BLACKWATCH

ENERGY SERVICES TRUST

Management's Discussion and Analysis and Unaudited Financial Statements
for the quarters ended March 31, 2008 and 2007.

BLACKWATCH ENERGY SERVICES TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS AT MAY 9, 2008

This Management's Discussion and Analysis ("MD&A") of BlackWatch Energy Services Trust (the "Trust" or "BlackWatch") is a review of financial condition and results of operations of the Trust and should be read in conjunction with the consolidated financial statements for the three months ended March 31, 2008. Statements in this MD&A are based on information available as at May 9, 2008. The definitions of certain non-GAAP measures used within this MD&A have been included at the end of this MD&A. Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A.

In certain circumstances the Trust has amended the presentation of historical information to provide more meaningful comparative values for the period ended March 31, 2008. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Additional information concerning the Trust, including the Annual Information Form, is filed electronically on SEDAR and available at www.sedar.com.

OVERVIEW

The Trust was created on June 23, 2006, as an unincorporated open-ended investment trust under the laws of the Province of Alberta pursuant to a Trust Indenture dated June 23, 2006. The principal undertaking of the Trust is to engage in the oilfield services business. Operations commenced on August 4, 2006. On August 11, 2006, the Trust completed its initial public offering and began trading on the Toronto Stock Exchange under the symbol *BWT.UN.*

The Trust is a diversified energy services trust which provides a range of services to its customers operating in the western Canadian sedimentary basin ("WCSB"). Its services are currently provided through five operating divisions. To increase focus and operational consistency, the five divisions are operating in two distinct segments, one focused on downhole and reservoir services and the other on surface equipment and logistics including fluid products and services.

Drilling

The drilling division operates ten modern, highly mobile truck mounted single drilling rigs. Eight of the rigs are capable of drilling to depths of up to 1,700 meters and two are capable of drilling to 1,300 meters. Five of the rigs have integrated drilling air compression packages used for underbalanced drilling. These rigs are also equipped with hydraulic top drive systems and hydraulic remote pipe handing systems, both of which improve operational efficiency and provide improved safety for rig personnel. The rig systems are of a modular design that is scalable to suit diverse well drilling programs. BlackWatch has a telescopic double pad rig under construction which it plans to put into service in the fall of this year.

Downhole Services

The downhole services division operates 18 coiled tubing units, twelve electric-line ("e-line") units and two swabbing units (Three electric-line were sold subsequent to March 31, 2008). Coiled tubing units are used to deploy and retrieve downhole tools such as plugs, valves, drill bits and fishing tools or to circulate or place stimulation and/or clean out fluids or gases relating to the well completion or workover process. Swabbing units are also used to remove fluids from well bores and to deploy and retrieve downhole tools. The swabbing and coil tubing units are stationed out of Drumheller, Red Deer, Grande Prairie and Lloydminster, Alberta. In April 2008 the Drumheller coiled tubing and swabbing location and Lloydminster coiled tubing location were closed. The majority of activity in our coil tubing and swabbing businesses occurs in central and southern Alberta and western Saskatchewan.

The electric-line units are used in the well completion process to deliver cased-hole logging tools and perforating guns or to install mechanical plugs in well bores. The division is also engaged in pipe recovery services that are used during downhole fishing operations and specializes in tubing conveyed perforating. The division offers proprietary propellant services used in the perforation process. The e-line units are based out of Red Deer and Grande Prairie, Alberta and provide services in Alberta and northeastern British Columbia.

Production Services

The production services division provides a range of services focused on the supply, storage, handling, treatment and disposal of various oilfield fluid products. The division provides mobile storage systems, site access matting and related transportation services to support the supply of its fluid products. The fluid products provided by the division are used primarily in gas drilling and production operations for well completion, stimulation and workover. The division dispatches and retrieves these fluid products as required for re-use, storage or disposal using a modern fleet of vacuum trucks, hot oilers and tanks trucks. These services are provided from the division's operations center in Drumheller, Alberta for gas well development activities in east-central and southern Alberta.

Rentals

Oil and gas exploration and production companies do not maintain the large assortment of oilfield equipment necessary for drilling, completion and production operations. They generally rent much of the necessary equipment for such operations. BlackWatch's rental division maintains an inventory of rental equipment such as rig mats, swamp matting, flare tanks, storage tanks, premix tanks, shale bins, flock tanks, invert systems and other equipment. The rental division provides an array of transportation equipment to support the deployment of its rental equipment fleet to client locations. Rental operations are conducted from dedicated bases in Valleyview and Sundre Alberta and through other BlackWatch base locations as necessary. The division provides oilfield rental services to operators in west-central and north-western Alberta.

Transport

The transport division operates a fleet of 26 heavy transport units providing a variety of oilfield hauling services, including rig moving, heavy equipment transportation and specialized hauling. The fleet consists of: 4 mobile crane units for loading and unloading pipe, casing and heavy equipment; 6 bed trucks which are used for off-road heavy hauling such as positioning large rig pieces on well sites; and 16 winch tractors primarily used for highway transportation of heavy equipment. The transport division conducts operations from bases in Vegreville and Drumheller Alberta and provides services primarily in eastern and northern Alberta.

Pipeline Construction

The pipeline construction division built 2" through 16" pipeline systems including installation of above-ground infrastructure such as compressors, separators, heaters and dehydrator packages. The assets of the pipeline construction division were sold on August 31, 2007.

SUMMARY FINANCIAL INFORMATION

($ thousands, except per Trust unit amounts)	2008	2007
	Period ended March 31	Period ended March 31
Revenue from continuing operations	$ 20,821	$ 21,474
Gross margin from continuing operations[1]	$ 5,706	$ 4,283
Normalized EBITDAC [1]	$ 4,748	$ 2,819
Net income (loss) from continuing operations	$ 750	$ (3,394)
Per Trust unit - basic and diluted	$ 0.02	$ (0.14)
Funds from operations[1]	$ 4,139	$ 1,657
Per Trust unit - basic and diluted	$ 0.13	$ 0.07
Cash distributions declared per Trust unit	$ -	$ 0.065

[1] See definition within the *Non-GAAP Measures* section.

($ thousands, except per Trust unit amounts)	2008	2007
	Period ended March 31	Period ended December 31
Total assets	$ 87,304	$ 81,894
Debt and future capital obligations:		
Current	$ 45,245	$ 43,726
Long-term	$ 389	$ 475
Unitholders' equity	$ 35,985	$ 33,650

In the quarter ended March 31, 2008 the Trust showed improved income and cash flow compared to the first quarter of 2007, on lower revenues. The reduction in revenues reflects lower oil and gas industry activity in the period, with average industry drilling rig utilization of approximately 56% in the quarter, compared to 63% in the first quarter of 2007. The improvement in gross margin from 20% to 27%, combined with lower administrative costs and cash interest costs, led to a significant improvement in EBITDAC for the quarter. The improved gross margin related primarily to the drilling division, with utilization of 62% in the quarter ended March 31, 2008, compared to 41% in the quarter ended March 31, 2007. Other divisions continued to experience lower demand for energy services, greater competition among energy service providers and lower prices. This has negatively impacted in the downhole services, transport, production services and rental divisions.

Natural gas prices strengthened during the quarter with North American natural gas storage at March 31, 2008 below 2006 and 2007 levels and closer to historical averages. These stronger prices are holding through April which combined with strong crude oil prices, may have a positive effect on oil and gas industry activity in western Canada in the remainder of 2008. In April the Alberta government indicated a willingness to address "unintended consequences" of its new royalty regime by announcing two new royalty programs to encourage development of deep oil and gas wells. These programs are positive indicators for the oil and gas industry in Alberta and may have a positive effect on a number of BlackWatch's businesses.

The Trust has instituted a program to dispose of underutilized assets in its Downhole services group. As of May 9th BlackWatch has sold three electric-line units for net proceeds of $1.7 million. BlackWatch hopes to dispose of other underutilized assets in the coming months. The Trust intends to use the proceeds from these asset sales to pay down the senior debt.

BlackWatch is completing the construction of the telescopic double pad rig ("Rig #11") begun in 2006. During the quarter it entered into a new take-or-pay contract with an intermediate oil and gas producer for Rig #11. The agreement provides for a commitment of 200 days per year for two years. BlackWatch plans to complete the rig in the fall of 2008.

