

# Annual and Special Meeting of Unitholders June 18, 2008

Travis Robertson  
President and Chief Executive Officer

TSX-BWT.UN



**BLACKWATCH**  
ENERGY SERVICES TRUST



COIL TUBING

COMPLETIONS

DRILLING

PRODUCTION

RENTALS

TRANSPORT

# Disclaimer



Certain statements contained in this presentation may constitute “forward-looking statements”. All statements, other than statements of historical fact, in this presentation that address activities, events or developments that BlackWatch Energy Services Trust (“BlackWatch” or the “Trust”) or a third party expects or anticipates will or may occur in the future, including the Trust’s future growth, results of operations, performance and business prospects and opportunities, and the assumptions underlying any of the foregoing, are forward-looking statements. These forward-looking statements reflect the Trust’s current beliefs and are based on information currently available to the Trust and on assumptions the Trust believes are reasonable. Actual results and developments may differ materially from results and developments discussed in the forward looking statements as they are subject to a number of significant risks and uncertainties. Certain of these risks and uncertainties are beyond the Trust’s control. Consequently, all of the forward-looking statements are qualified by these cautionary statements, and there can be no assurances that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effect on, the Trust. These forward-looking statements are made as of the current date and the Trust assumes no obligation to update or revise them to reflect subsequent information, events or circumstances unless otherwise required by applicable securities legislation.

This presentation may also contain financial measures that are used by the Trust from time to time but that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (“GAAP”). Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that these measures should not be construed as an alternative to net earnings or to cash flow from operating, investing, and financing activities determined in accordance with Canadian GAAP as indicators of the Trust’s performance. These measures are provided to assist investors in determining the Trust’s ability to generate earnings and cash flow from operations and to provide additional information on how these cash resources are used. These financial measures are identified and defined as follows: EBITDAC is defined as earnings before interest, taxes, depreciation, amortization and unit based compensation. The Trust believes that, in addition to net earnings, EBITDAC is a useful supplemental measure as it provides an indication of the earnings generated by the Trust’s principal business activities prior to consideration of how these activities are financed or how the results are taxed in various jurisdictions and before non-cash amortization expense. Funds from Operations is derived from the consolidated statements of cash flows and is calculated as cash provided from operating activities before changes in non-cash operating working capital. Gross Margin is defined as revenue less operating expenses.

# Company Profile



BlackWatch Energy Services strives to provide the most appropriate technologies and highest level of service and integration.

❖ Contract drilling services:

- Drilling rigs and equipment – 9 top drive singles, 1 conventional single, 1 double pad rig under construction

❖ Well completions and well services:

- Well logging and perforating – 9 wireline units
- Coiled tubing – 16 units
- Swabbing – 2 units

❖ Production services:

- Oilfield transport – 24 units
- Production and drilling rental equipment – 650 equipment pieces
- Fluid Services – methanol facility, KCL plant, tank trucks, hot oilers, vacuum trucks

# Agenda



- **Operating Environment - 2007**
- Business Improvements
- Financial Highlights – 1Q2008
- 2008 Business Initiatives
- 2008 Market Outlook

