	Coil Tubing	Services	Transport	Drilling	Services	Corporate	
Net income (loss)	(448)	181	(139)	260	259	(1,346)	(1,233)
Revenue	1,174	1,430	1,534	3,165	3,838	-	11,141
Depreciation	297	136	490	273	321	4	1,521
Amortization of intangibles	116	31	242	246	191	-	826
Interest expense	31	-	3	-	4	312	350
Interest revenue	-	-	-	-	-	(56)	(56)
Capital purchases	98	686	-	3,348	946	46	5,124
Goodwill	26,336	9,115	24,772	59,463	31,428	-	151,114
Total Assets	46,168	17,582	41,419	103,452	55,853	9,317	273,791

14. Income taxes

An assessment of current and future tax provisions has been performed for the Initial period ended September 30, 2006. Management has estimated that this period will result in a taxable net loss and as a result, no current tax provision has been recorded. Further, a review of future tax consequences

indicates that the only entity which will give rise to potential timing differences for accounting versus taxable income calculations is the Operating Partnership. The General Partner of the Operating Partnership, BlackWatch Energy Services Operating Corp., could potentially be impacted by future taxes as a result. Management has assessed any timing differences in correlation with the probability of these differences reversing in the future, thereby giving rise to taxes and has determined that the “more likely than not” criteria has not been met. As a result, no such provision has been booked at this time.

15. Financial instruments

Financial instruments of the Trust consist of cash and cash equivalents, accounts receivable, income taxes recoverable, accounts payable, accrued liabilities, income taxes payable, distributions payable, obligations under capital lease and debt. As at September 30, 2006, there are no significant differences between the carrying values of these amounts and their estimated fair market values.

Credit risk and credit concentration

A significant portion of the Trust’s revenues and trade accounts receivable is from the oil and gas industry and, as such, the Trust is exposed to all the risk associated with that industry.

The majority of the Trust’s accounts receivable are due from entities in the oil and gas industry and are subject to normal industry credit risk. Concentration of credit risk is mitigated by having concentrations with credit worthy clients and a focus to continue to broaden the domestic customer base. At September 30, 2006, the revenue from the Trust’s largest customer accounts for 20% and the Trust’s largest five customers account for 56% of operating revenue for the period ended September 30, 2006.

Interest rate risk

The Trust’s is exposed to fluctuation in interest rates based on the rates noted in *(Note 7)*. As such, when these banking facilities are drawn, the Trust will be exposed to higher interest costs if the average banker’s acceptance rate should increase.

16. Commitments

In addition to the commitments disclosed in *Note 8*, the Trust is committed to future minimum payments under lease contracts for office and shop space of \$3.5 million and future capital commitments of \$16.8 million.

The required future commitment payments are as follows:

Year	(\$ thousands)
2007	17,624
2008	781
2009	737
2010	687
2011	454
	20,283

17. Related party

The other current assets balance of \$2.1 million is comprised of three separate related party transactions. The most significant items relates to a current loan receivable from a company jointly-controlled by two employees in the amount of \$1.1 million for a proposed joint venture project. In addition, current assets include a current loan receivable from a separate company jointly-controlled by two employees in the amount of \$259,000. The loan was part of the assets acquired as at August 4, 2006 *(Note 3)*. The remaining balance of \$714,000 pertains to amounts receivable from former employees of Caliber. These amounts are to be secured by the underlying trust units held in escrow *(Note 10)*.

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During the period the Trust incurred expenses of \$76,000 relating to the rental of land and buildings owned by certain officers who are also Unitholders of the Trust. In addition, the Trust incurred expenses of \$10,000 in the normal course of business related to accounting services performed by principals and officers of the Trust. All transactions with related parties during the period have been recorded at exchange amounts.

18. Seasonality of operations

Company operations are carried out exclusively in western Canada. The industry's ability to move heavy equipment in exploration and production areas is dependent 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. In addition, the exploration areas in northern Canada are typically only accessible during winter months, when the surface is frozen enough to support the heavy equipment. As a result, the activity levels of the Company are directly impacted by weather, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters.

19. Comparatives

The Trust commenced operations on June 23, 2006 and as such does not have any comparative financial statements for the period ended September 30, 2005.

20. Supplementary information

	September 30, 2006 (\$ thousands)
Operating activities	
A/R	(16,339)
Inventories	(1,613)
Prepays	(1,403)
Income taxes recoverable	(33)
Other current assets	(2,077)
A/P	6,489
Accrued stock option expense Liability	49
IT payable	3,177
	(11,749)
Less: Non cash working capital acquired ¹	7,714
	(4,035)

¹ non cash working capital acquired consists of the following balances:

Accounts receivable	17,245
Prepays	738
Inventory	1,348
Other assets	823
Income taxes payable	(3,177)
Current liabilities	(9,263)
	7,714

21. Subsequent events

On October 10, 2006, the Trust, through a wholly owned limited partnership acquired all of the issued and outstanding shares of Elite Oilfield Rentals (“Elite”). Elite is engaged in oilfield equipment leasing and rental services. The purchase was funded with \$5.2 million in cash, the assumption of \$232,000 in debt and the issuance of 575,269 units of the Trust (of the total units issued, 172,581 are Exchangeable Units).

On October 17, 2006 the Trust amended the terms of the 160-day bridge financing facility that was obtained by the Trust on August 4, 2006. The facility has been changed from a “non-revolving” to “revolving” facility. The Trust is able to repay and borrow the principal amount up to \$28,786,000 without notice, bonus or penalty at any time and from time to time prior to maturity. All amounts borrowed from the facility must be made in minimum amounts of \$500,000. There has been no change to the interest rate that is charged on the facility and the maturity date remains January 7, 2007.

On October 31, 2006, the Canadian government announced its intention to amend the Income Tax Act (Canada) to apply a Distribution Tax on distributions from publicly traded income trusts. Under the proposal, newly formed trusts would be subject to tax in 2007, while existing trusts such as BlackWatch would benefit from a four year transition period and would not be subject to the new measures until the 2011 taxation year. BlackWatch intends to proactively respond to the tax law amendments to support the interests of our unitholders and other stakeholders. As at the date of these financial statements, detailed legislation is not yet available and the impact such legislation may have on the Trust’s future operations and financial statements is not known.

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The Trust has begun discussions with a major Canadian bank to secure a new revolving credit facility. This facility will completely replace the current bridge facility and will be syndicated amongst a group of major Canadian banks. Finalization of the facility is expected by the end of November.

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BlackWatch Energy Services Trust
Earl Connors
President & Chief Executive Officer

Units Listed – Symbol: BWT.UN
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