RESULTS OF OPERATIONS

($ thousands)	Three months ended March 31,	
	2008	**2007**
Revenue	$ 20,821	$ 24,131
Less: revenue from discontinued operations	-	2,657
Revenue from continuing operations	20,821	21,474
Operating Expenses		
Labour	7,929	9,969
Fuel	1,813	1,734
Repairs and maintenance	1,313	1,793
Sub-contractors	1,081	2,044
Other	3,005	4,721
Total	15,141	20,261
Less: expenses from discountinued operations	26	3,070
Expenses from continuing operations	$ 15,115	$ 17,191
Gross margin from continuing operations	$ 5,706	$ 4,283

There has been a general slowdown, year over year, in energy service activity in the western Canadian sedimentary basin. Although not as significant as the declines in drilling activity in late 2006 and during the 2007 winter drilling season, the 2008 winter drilling season activity for the energy services industry was again lower when compared to the first quarter of 2007. In spite of these lower industry activity levels, the drilling division showed significant improvement, achieving a utilization rate of 62% compared to 41% in the first quarter of 2007, and bettered the industry average drilling rig utilization of 56% (62% - Q1 2007). The improvement in utilization, revenues and margins in the drilling division were primarily the result of the initiatives to diversify of service lines begun in late 2007. The other divisions all experienced lower revenues and margins because of the reduced activity levels, resulting in lower demand, increased competition and lower prices for energy services.

Operating expenses consist of wages and benefits of operating personnel, sub-contractors, fuel, repairs and maintenance and other direct costs of the operating divisions. Operating expenses from continuing operations as a percentage of revenue from continuing operations were 73% in the quarter ended March 31, 2008 versus 80% for the quarter ended March 31, 2007, on lower revenues. Labour costs, which represent the most significant component of operating expenses, dropped from 41% of revenues in the quarter ended March 31, 2007 to 38% in the first quarter of 2008. This occurred because of a shift in product mix to emphasize drilling, which uses more variable labour as well as changes in field bonus and guarantee arrangements within some of the operating divisions. There is a fixed component to our costs, especially labour, that does not vary with activity or revenue levels and it would be normal to expect operating expenses to increase as a percentage of revenue in periods of declining prices and activity levels. The overall reduction in operating costs and labour costs specifically as a percentage of revenues in the first quarter compared to 2007 reflects the effectiveness of the cost-cutting initiatives undertaken in the latter half of 2007.

Fuel costs increased from 7% of revenues during the first quarter of 2007 to 9% in 2008, which reflects an increase in the average price of gasoline and diesel fuel of approximately $0.25 or 30% per litre. Subcontractor costs declined from 8% of revenues to 5% in 2008. Most of this change results because of the sale of the pipeline division in late 2007, which relied heavily on subcontracted services. Repairs and maintenance declined from 7% of revenues in the quarter ended March 31, 2007 to 6% in 2008. In 2008 the Trust has continued to focus its repairs and maintenance efforts on high utilization assets while demobilizing underutilized assets. Furthermore, management has implemented strict cost controls and expenditure approvals for repairs and maintenance programs.

These controls, combined with the more robust preventative maintenance program, allowed the Trust to limit repairs and maintenance expenses in the period and reduce unexpected repairs. Other operating costs declined from 20% of revenues in the quarter ended March 31, 2007 to 14% in 2008. These costs include field office and shop lease costs, insurance, vehicle lease, materials and supplies, telephone and other communication costs and equipment rentals. The decline from 2007 to 2008 primarily reflects the reduction in materials and supplies related to coil tubing usage in the downhole services division and the sale of the pipeline division in August 2007.

($ thousands)	For the period ended March 31, 2008						
	Consolidated	Drilling	Downhole Services	Transport	Production Services	Rentals	Pipeline
Revenue	$ 20,821	$ 11,788	$ 3,515	$ 2,776	$ 1,203	$ 1,539	$ -
Revenue from discontinued operations	-	-	-	-	-	-	-
Revenue from continuing operations	$ 20,821	$ 11,788	$ 3,515	$ 2,776	$ 1,203	$ 1,539	$ -
Operating Expenses							
Labour	$ 7,929	$ 4,386	$ 1,598	$ 783	$ 585	$ 577	$ -
Fuel	1,813	956	207	349	127	174	-
Repairs and maintenance	1,313	593	321	174	109	116	-
Sub-contractors	1,081	99	113	624	7	238	-
Other	3,005	1,010	1,251	276	238	204	26
	$ 15,141	$ 7,044	$ 3,490	$ 2,206	$ 1,066	$ 1,309	$ 26
Less: operating expenses from discountinued operations	26	-	-	-	-	-	26
Total operating expenses from continuing operations	15,115	7,044	3,490	2,206	1,066	1,309	-
Gross Margin from continuing operations	$ 5,706	$ 4,744	$ 25	$ 570	$ 137	$ 230	$ -

($ thousands)	For the period ended March 31, 2007						
	Consolidated	Drilling	Downhole Services	Transport	Production Services	Rentals	Pipeline
Revenue	$ 24,131	$ 6,441	$ 7,809	$ 3,190	$ 1,840	$ 2,194	$ 2,657
Revenue from discontinued operations	2,657	-	-	-	-	-	2,657
Revenue from continuing operations	$ 21,474	$ 6,441	$ 7,809	$ 3,190	$ 1,840	$ 2,194	$ -
Operating Expenses							
Labour	$ 9,969	$ 2,867	$ 3,073	$ 841	$ 1,015	$ 725	$ 1,448
Fuel	1,734	422	489	300	132	225	166
Repairs and maintenance	1,793	657	478	219	108	182	149
Sub-contractors	2,044	79	225	645	46	246	803
Other	4,721	785	2,333	358	464	277	504
	$ 20,261	$ 4,810	$ 6,598	$ 2,363	$ 1,765	$ 1,655	$ 3,070
Less: operating expenses from discountinued operations	3,070	-	-	-	-	-	3,070
Total operating expenses from continuing operations	17,191	4,810	6,598	2,363	1,765	1,655	-
Gross Margin from continuing operations	$ 4,283	$ 1,631	$ 1,211	$ 827	$ 75	$ 539	$ -

Contract Drilling

The drilling division generated revenues of $11.8 million during the first quarter of 2008 versus $6.4 million during the same period last year. Gross margin was $4.7 million (40% of drilling revenues) in 2008 compared to $1.6 million (25% of drilling revenues) in 2007. Industry average rig utilization was 56% in the quarter ended March 31, 2008, down from 62% in the same quarter last year. BlackWatch operated ten rigs (eight in 2007) achieving an average utilization rate of 62% (41% - 2007). The rise in the average utilization rate is a direct result of diversification of drilling services within the division. The addition of oil sands coring and casing drilling services lifted total drilling days for the quarter by 53% to 564 drilling days from the 369 drilling days generated last year. First quarter 2007 activities were closely tied to spot market work in the shallow gas and coal bed methane drilling activities, which were subsequently depressed by the falling natural gas prices and continued the industry wide declines which began in 2006. In addition, one customer that represented a significant portion of the Trust's drilling business significantly reduced its shallow development drilling program in early 2007. The success of the winter 2008 coring and casing drilling programs has opened the door for more of these projects in the future. In 2008, a diversification of the client base and concentration on more lucrative market segments saw average drilling rates improve by almost $3,000 per day thereby improving overall margins for the division.

Daily labour costs for rig crews remain consistent quarter over quarter but higher day rates reduced labour costs as a percentage of revenues from 45% in 2007 to 37% in 2008. Fuel, as a percentage of revenue increased slightly from 7% to 8%, reflecting the general increase in fuel prices. Repairs and maintenance as a percentage of revenue improved from an average of 10% in 2007 down to 5% in 2008. The decline occurred because more repairs were completed in-house and because drilling activity in 2007 was more geographically widespread. Repairs had to be conducted by third-parties in more remote locations in 2007 leading to increased repair charges during the 2007 drilling season. Other expenses decreased from 12% of revenues in 2007 to 9% in 2008 because of the higher revenues and the fixed nature of many of these expenses.

Production Services

During the first quarter of 2008 production services generated revenues of $1.2 million compared to $1.8 million during the same period last year. This reduction is the result of generally lower oilfield activity, with revenues from the largest customer approximately $350,000 lower in 2008 compared to 2007. The Trust expects that the purchase of flow back tanks discussed in *Capital Expenditures section* will have a positive effect on revenues in future periods. Labour costs as a percentage of revenue decreased from 55% to 49% quarter over quarter, reflecting the elimination of minimum guarantee compensation arrangements after the first quarter of 2007. Fuel costs increased from 7% to 11% of revenues on higher fuel costs. Repairs and Maintenance are up slightly due to a major repair associated with one of the hot oiler units during the quarter.