# Operating Environment - 2007



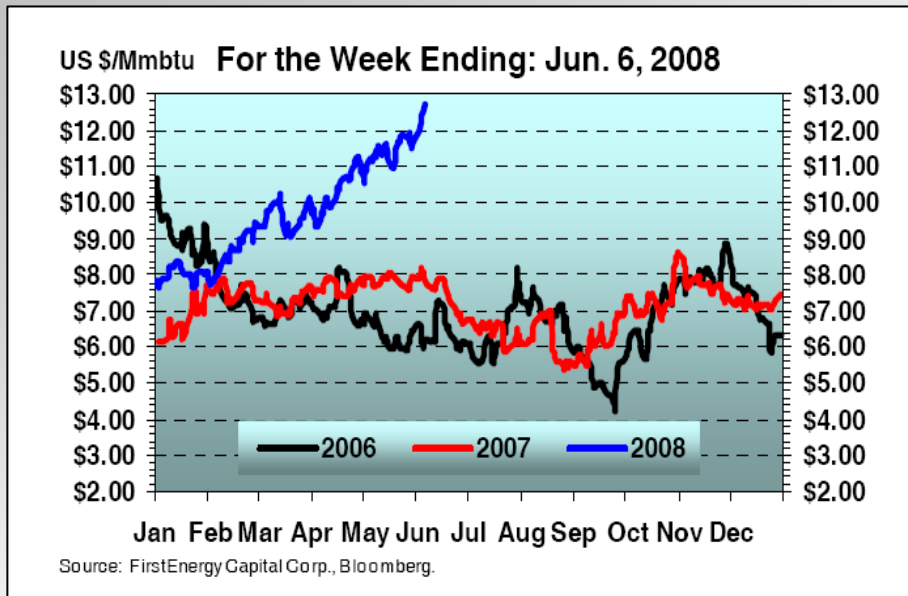
## Challenges:

- Cost inflation hangover from 2006
- Royalty trust taxation change in 4Q2006
- Continued low natural gas pricing
- Appreciation of Canadian dollar vs. US dollar
- Extended spring break-up period and late winter freeze
- New Alberta royalty framework 4Q2007
- Ongoing fuel and labour cost inflation

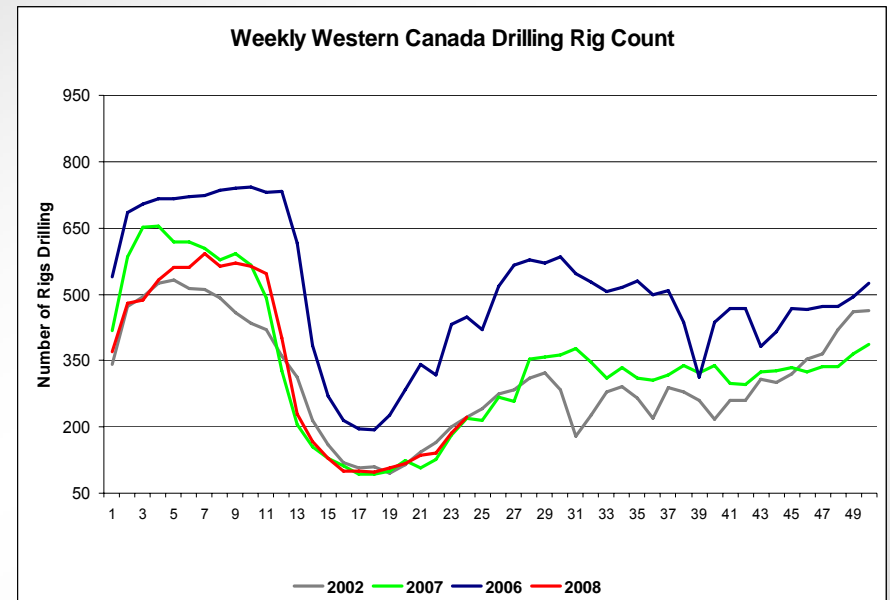
## Results:

- Low activity levels and equipment utilization
- Reduced pricing and margins

# Operating Environment - 2007



Source: FirstEnergyCapitalCorp



Source: CAODC

- Gas prices low since 2Q06
- Drilling activity has trended downward with gas pricing
- Royalty structure uncertainty reflected in 4Q07 and 1Q08 activity

# Agenda



- Operating Environment - 2007
- **Business Improvements**
- Financial Highlights – 1Q2008
- 2008 Business Initiatives
- 2008 Market Outlook

# Business Improvements



## Consolidation:

- Divested pipeline construction business mid 07 - no EBITDA loss
- Closed 2 coiled tubing facilities serving shallow well market - no EBITDA loss
- Sold miscellaneous underutilized/low margin assets 450K\$

## Cost Control/Reductions:

- Reduced SG&A from 1.5MM\$ to 1MM\$ 1Q07 to 1Q08
- Reduced headcount from 295 in Dec 06 to 208 in Dec 07
- Revised benefits program – 560k\$ annual savings
- Consolidated Calgary offices to single location – better communication, cost savings
- Focused on debt repayment

### *Results:*

- *Improving financial performance*
- *Better operational alignment*

# Business Improvements



## Focus:

- Re-organized fluid services, rentals and transportation businesses into single segment (see next slide)
- Re-directed portion of coiled tubing assets to deeper well market
- Entered oilsands related drilling market winter 07/08
- Expanded and enhanced sales organization

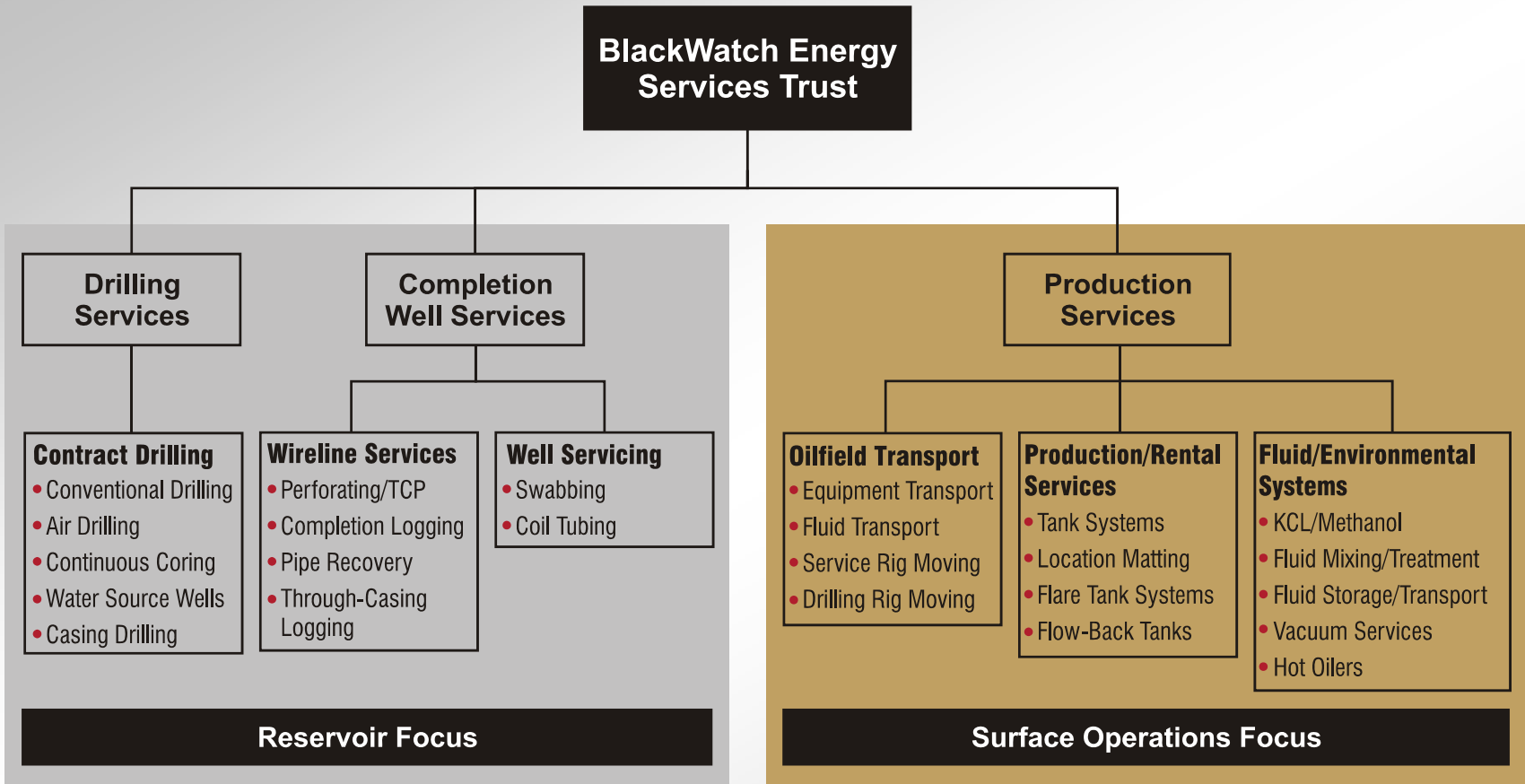
## Differentiation:

- Added two proprietary wireline propellant technologies late 07
- Added wireline pipe recovery services Aug 07
- Developed casing drilling capability Sept 07
- Entered two joint marketing agreements with third parties
  - Proprietary foam service – well workover
  - Cased hole logging services – well evaluation when drilling with casing

## *Results:*

- *Improved rig utilization*
- *Improving market profile and opportunities*

# Business Improvements



*New structure:  
- improves focus and takes advantage of synergies*

# Summary



	<b>Challenges/Opportunities</b>	<b>Aug 2007 Initiatives</b>	<b>Results to Date</b>
<b>Contract Drilling</b>	Shallow gas focus	Pursue Oilsands Coring	40% of 1Q08 activity in oilsands
<b>Cased Hole Wireline</b>	Activity needs to match assets/infrastructure	Enhancing sales force for growth	Added salesman with 20 years oilfield services experience
<b>Oilfield Transport</b>	Eastern geographic positioning	Assessing other geographic markets	Active in oilsands through 1Q08
<b>Coiled Tubing</b>	Shallow gas focus	Refit to suit deeper well market	2 units refitted, Evaluated deeper market
<b>Swabbing</b>	Shallow well focus	Reposition assets to deeper market	Operating in central Alberta only
<b>Production Services</b>	Production focused	Expanding capacity	Expanded fluid production capacity by 100%
<b>Pipeline Construction</b>	Limited profitability	Intense cost management, control activity levels	Divested business mid 2007
<b>Oilfield Rentals</b>	Limited geographical exposure	Expand to additional location	Operating in 3 locations

*Results of 2007 business initiatives are beginning to show results*

# Agenda



- Operating Environment - 2007
- Business Improvements
- **Financial Highlights – 1Q2008**
- 2008 Business Initiatives
- 2008 Market Outlook

# Financial Highlights – 1Q2008



	Q1 2008	Q1 2007
Revenue from continuing operations	\$ 20.8	\$ 21.5
Operating Costs	<u>(15.1)</u>	<u>(17.2)</u>
Margin from continuing operations	5.7	4.3
Selling, general & administrative	<u>(1.0)</u>	<u>(1.5)</u>
EBITDA	<u>4.7</u>	<u>2.8</u>

- Substantial operating cost reductions as % of revenue ↓8%
- Substantial SG&A reduction ↓33%
- Year over year EBITDA increase ↑68%

# Drilling Services Results – 1Q2008



	Q1 2008	Q1 2007
Revenue	\$ 11.8	\$ 6.4
Operating Costs	<u>(7.0)</u>	<u>(4.8)</u>
Margin from continuing operations	<u>4.8</u>	<u>1.6</u>

- Drilling services achieved 62% utilization versus industry average of 56%
- Rig utilization improved from 40% in 1Q07
- Engaged in lump sum pricing contract for oilsands drilling project
- Provided casing drilling for 3 clients to date

# Capital Expenditures



<b>2007 Capital Expenditures</b>	<b>\$8.2 million</b>
<b>First Quarter 2008</b>	<b>\$1.4 million</b>