Transportation

The transport division generated revenues of $2.8 million in 2008 compared to $3.2 million during the same quarter last year. The decline in revenues is primarily the result of lower industry activity. The transport division has reduced its reliance on a small number of customers. In the first quarter of 2007, 86% of the revenues were earned from two major clients. The loss of one of those clients caused a significant decrease in revenues in the division in 2007. This division focused on diversifying its client base over the last year and in the first quarter of 2008 that concentration is reduced, with 10 clients contributing 85% of revenues. Labour costs increased to 28% of revenues because of a tighter labour market and the introduction of guarantees for employee retention. Repairs and maintenance and other expenses are down slightly, as a percent of revenues, on tighter spending restrictions. Subcontractor costs increased from 20% to 22% of revenues because the division was unable to hire sufficient qualified personnel due to tight labour market conditions in this busy period and had to supplement its workforce with subcontractors.

Rentals

The rentals division generated revenues of $1.5 million in the period ended March 31, 2008, compared to $2.2 million during the same quarter last year. Gross margins were $230,000 (15% of rentals revenues) in the first quarter of 2008, compared to $539,000 (25% of rentals revenue) in the same period in 2007, reflecting the lower revenues. The decline in revenue and gross margin is the result of lower industry activity in our rental service areas, resulting in increased competition and lower pricing. This resulted in price discounts of up to 70% on some of the rental lines. Labour costs are up as a percent of revenues because a large portion of employee costs in this division are fixed. Fuel as a percentage of revenue is slightly higher than the first quarter 2007 because of higher fuel prices. Repairs and maintenance is lower due to tighter costs controls over spending. Subcontractor costs relate primarily to contractors hired to haul rental equipment. The proportion of revenue in the rental division earned from transport of the rental units increased in the first quarter of 2008, which resulted in more reliance on subcontractors and increased the subcontractor expense as a proportion of revenue.

Downhole Services

In the first quarter of 2008 the downhole services division generated revenues of $3.5 million, compared to $7.8 million during the same quarter last year. Gross margin was $0.03 million (1% of downhole services revenue) and $1.2 million (16% of downhole services revenue) in the three months ended March 31, 2008 and 2007, respectively. The reduction in revenues and margins related primarily to a $3.5 million reduction in coil tubing revenues due to declines in shallow gas activity. Efforts to reduce costs, such as staff reductions and closing service locations associated with coil tubing services in late 2007 were offset by high fixed compensation costs associated with attracting and retaining qualified personnel to operate the remaining equipment. Fuel costs as a percentage of revenues remain consistent between quarters as better cost controls and logistics management offset higher fuel costs. Repairs and maintenance edged higher by 3% of revenues to 9% due to re-certifications of equipment that occurred during the quarter. Sub-contractor costs are almost entirely variable and remained at approximately 3% of revenues. Other expenses increased from 30% of revenues in the three months ended March 31, 2007 to 36% of revenues in the first quarter of 2008. The increase occurred because other costs include a large fixed component that does not vary with activity.

Selling, General and Administrative Expenses

($ thousands, except where otherwise indicated)	Period ended March 31, 2008	2007
Selling, general and administrative	$ 958	$ 1,507
Percentage of revenue from continuing operations	5%	7%

All costs included in this caption are incurred at a corporate or head office level. Any support costs incurred directly by the operating divisions are classified as operating expenses.

In the quarter ended March 31, 2008 the Trust reduced SG&A compared to the first quarter of 2007 by 36%. This reduction was achieved through various cost rationalization initiatives that were implemented in 2007, including head count reductions, revisions to the Trust's benefit programs, reduction in office space, an increased focus on discretionary expenditures and the reduction in outsourced services. In 2008 the Trust is continuing these initiatives although it is unlikely we will achieve the same year over year cost reductions over the remainder of 2008. Corporate office staff complement was reduced from an average of over 30 people in the first quarter of 2007 to 22 people in the first quarter of 2008.

Interest Expense on Debt

($ thousands)	Period ended March 31, 2008	2007
Interest on debt	$ 1,169	$ 1,033
Other interest and bank charges	325	141
Total interest expense	$ 1,494	$ 1,174

Interest in the period ended March 31, 2008 compared to March 31, 2007 has increased because debt is lower, offset by the higher interest costs associated with the debt, which increased the average blended interest rate on the outstanding debt by approximately 3%.

The Trust has incurred interest on its senior credit facility of $496,000 (2007 - $1 million) in the period ended March 31, 2008. The interest rate for this period ranged from 7.875% - 8.625% in the three months ended March 31, 2008 (2007 – 7.125%). The Trust's interest rate increased from prime plus 1.125% to prime plus 2.625% due to the terms of the amended credit facility that was entered into on October 4th, 2007. The prime lending rate decreased from 4.25% to 3.50% in the period ended March 31, 2008.

In the period ended March 31, 2008 interest of $673,000 (2007 - $ nil) was incurred on the subordinated loan which did not exist in the first quarter of 2007. Interest on the subordinated debt for the period was 12% and the interest for the quarter was settled through the issuance of 1,032,448 Trust units on April 5, 2008. Interest on the subordinated loan will be 15% in the second quarter of 2008.

Other interest and bank charges consist primarily of amortization of financing charges incurred by the Trust as part of the renewal of the syndicated senior credit facility and the initiation of the subordinated debt facility.

Depreciation and Amortization

($ thousands)	Period ended March 31,	
	2008	**2007**
Depreciation and amortization	$ 2,394	$ 5,049
Depreciation and amortization from discountinued operations	$ -	$ 111
Depreciation and amortization from continuing operations	$ 2,394	$ 4,938

Depreciation and amortization has decreased by 52% in the three months ended March 31, 2008 compared to the quarter ended March 31, 2007. The breakdown of depreciation and amortization in 2007 was as follows, capital assets $2.8 million and amortization of intangibles $2.2 million. In the first quarter of 2008 there is no amortization on intangibles as they were fully amortized as of December 31, 2007. Depreciation has decreased because of the lower net book value at March 31, 2008, reflecting 2007 depreciation and impairment charges, somewhat offset by increased utilization and depreciation on drilling rigs.

INCOME TAXES

In June 2007, legislation concerning the taxation of certain publicly traded trusts was enacted. The new regime imposes a tax of 31.5% on distributed trust income derived from certain sources beginning in 2011. As a result, the Trust has calculated its future tax asset in the period ended March 31, 2008. The future tax liability related to the excess of the net book value over related tax pools indicates a future tax liability of approximately $6.1 million, which is offset by a future income tax asset of $7.9 million related to non-capital tax loss carryforwards and share issue costs available to offset future income. The net future tax asset is not recorded because of the uncertainty of future taxable income to realize the tax asset.

INVESTING ACTIVITIES

Capital Expenditures

Capital costs consist of either growth or maintenance expenditures. Maintenance capital expenditures reflect the costs of replacing existing assets. Growth capital expenditures reflect investment costs to generate incremental productive capacity.

The $1.4 million of capital expenditures incurred during the period ended March 31, 2008 were growth expenditures, primarily consisting of:

- $112,000 within the drilling division for the purchase of drill pipe
- $921,000 in the production services division which relates to the construction of a new brine plant, trailers and the purchase of 148 flow back tanks and related equipment.
- $292,000 within the transport division for the purchase of a new winch truck and the other transportation related equipment.

The Trust's capital expenditures for the period ended were funded from operating cash flows or drawn on the senior credit facility.

RELATED PARTY TRANSACTIONS

During the period ended March 31, 2008, the Trust incurred expenses of $129,000 (2007, $192,000) relating to the rental of land, buildings and equipment owned by certain officers who are also unitholders of the Trust. The Trust has incurred legal fees with a legal firm in which one of the Trust's directors is a partner in the amount of $59,000 (2007, $86,000). These fees relate to work completed on the credit facility and general corporate matters. Of these fees $88,000 (2008, $86,000) is included in accounts payable as at March 31, 2008. On April 3, 2008 the Trust issued 1,032,488 million units to settle interest charges on subordinated debt and 947,062 units to settle the commitment fee associated with the extension of the subordinated debt. The agreement to issue these units was executed on March 31, 2008. See further details in *Note 4(ii)* in the *Consolidated Financial Statements*. These transactions were completed at exchange values which approximate fair values.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2008 the Trust had drawn approximately $22.6 million of its available $29 million syndicated senior credit facility and had drawn $22.5 million under the subordinated loan. Additional debt of approximately $749,000 is outstanding related to lease financing on capital equipment, which are subject to fixed interest rates. See further details below within the *Contractual Obligations and Commitments* section. As at May 9, 2008 the Trust had drawn approximately $17 million of the senior credit facility. The amount drawn on the senior credit facility will be paid down as working capital built up in the more seasonally active first quarter is realized.

The Trust agreed to an extension of the subordinated loan to September 1, 2008. As part of the extension of the subordinated loan, the total available under the facility was increased to $27.5 million, with the additional amount available, at the lender's discretion, for capital acquisitions.

A financial covenant under the senior credit agreement requires that, commencing December 31, 2007, the Trust shall ensure that Cumulative Adjusted EBITDA, less interest, tax and lease payments, from October 1, 2007 shall be greater than zero. The senior lenders waived this covenant for the fourth quarter of 2007. As a condition of that waiver, the $35 million maximum available under the facility has been reduced to $29 million effective March 31, 2007 and will be reduced to $25 million on June 1, 2008. The Trust was in compliance with this covenant at March 31, 2008.

Funds from operations

($ thousands)	Three months ended March 31,			
		2008		2007
Income (loss) for the period from continuing operations	$	750	$	(3,394)
Add: Depreciation and amortization		2,394		4,938
Add: Unit based compensation expense		101		-
Add: Non cash interest		673		-
Add: Amortization of financing charges		221		113
Funds from operations	$	4,139	$	1,657

Earnings Before Interest, Depreciation and Amortization, Tax and Unit Compensation

($ thousands)	Three months ended March 31,			
		2008		2007
Net income (loss) from continuing operations	$	750	$	(3,394)
Add: Depreciation and amortization		2,394		4,938
Add: Interest		1,494		1,174
Add: Unit compensation		110		29
Add: Income tax		-		72
EBITDAC from continuing operations	$	4,748	$	2,819

Energy service activity and demand remains uncertain in 2008, which may require BlackWatch to take further steps over the coming months to maintain financial viability. BlackWatch must extend or refinance its senior and subordinated debt in 2008. The Trust will continue to evaluate its cost structure to attempt to match it to lower activity levels, limit its capital additions to those providing immediate cash flow, rationalize underutilized assets and consider ceasing loss producing operations.

As at March 31, 2008, the Trust has incurred approximately $5.6 million relating to the construction of a telescopic double drilling rig ("Rig #11"), less a $1.4 million fee received on the take-or-pay contract. BlackWatch intends to complete Rig #11 in 2008, funded using the fee received as part of the take-or-pay contract, with the balance drawn from its senior credit facility.

It is expected that funds from operations and the available capacity under the subordinated loan will be the primary sources of funding for other future capital expenditures. The Trust made significant investments in new equipment in 2006 and early 2007 so its fleet of equipment is relatively new. BlackWatch is planning limited capital expenditures for the remainder of 2008, focused on accessing higher margin business and improving utilization of existing assets.

For further details on the Trust's liquidity see *Distributions, Contractual Obligations and Commitments, Financial Risks and Uncertainties* and the *Outlook* sections below.

UNITHOLDERS' CAPITAL

As of May 9, 2008 the Trust had issued 29,683,047 Class A Trust Units, 4,471,267 Class B Exchangeable Units, 3,000,000 warrants for the purchase of Class A Trust Units and 2,386,250 options to purchase Class A Trust Units.

On January 4, 2008 the Trust issued 792,271 units in exchange for interest accrued on the $22.5 million subordinated loan. The units were issued to settle $521,000 of interest accrued during the period of October 4, 2007 to December 31, 2007.

On April 3, 2008 the Trust issued 1,032,488 million units in exchange for interest accrued on the $22.5 million subordinated loan and 947,062 units as compensation for a commitment fee associated with the extension of the subordinated loan.

DISTRIBUTIONS

Standardized distributable cash is calculated as follows:

($ thousands)	Period ended March 31,	
	2008	2007
Funds from operations	$ 4,139	$ 1,657
Deduct:		
Property, plant and equipment expenditures, net of proceeds from disposals	(899)	(5,099)
Standardized distributable cash	$ 3,240	$ (3,442)

The Trust’s calculation of standardized distributable cash conforms, in all material respects, with the recommendations of the Canadian Institute of Chartered Accountants publication *Standardized Distributable Cash in Income Trusts and other Flow-Through Entities: Guidance on Preparation and Disclosure.*

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Trust has various vehicle and equipment obligations under capital leases with interest rates ranging from non-interest bearing to 14.2%. The leases have expiry dates ranging from May 2008 through June 2011.

The following table summarizes the amount of contractual obligations for each of the next five years:

($ thousands)	Payments due by period					
Contractual obligations	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**
Debt	$ 44,885	$ 44,885	$ -	$ -	$ -	$ -
Capital lease obligations	749	273	291	135	50	-
Operating leases	5,275	1,829	1,415	1,176	549	306
Purchase obligations	-	-	-	-	-	-
Other long term obligations	-	-	-	-	-	-
Total contruactual obligations	$ 50,909	$ 46,987	$ 1,706	$ 1,311	$ 599	$ 306

SUMMARY OF QUARTERLY RESULTS

($ thousands, except per Trust unit amounts)	2008	2007				2006	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue from continuing operations	20,821	$ 8,300	$ 9,795	$ 4,609	$ 21,656	$ 13,438	$ 8,984
Gross margin from continuing operations	5,706	$ 483	$ 767	$ (4,341)	$ 3,870	$ 1,222	$ 2,685
Selling, general and administrative expenses	$ 958	$ 974	$ 726	$ 1,225	$ 1,507	$ 1,598	$ 615
Net income (loss) from continuing operations	$ 750	$ (19,362)	$ (3,827)	$ (16,862)	$ (3,918)	$ (161,639)	$ (1,233)
Per Trust unit - basic	$ 0.02	$ (0.62)	$ (0.14)	$ (0.68)	$ (0.16)	$ (6.54)	$ (0.10)
Per Trust unit - diluted	$ 0.02	$ (0.62)	$ (0.14)	$ (0.68)	$ (0.16)	$ (6.54)	$ (0.10)
Funds from continuing operations	$ 4,139	$ (937)	$ (1,057)	$ (6,679)	$ 1,244	$ (1,132)	$ 1,114
Per Trust unit - basic	$ 0.13	$ (0.03)	$ (0.04)	$ (0.27)	$ 0.05	$ (0.05)	$ 0.09
Per Trust unit - diluted	$ 0.13	$ (0.03)	$ (0.04)	$ (0.27)	$ 0.05	$ (0.05)	$ 0.09
Weighted average Trust units - basic	32,174	31,320	27,482	24,781	24,781	24,724	12,188
Weighted average Trust units - diluted	32,187	31,333	27,482	24,805	24,808	24,754	12,323
Trust units, end of period	34,154	32,174	29,499	24,781	24,781	24,781	24,206

[1] Revenue in Q1 2007 includes $182,000 which was generated by the pipline construction division from other divisions of the Trust

Variances between the quarters are primarily due to seasonality and a weakening of oil fields services activity throughout 2007. Traditionally, second quarter results are the weakest for oil and gas services companies (see "Seasonality" below) and in 2007 the sector experienced a longer than normal spring breakup followed by significant amounts of precipitation in June. In 2006 the third quarter only reflects 55 days of operations.

SEASONALITY

The geographical region within which the Trust operates is subject to significant changes in activity levels as a result of seasonal weather patterns. Historically oilfield service activities are higher in the first and fourth quarters of the year, resulting in higher revenues in those periods. Spring weather, due to melting snow and rain, impacts the accessibility of work sites because of road bans implemented to avoid damage to secondary roads. These conditions are normally seen during the months of April and May; however, the timing and duration may vary. In addition, the temperature conditions experienced within the winter season can impact the levels of service demand. Abnormally cold or warm temperatures can affect the ability to perform work and, therefore, decrease activity and utilization rates.

OFF-BALANCE SHEET ARRANGEMENTS

The Trust has not entered into any off-balance sheet arrangements as at March 31, 2008.