- Capital expenditures incurred in 2007 include drilling rig fabrication, swabbing rig, hot oiler, cased hole wireline units, crane trucks and additions to the rental fleet
- Capital expenditures incurred in Q1 2008 include the purchase of 148 flow back tanks and related equipment, winch truck and drill pipe.
- Deploying capex to maintain and selectively grow businesses

# Agenda



- Operating Environment - 2007
- Business Improvements
- Financial Highlights – 1Q2008
- **2008 Business Initiatives**
- 2008 Market Outlook

# 2008 Business Initiatives



- Continue to rationalize underutilized assets and low margin businesses  
Ex. Divest shallow coiled tubing assets
- Focus on pricing strategy and cost control  
Ex. Price increases to counter inflation, pricing leverage in activity upturn
- Work to strengthen balance sheet
- Continue to focus on adding/improving business unit differentiators
- Take advantage of market trends and opportunities  
Ex. Shale & CBM gas developments, oilsands drilling & coring

# Contract Drilling Initiatives

## Specialty Drilling Methods

- Integrated Air Drilling
  - Efficiency, Conserve water
- Drilling with Casing
  - Rivals Coiled Tubing
- Air Drilling with Casing
  - Greater Efficiency than Casing Drilling
- Continuous Wireline Coring
  - Oilsands and gas shale evaluation

Should improve single rig utilization



## Telescoping Double Hybrid Pad Rig

- Under 2 year 'take or pay' contract
- Oilsands SAGD, CBM pad drilling or conventional operations

Initiates participation in high activity areas of deeper well market

# Completion Services Initiatives



## Specialty Licenses

- Marathon Power\*Perf™
- Marathon StimGun™ for Electric Line
- Marathon StimGun™ for TCP

## Pipe Recovery Services

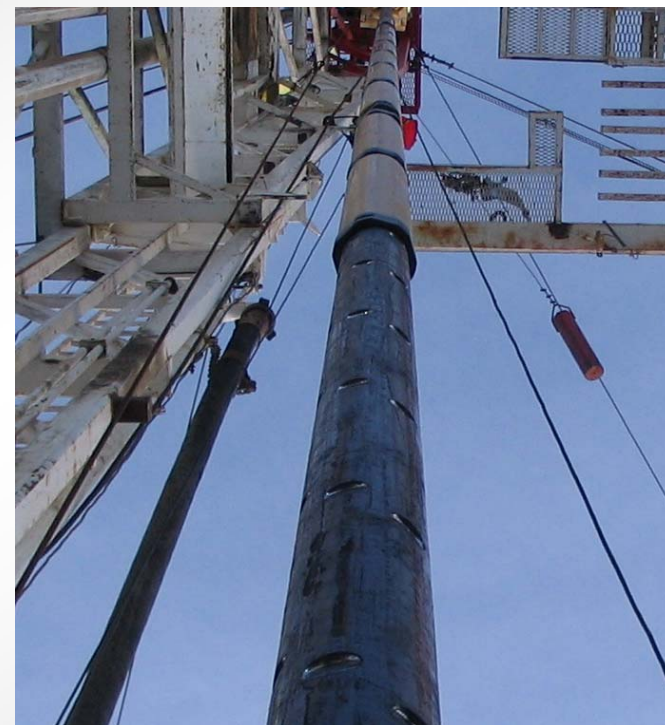
- Operates with third party fishing service

## Through Casing Logging

- Third party tools on BlackWatch operating platform
- Complements casing drilling service by enabling evaluation of cased wells