FINANCIAL INSTRUMENTS

Financial instruments of the Trust consist of accounts receivable, marketable securities, accounts payable and accrued liabilities, obligations under capital lease and finance contracts and debt. There are no significant differences between the net carrying value of these financial instruments and their fair value. The Trust is exposed to credit risks on its accounts receivable because it grants credit to customers in the normal course of business. That credit risk is concentrated because most accounts receivable are from entities in the oil and gas industry but, this risk is mitigated to the extent possible by regular reviews of outstanding accounts receivable, monitoring of the financial status of customers and termination of credit to customers with poor payment history.

The Trust is exposed to fluctuations in interest rates on its senior credit facility, which bears interest at floating rates.

FINANCIAL RISKS AND UNCERTAINTIES

Access to Financing

The Trust has senior debt of approximately $22.6 million and subordinated debt of $22.5 million outstanding as of March 31, 2008. The senior credit facility and the subordinated loan mature on June 30, 2008 and September 1, 2008, respectively. It is uncertain if, or on what terms, the lenders will provide a renewal of these facilities when they mature or if alternative lenders can be found. The senior credit facility is subject to financial as well as non-financial covenants. If the trust is not in compliance with these covenants, the senior lenders may accelerate the maturity of the facility prior to June 30, 2008.

Customer Dependence

The top five customers of the Trust accounted for approximately 54% of the reported revenues and its largest customer accounted for 17% of reported revenues. The Trust also has 3 customers which account for greater then 10% of revenue in the period ended March 31, 2008. The Trust does not generally enter into long-term contracts with its customers and there can be no assurance of continued relationships. The loss of one or more major customers, or any significant decrease to services provided to a customer, prices paid or any other changes to the terms of services with customers, could have a material adverse effect on the Trust's business, financial condition, results of operations and cash flows and, therefore, on distributable income to be distributed to Unitholders.

Management regularly reviews the status of all outstanding aged accounts receivable. When it is determined that there is evidence of non-collectability, Management ensures that adequate provisions are provided and that appropriate collection activity is undertaken.

As discussed elsewhere in this MD&A, the Trust is completing construction of a telescopic double drilling rig in connection with a two year take or pay agreement with a single customer. There can be no assurance that this customer will remain solvent to meet its obligations under the contract or that other work may be found to utilize this rig if this customer cannot meet those obligations.

Commodity Price Risk

Lower commodity prices have a direct impact on the Trust's customers' ability to generate cash flows, which in turn directly impacts the demand for services. These factors are beyond the Trust's control and, therefore, represent significant business uncertainty.

Legislation

Both federal and provincial legislation in respect of Trust taxation, environmental regulation and health and safety matters have a direct impact on the Trust's processes by which it conducts its operations and its ability to generate distributable cash flow. Legislation also impacts the operations of our customers, which may indirectly impact demand for our services.

Costs and Access to Labour and Materials

The Trust must access skilled labour and specialized materials to provide its services to its customers and, depending on their availability, these costs may increase disproportionately to a rate for which the Trust cannot compensate by increasing its charges or rates to customers, which would have a negative effect on revenue and cash flow.

Foreign Currency

The Trust does not currently engage in any significant purchases or sales transactions denominated in a non-domestic currency.

DISCLOSURE CONTROLS

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Trust's disclosure controls and procedures to provide reasonable assurance that material information related to the Trust is made known. In addition, internal controls over financial reporting have been designed by or have been caused to be designed under the supervision of the CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

The CEO and CFO have evaluated the effectiveness of the Trust's disclosure controls and procedures and assessed the design of the Trust's internal control over financial reporting as of March 31, 2008, pursuant to the requirements of Multilateral Instrument 52-109.

With respect to disclosure controls and procedures and internal controls over financial reporting, Management has concluded that, as of March 31, 2008, a weakness existed in the design and operating effectiveness of disclosure controls and the design of internal controls over financial reporting caused by failure of the Trust to formally communicate its policies and procedures documentation to all of its employees, including the Trust's expectations regarding whistle blowing practices, as well as various human resources policies including formal compensation and performance review procedures and certain other personnel policy items.

This identified weakness is mitigated by several factors including strong entity level controls comprised of significant officer and senior management review of financial reporting items, industry and corporate governance knowledge, and annual forecasting processes. It should be noted that these mitigating factors will not necessarily prevent the likelihood that a material misstatement will occur as a result of the aforementioned weakness.

Management and the Board are in the process of ensuring dissemination of all key policies, the requirement for annual acknowledgement of existence and understanding of said documents, as well as ongoing communication with senior Management to ensure any pertinent changes are made available to all personnel. All formal policies are expected to be developed and communicated by June 30, 2008.

FOREIGN OWNERSHIP

Based on information from the statutory declarations by unitholders, we estimate that, approximately 5% of our unitholders are non-Canadian residents with the remaining 95% being Canadian residents. The statutory declarations are only as of a specific record date, and therefore may still not reflect the current ownership level of the Trust's units; however, given the limitations in the securities registration system and the lack of any process for real-time residency information to flow to the trustee and transfer agent, the Trust is of the view that statutory declarations are currently the most appropriate method of determining the residency status of its Unitholders.

The Trust Indenture provides that not more than 49% of its Units can be held by non-Canadian residents. The Trust intends to require its Unitholders to complete statutory declarations as to their residency status each quarter to enable the Trust to monitor its level of non-Canadian resident ownership. The Trust Indenture requires all Unitholders to provide such statutory declarations when requested to do so by the trustee and transfer agent.

CHANGES IN ACCOUNTING POLICIES

(i) As of January 1, 2008, the Trust has adopted CICA Handbook Section 1535, Capital Disclosures, which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Trust has determined that the only impact is the disclosure contained in Note 8 to the *Consolidated Financial Statements*.

(ii) As of January 1, 2008, the Trust has adopted CICA Handbook Section 3031, Inventory. This new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after July 1, 2007. This new standard has no effect on the Trust's consolidated financial statements because the Trusts policies complied with the standard.

(iii) As of January 1, 2008, the Trust has adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentations. The only significant effect on the Trust's consolidated financial statements is the incremental disclosures in Note 7 to the *Consolidated Financial Statements* regarding the significance of financial instruments to the Trust's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the Trust is exposed.

(iv) The Trust presents the outstanding conversion feature on subordinated debt in their debt and equity component parts on the consolidated balance sheet. The debt and equity component is determined by valuing the equity component using the Black-Scholes option pricing model. The value determined for each component is then adjusted on a pro rata basis to ensure that the sum of the carrying amounts assigned to the components equals the amount of the consideration received for the conversion feature of the subordinated debt. The equity component of the convertible debenture is presented under "Unitholders' equity" in the consolidated balance sheet. Upon conversion of the subordinated debt into trust units by the holder, a proportionate amount of both debt and equity components are transferred to Unitholders capital. Interest expense for the subordinated debt is recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss) and Deficit as other interest, bank charges and financing charges.

Further details on the transitional impact of accounting changes and a discussion of recent accounting pronouncements are presented in Note 2 to the *Consolidated Financial Statements*.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with regard to the reported amount of revenues and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired, or the Trust's operating environment changes.

OUTLOOK

The outlook for the western Canadian energy services sector for 2008 and beyond is largely dependant on capital spending by oil and natural gas explorers and producers which are in turn heavily influenced by North American natural gas prices. The first quarter of 2008 has seen some improvements in natural gas prices. We saw improvements in rig utilization in the first quarter of 2008 over the latter half of 2007, and industry sources are optimistic about oilfield activity for the remainder of the year. However, we are still seeing downward pressure on prices and gross margins for our services in many areas.

BlackWatch has undertaken several initiatives designed to provide service differentiation, help it compete for work and diversify to a broader range of industry activity. For example, in the quarter ended March 31, 2008 BlackWatch added significant drilling activity through oilsands related drilling and coring work, allowing us to participate in the growing market for oilsands development. BlackWatch entered into an agreement with an intermediate oil and gas producer for the use of a telescopic double drilling rig that is currently under construction. The agreement provides for a commitment of 200 days per year for two years and a separate cash payment to BlackWatch. The rig is anticipated to be completed and operating in the third quarter. In March 2008 BlackWatch acquired 148 flow-back tanks and related equipment which, when combined with its existing production services, completes its offering of fluid support services used for the completion, stimulation and production of oil and gas wells.

BlackWatch has tested and employed the capability to drill wells with casing which, in certain applications, eliminates the need for drill pipe and reduces drilling time. Casing drilling can increase drilling efficiency significantly and has the potential to reduce formation damage associated with fluid exposure and pressure surges. A number of BlackWatch's rigs are also well-suited to safely drill with air, as an alternative to conventional drilling using fluids. The design of our rigs allows this to be done without the addition of major equipment or service interfaces, resulting in very cost effective service versus typical air drilling operations. Drilling with air substantially increases drilling efficiency and imparts minimal formation damage, a critical issue in coal bed methane and shallow gas developments. We have tested the combination of drilling with casing, using air rather than fluids, resulting in significantly higher penetration rates. This combines the drilling efficiencies and other benefits of each technique, and creates a unique way to differentiate our drilling services. We have begun to utilize those techniques as a means of marketing our services to new, larger customers.

In 2008 BlackWatch should continue to benefit from two new completion services that were added in late 2007: 1) proprietary propellant technology to enhance perforation performance for little incremental cost, using licensed technologies; 2) pipe recovery equipment and expertise for both open-hole and cased-hole applications. By mid 2008 we expect to add a down-hole camera technology that can investigate well equipment problems and assist in directly evaluating production performance.

We believe that progressive actions such as these will result in continued improvement in the Trust's performance.

BlackWatch recognizes that significant challenges remain, and we are taking a systematic approach to addressing them. We continue to take steps to stabilize the business financially and are addressing the opportunities available to us to position BlackWatch for success. Our goal is to create an entity that is viable during periods of low economic activity but which is able to take full advantage of a future recovery. Management believe that the long term viability of the western Canadian sedimentary basin is supported by both declining oil and gas well production rates and overall increases in the global demand for energy.

FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking information and statements relating to the Trust's plans, strategies, objectives, expectations and intentions. Expressions such as "may", "anticipate", "expect", "project", "believe", "estimate", "intend" and "forecast" and similar expressions and statements relate to matters that are not historical facts and should be used to identify these forward-looking statements. These statements may include, but are not limited to, future oil and gas service activity, future capital expenditures, future financial resources and specific events and trends in the oil and gas industry. The Trust believes that the expressions reflected in those forward-looking statements are reasonable, but such statements are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward-looking statements. These statements speak only as of the date of the MD&A and the Trust does not assume any obligation to update these forward-looking statements, except as required by law.

NON-GAAP MEASURES

Throughout this MD&A, certain terms that are not specifically defined in Canadian generally accepted accounting principles ("GAAP") are used to analyze operations. In addition to the primary measures of net earnings and net earnings per unit, as recognized under GAAP, Management believes that certain measures not recognized under GAAP assist management and the reader in assessing the Trust's performance and understanding the Trust's results. Each of these measures provides the reader with additional insight into the Trust's performance.

- Gross margin – This measure is considered a primary indicator of operating performance and is calculated as revenue less operating expenses.
- EBITDAC (Earnings before interest, income taxes, depreciation and amortization and unit based compensation) – This measure is considered an indicator of the Trust's ability to generate funds in order to meet ongoing operating commitments, servicing of debt, funding for capital programs and distributions.
- Funds from operations – This measure is an indicator of the Trust's ability to generate funds in order to fund ongoing operating commitments, service debt, fund capital programs, pay interest and income tax charges and make distributions. Funds from operations are defined as cash flow from operations before changes in non-cash working capital.
- Working capital – This term is defined as current assets less current liabilities excluding the current portion of long-term debt and lease and finance contract obligations.
- Standardized distributable cash – This term is defined as cash flows from operations, including the effects of changes in non-cash working capital and any operating cash flows provided or used in discontinued operations, less adjustments for: (a) total capital expenditures and (b) restrictions on distributions from compliance with financial covenants at the date of the calculation and limitations arising from the existence of a minority interest in a subsidiary.

The above noted measures are not recognized under GAAP. As a result, the method of calculation may not be comparable with other companies or trusts. These measures should not be considered alternatives to net earnings and net earnings per unit as calculated in accordance with GAAP.

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President and Chief Executive Officer

Wiley Auch
VP Finance and CFO

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Toronto Stock Exchange

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BlackWatch Energy Services Trust
Consolidated Balance Sheets
(Unaudited)

(Stated in thousands of Canadian dollars)	As at March 31, 2008	As at December 31, 2007
Assets		
Current Assets		
Marketable securities	$ -	$ 48
Accounts receivable	14,929	6,345
Prepaid expenses and deposits	593	821
	15,522	7,214
Inventory	2,080	2,108
Property, plant and equipment (Note 3)	69,702	72,572
	$ 87,304	$ 81,894
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 5,620	$ 3,978
Taxes payable	65	65
Debt (Note 4)	44,885	43,363
Current portions of obligations under capital leases	360	363
	50,930	47,769
Obligations under capital leases	389	475
	51,319	48,244
Basis of presentation (Note 1)		
Unitholders' equity		
Trust units (Note 5)	253,865	252,573
Contributed surplus (Note 5)	990	889
Conversion option on debt	248	-
Deficit	(219,118)	(219,812)
	35,985	33,650
	$ 87,304	$ 81,894

See accompanying notes to unaudited interim consolidated financial statements

BlackWatch Energy Services Trust
Consolidated Statements of Operations and Comprehensive Income (Loss) and Deficit
(Unaudited)

(Stated in thousands of Canadian dollars, except per unit amounts)	Three months ended March 31, 2008	Three months ended March 31, 2007
Revenue		
Service	$ 19,948	$ 19,709
Product	399	534
Rental	474	1,231
	20,821	21,474
Expenses		
Operating	15,115	17,191
Selling, general & administration	958	1,507
Depreciation and amortization (Note 3)	2,394	4,938
Unit based compensation	110	29
Other interest, bank charges and financing charges	325	141
Interest on debt	1,169	1,033
	20,071	24,839
Income (loss) before other items	**750**	**(3,365)**
Other income	-	43
Income (loss) from operations before income taxes	**750**	**(3,322)**
Income taxes		
Current	-	72
	-	72
Net income (loss) from continuing operations	750	(3,394)
Net loss from discountinued operations (Note 11)	(56)	(524)
Comprehensive income (loss) and net income (loss) for the period	694	(3,918)
Deficit, beginning of period	(219,812)	(174,118)
Distributions for the period	-	(1,611)
Deficit, end of period	$ (219,118)	$ (179,647)
Net income (loss) from continuing operations per unit - basic and diluted (Note 5)	$ 0.02	$ (0.14)
Net income (loss) from discountinued operations per unit - basic and diluted (Note 5)	$ -	$ (0.02)

See accompanying notes to unaudited interim consolidated financial statements

BlackWatch Energy Services Trust
Consolidated Statement of Cash Flows
(Unaudited)

(Stated in thousands of Canadian dollars)	Three months ended March 31, 2008	Three months ended March 31, 2007
Operating Activities		
Income (loss) for the period from continuing operations	$ 750	$ (3,394)
Items not requiring an outlay of cash:		
Depreciation and amortization	2,394	4,938
Unit based compensation expense	101	-
Non cash interest expense	673	-
Amortization of financing charges	221	113
	4,139	1,657
Change in non-cash working capital	(6,708)	(5,736)
Cash flows from continuing operations	(2,569)	(4,079)
Net loss from discontinued operations	(56)	(524)
Items not requiring an outlay of cash:		
Depreciation and amortization	-	111
Cash flow from discontinued operations	(56)	(413)
Financing Activities		
Repayment of capital leases	(89)	(184)
Increase in debt	2,000	11,738
Cash and cash equivalents, reclassified against debt	205	-
Distributions to unitholders	-	(3,881)
Financing charges	(37)	(122)
Change in non-cash working capital	(6)	-
Cash flows from continuing financing activities	2,073	7,551
Investing Activities		
Purchase of property, plant and equipment	(1,367)	(5,082)
Proceeds on disposal of property, plant and equipment	468	-
Fee for take-or-pay contract	1,375	-
Change in non-cash working capital	76	-
Cash flows from continuing investing activities	552	(5,082)
Purchase of capital assets	-	(17)
Cash flows from discontinued investing activities	-	(17)
Increase (decrease) in cash	-	(2,040)
Cash at beginning of period	-	3,958
Cash at end of period	$ -	$ 1,918
Supplementary cash flow information		
Cash interest paid	$ 496	$ 1,061
Cash taxes paid	$ -	$ 3,230

See accompanying notes to unaudited interim consolidated financial statements

1. Nature of operations and basis of presentation

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 oilfield 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.