## Downhole Camera

- Delivery delayed until later in 2008

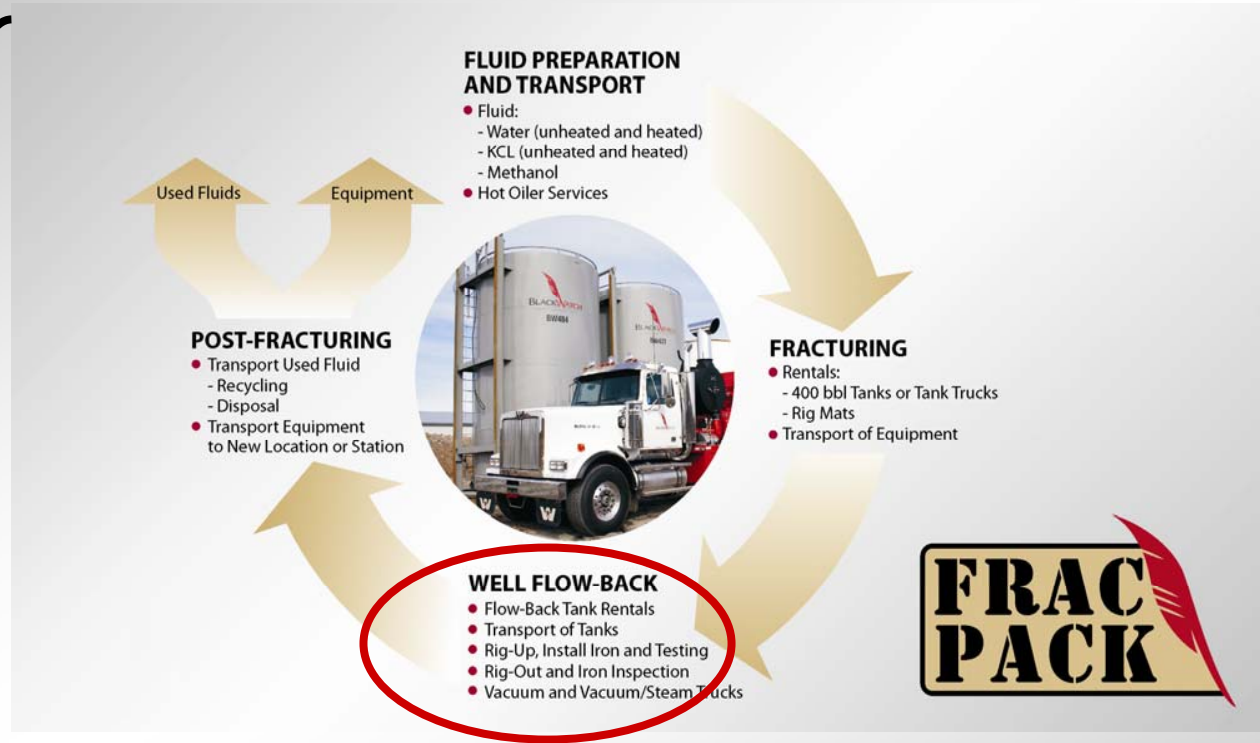


*Initiatives should improve utilization and complement other business*

# Production Services Initiatives

## Participating Business Units

Fluid Services  
Transportation  
Rentals



- Acquired flow-back assets to complete frac fluid support business
- Provides streamlined administration, logistics and enhanced safety

Should improve utilization, engages 3 BlackWatch business units

# Agenda



- Operating Environment - 2007
- Business Improvements
- Financial Highlights – 1Q2008
- 2008 Business Initiatives
- **2008 Market Outlook**

# 2008 Market Outlook



## **Opportunities:**

- Positive natural gas pricing trend
- New royalty scheme favourable to low rate gas wells
- Oil pricing hitting record highs
- Natural gas demand is steady against declining Canadian production
- Canadian service assets moving to international markets
- Service trust consolidation reducing number of players
- New play concepts, Horn River, Montney and expansion of Bakken should draw on service sector capacity

## **Oilfield services activity could improve in Q3 and Q4**

- Oilsands activity expected to increase
- Shallow gas drilling may improve

## **Keys to success:**

- Continuing to retain experienced personnel
- Managing increasing cost inflation
- Strategic focus on market position and pricing