These interim financial statements for BlackWatch were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Trust's consolidated audited financial statements for the year ended December 31, 2007 except as described in *Note 2*. These interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles in Canada for annual financial statements. As a result, these interim financial statements should be read in conjunction with the Trust's consolidated audited financial statements for the year ended December 31, 2007. In the opinion of Management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the consolidated results of its operations and cash flows for the three months ended March 31, 2008 and 2007.

Going concern

The Trust's financial statements as at and for the period ended March 31, 2008 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. In the year ended December 31, 2007, the Trust had a loss from continuing operations of $44 million and negative cash flow from continuing operations of $7.4 million. At March 31, 2008, the Trust had borrowed approximately $44.9 million under its existing senior credit facility and its subordinated debt facility.

The senior credit facility and the subordinated debt facility mature on June 30, 2008 and September 1, 2008, respectively. It is uncertain if, or on what terms, the respective lenders will provide a renewal of these facilities when they mature or if alternative lenders can be found. The continued support of its creditors, or an ability to re-finance the existing bank debt and subordinated debt, is necessary for the Trust to continue its operations. The interim financial statements do not reflect required adjustments should the going concern assumption no longer be appropriate.

2. Accounting policies

(i) As of January 1, 2008, the Trust adopted CICA Handbook Section 1535, Capital Disclosures, which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Trust has determined that the only impact is the disclosure contained in *Note 8.*

(ii) As of January 1, 2008, the Trust adopted CICA Handbook Section 3031, Inventory. This new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after July 1, 2007. This new standard has no effect on the Trust's consolidated financial statements because the Trust's existing accounting policies comply with the standard.

(iii) As of January 1, 2008, the Trust has adopted CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentations. The only significant effect on the Trust's consolidated financial statements is the incremental disclosures in *Note 7* regarding the significance of financial instruments to the Trust's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the Trust is exposed.

(iv) Conversion option on portion of subordinated debt

The Trust has presented the outstanding conversion option on a portion of subordinated debt. The value was determined using the Black-Scholes model using the following assumptions

Risk-free interest rate (%)	2.87
Expected life (Months)	5
Expected volatility (%)	50
Expected dividend yield	-
Fair value of conversion option ($/Unit)	0.0589

Upon conversion of a portion of the subordinated debt into trust units by the holder, a proportionate amount of both debt and equity components would be transferred to Unitholders capital. The accretion of the amounts netted against the subordinated debt is recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss) and Deficit as other interest, bank charges and financing charges.

(v) Earnings per unit

Basic earnings (loss) per Trust 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 Trust units rights and unit awards outstanding. Diluted earnings per unit is calculated using the "treasury stock" method for Trust units right and unit awards and the "if converted" method for convertible debentures.

3. Property, plant and equipment

March 31, 2008

($ thousands)	**Cost**	**Accumulated Depreciation**	**Net book value**
Drilling rigs	$ 30,426	$ (6,726)	$ 23,700
Coil tubing stands	411	(117)	294
Field service equipment	36,290	(12,077)	24,213
Shop tools and equipment	1,691	(454)	1,237
Computer equipment	863	(349)	514
Transport vehicles	14,015	(5,150)	8,865
Furniture and fixtures	385	(97)	288
Buildings	627	(38)	589
Rental equipment	6,689	(1,227)	5,462
Leaseholds	58	(17)	41
	$ 91,455	**$ (26,252)**	**$ 65,203**
Land	258	-	258
Assets under construction	4,241	-	4,241
	$ 95,954	**$ (26,252)**	**$ 69,702**

December 31, 2007

($ thousands)		Cost		Accumulated Depreciation		Net book value
Drilling rigs	$	30,449	$	(6,305)	$	24,144
Coil tubing stands		411		(99)		312
Field service equipment		36,225		(11,231)		24,994
Shop tools and equipment		1,687		(392)		1,295
Computer equipment		850		(294)		556
Transport vehicles		13,690		(4,423)		9,267
Furniture and fixtures		384		(98)		286
Buildings		627		(32)		595
Rental equipment		5,992		(1,045)		4,947
Leaseholds		49		(13)		36
	$	**90,364**	**$**	**(23,932)**	**$**	**66,432**
Land		258		-		258
Assets under construction		5,882		-		5,882
	$	**96,504**	**$**	**(23,932)**	**$**	**72,572**

At March 31, 2008, $1.3 million (December 31, 2007, $1.3 million) of equipment is subject to capital leases for which $338,000 of accumulated depreciation was recognized (2007, $200,000). These capital assets are included in the appropriate property, plant and equipment assets classes and depreciated based on the specified rate for that asset class. In the period ended March 31, 2008 the Trust received a break fee of $1.375 million from a contract that was renegotiated on an asset under construction. The funds received have been recorded as a reduction to the cost of the asset.

4. Debt

($ thousands)		As at March 31, 2008		As at December 31, 2007
Senior credit facility (i)	$	22,633	$	20,863
Subordinated debt (ii)		22,252		22,500
Debt		44,885		43,363

(i) Senior credit facility

The maximum amount available under the credit facility was reduced to $29 million effective March 31, 2008 and will be reduced further to $25 million on June 1, 2008.

The Trust's syndicated credit facility has the following two financial covenants:

1. Consolidated current assets to consolidated current liabilities excluding current portion of debt is not less than 1.25 to 1
2. Cumulative adjusted consolidated earnings before interest taxes depreciation and amortization ("EBITDA"), less interest, taxes and lease payments shall be equal or greater than zero.

The Trust was in compliance with its covenants at March 31, 2008.

(ii) Subordinated debt

On October 4, 2007, in conjunction with the closing of the amended and restated senior credit facility, the Trust also entered into a $22.5 million loan with an entity substantially owned by a Director. The subordinated loan is subordinated to the amended and restated senior credit facility and bore interest of 12% for the quarter ended March 31, 2008. Interest costs during the quarter were settled through the issuance of Trust units.

On March 31, 2008, the Trust reached an agreement with the subordinated lender to amend the terms of the subordinated debt facility as follows:

1. The maturity date was extended from December 31, 2007 to September 1, 2008.

2. The amount of the facility will be increased from $22.5 million to $27.5 million of which the Trust currently has $22.5 million drawn. The remaining $5 million may be drawn for capital expenditures and strategic acquisitions with the consent of the lender.

3. Interest on the facility will be payable quarterly at a rate of 12% per annum but: (i) if the ratio of the Trust's "Cash Flow" to "Net Debt" in the Trust's quarterly financial statements for the three months ended March 31, 2008 does not exceed 46%; or (ii) if the ratio of the Trust's "Cash Flow" to "Net Debt" in the Trust's quarterly financial statements for the three months ended June 30, 2008 does not exceed negative 17%; or (iii) if the ratio of the Trust's "Cash Flow" to "Net Debt" in the Trust's financial statements for the six months ended June 30, 2008 does not exceed 23%, the interest rate will increase to 15% in the subsequent quarter.

4. Interest will be payable in cash (subject to approval of the Trust's secured lenders) or through the issuance of Trust units at the option of the lender to be issued at a 10% discount to the 10 day weighted average trading price of the Trust units on the Toronto Stock Exchange (the "**TSX**") (as calculated for the ten trading days immediately prior to the interest payment date).

5. As consideration for extending the term and increasing the size of the subordinated facility, the lender was paid a fee equal to 2.75% of the loan commitment (being 2.75% of $22.5 million, or $618,750), payable at closing through the issuance of Trust units issuable at a price that reflects the 10% discount to the 10 day weighted average trading price on the TSX (as calculated for the ten trading days immediately prior to closing) *(Note 5)*.

6. The subordinated lender will have the right to convert up to 15% of the outstanding loan balance to Trust units at a conversion price of $0.80 per Trust unit from time to time until the facility is repaid in full. The number of options which have been valued are 4,218,750 and the fair value of the conversion option was determined to be $248,000 based on the following variables,

Risk-free interest rate (%)	2.87
Expected life (Months)	5
Expected volatility (%)	50
Expected dividend yield	-
Fair value of conversion option ($/Unit)	0.0589

This value has been netted against the face value of the debt which will be accreted as an additional financing charge over the five month term of the subordinated debt.

Accrued interest of $673,000 to March 31, 2008 was settled with the subordinated debt holder on April 5, 2008 through the issuance of Trust units.

At March 31, 2008, the Trust was in compliance with its debt covenants on the subordinated debt. Interest on the subordinated debt will be 15% in the second quarter as the "Cash Flow" to "Net Debt" ratio in the first quarter did not exceed 46%.

5. Unitholders' equity

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 Exchangeable Units of the Investment Partnership.

Trust Units[1]

(thousands)	Units		Amount
Balance, December 31, 2007	**27,568**	**$**	**204,514**
Conversion of Exchangeable Units	135		1,346
Trust units to be issued for interest and commitment fee[3]	1,980		1,292
Balance, March 31, 2008	**29,683**	**$**	**207,152**

Exchangeable Units[2]

(thousands)	Units		Amount
Balance, December 31, 2007	**4,606**	**$**	**48,059**
Conversion of Exchangeable Units	(135)		(1,346)
Balance, March 31, 2008	**4,471**	**$**	**46,713**

Total units outstanding, March 31, 2008	**34,154**	**$**	**253,865**

[1] Of the total Trust units that were issued, 3.5 million are held in escrow of which 3.4 million will be released on August 4, 2008 and 115,055 will be released on October 6, 2008.

[2] Of the total Exchangeable units outstanding at March 31, 2008, 86,290 are held in escrow and will be released on October 6, 2008.

[3] On April 3, 2008 the Trust issued 1,032,488 million units to settle interest charges on the subordinated debt and 947,062 units to settle the commitment fee associated with the extension of the subordinated debt *(Note 4ii).* The agreement to issue these units was executed on March 31, 2008.

The basic and diluted weighted average numbers of Trust units used in the calculation of income (loss) per unit for the period ended March 31, 2008 are summarized in the following table:

	For the period ended March 31,	
(thousands)	**2008**	**2007**
Weighted average Trust units - basic	32,174	24,781
Trust unit options exercisable for Trust units	-	-
Convertible debt convertible to Trust units	-	-
Unit awards convertible to Trust units	13	27
Weighted average Trust units for diluted net earnings	32,187	24,808

For the calculation of the weighted average number of diluted Trust units outstanding for the period ended March 31, 2008, 2.4 million (2007, 1.7 million) Trust unit options were excluded as they were determined to be anti-dilutive. 4.2 million (2007, nil) Trust units issuable relating to the conversion feature of the subordinated loan are also excluded as the agreement was not in place until March 31, 2008 *(Note 4ii).*

Contributed surplus

During the period, the Trust's contributed surplus has increased. The details of this increase are included in the following table:

($thousands)	Period Ended March 31, 2008
Ending balance as of December 31, 2007	889
Fair value of Trust unit options	101
Ending balance as of March 31, 2008	990

In the period ended March 31, 2008 the Trust has recorded unit based compensation expense in the amount of $110,000 of which $101,000 is expected to be settled through the issuance of Trust units and has been recorded in contributed surplus. The remaining $9,000 is expected to be settled through the issuance of cash and has been recorded as a liability of the Trust.

6. Segmented information

BlackWatch conducts its business through five operating segments: Downhole Services, Transport, Drilling, Production Services and Rentals.

<u>Downhole Services</u>

The downhole services division operates coiled tubing, electric wireline and swabbing units. The electric wireline units are used in the well completion process to deliver cased-hole logging tools and perforating guns or to install mechanical plugs in well bores. Coiled tubing units are used to deploy and retrieve downhole tools such as plugs, valves, drill bits and fishing tools or to circulate or place stimulation and/or clean out fluids or gases relating to the well completion or workover process. Swabbing units are used to remove fluids from well bores and to deploy and retrieve downhole tools.

<u>Transport</u>

The transportation division operates a fleet of heavy transport units providing a variety of oilfield hauling services, including rig moving, heavy equipment transportation and specialized hauling.

<u>Drilling</u>

The drilling division operates mobile truck mounted single drilling rigs capable of drilling to depths of up to 1,700 meters.

<u>Production Services</u>

The production services division provides a range of services focused on the supply, storage, handling, treatment and disposal of various oilfield fluid products used primarily in gas drilling and production operations for well completion, stimulation and workover. The division dispatches and retrieves these fluid products for re-use, storage or disposal using a fleet of vacuum trucks, hot oilers and tanks trucks.

Rentals

The rental division maintains an inventory of rental equipment such as rig mats, swamp matting, flare tanks, storage tanks, premix tanks, shale bins, flock tanks, invert systems and other equipment. It also provides transportation equipment to support the deployment of its rental equipment to client locations.

Three months ended March 31, 2008

($ thousands)	Downhole Services	Transport	Drilling	Production Services	Rentals	Corporate	Total
Net income (loss) from continuing operations	$ (770)	$ (17)	$ 4,055	$ (52)	$ 113	$ (2,579)	$ 750
Revenue	3,515	2,776	11,788	1,203	1,539	-	20,821
Intercompany revenues	-	76	-	3	239	-	318
Operating costs	3,490	2,206	7,044	1,066	1,309	-	15,115
Depreciation and amortization	780	522	495	200	356	41	2,394
Interest on debt	-	-	-	-	-	1,169	1,169
Other interest and bank charges	5	(2)	5	12	-	305	325
Capital purchases	57	274	112	161	761	2	1,367
Net book value of property, plant and equipment	19,152	6,770	29,884	5,615	7,823	458	69,702
Total Assets[1]	23,390	8,576	38,572	6,611	8,972	788	86,909

Three months ended March 31, 2007

($ thousands)	Downhole Services	Transport	Drilling	Production Services	Rentals	Corporate	Total
Net income (loss) from continuing operations	$ (406)	$ (255)	$ 1,028	$ (657)	$ (380)	$ (2,724)	$ (3,394)
Revenue	7,809	3,190	6,441	1,840	2,194	-	21,474
Intercompany revenue	2	274	-	28	251	-	555
Operating costs	6,598	2,363	4,810	1,765	1,655	-	17,191
Depreciation and Amortization	1,630	1,134	451	702	973	48	4,938
Interest on long term debt	-	-	-	-	4	1,029	1,033
Other interest and bank charges	11	2	-	15	-	113	141
Capital purchases	641	-	2,163	775	1,318	185	5,082

As at December 31, 2007

($ thousands)	Downhole Services	Transport	Drilling	Production Services	Rentals	Corporate	Total
Net book value of property, plant and equipment	20,305	7,001	31,703	5,646	7,419	498	72,572
Total Assets[1]	24,079	7,617	33,865	6,639	8,232	965	81,397

[1] The pipeline division that was sold in August 2007 has total assets of $395,000 which are excluded from the segmented note as the assets of the division were sold in 2007. This amount consists of accounts receivable not collected as of March 31, 2008 and $497,000 as at December 31, 2007. Subsequent to March 31, 2008, the Trust has collected the $395,000.

7. Financial risk management

The Trust is exposed to financial risk on financial instruments including accounts receivable, accounts payable, debt and obligations under capital leases. The Trust manages its exposure to financial risks by operating in a manner that minimizes these exposures to the extent practical. The main financial risks affecting the Trust are discussed below:

Credit Risk

Credit risk arises from the possibility that a counterparty to which the Trust provides goods or services is unable or unwilling to fulfill their obligations. This could reduce the amount of future cash inflows from financial assets (accounts receivable) on hand at the balance sheet date. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. The majority of the Trust's revenues and trade accounts receivable are from entities in the oil and gas industry and, as such, the Trust is exposed to many of the risks associated with that industry. The Trust utilizes regular credit monitoring processes, such as credit checks and customer deposits to mitigate credit risks. Concentration of accounts receivable from customers increases credit risk and is mitigated to the extent possible by limiting concentrations to credit worthy clients. At March 31, 2008 the largest customer accounted for 19% of the Trust's accounts receivable balance and the five largest balances comprise 50% (2007, 38%) of the overall balance. As at March 31, 2008 approximately 45% of outstanding receivables are from companies whose market capitalization is greater than $1 billion. The Trust also has two customers with an accounts receivable balance greater then 10% of the total, each of these customers have a market capitalization greater then $1 billion.

The aging of trade receivables at the reporting date was:

($ thousands)		As at March 31, 2008		As at December 31, 2007
Not past due, under 30 days	$	7,921	$	3,269
Past due 1 - 30 days		5,606		1,749
Past due 31 - 120 days		783		300
More than 120 days		763		884
Total trade receivables		15,073		6,202
Impairment allowance		514		438
Net trade receivables		14,559		5,764
Other receivables		370		581
Total receivables	$	14,929	$	6,345

The Trust assesses quarterly if there is any impairment of the financial assets of the Trust. During the three month period ended March 31, 2008, the Trust recorded an impairment of $77,000 on accounts receivable. The amount of the loss is recognized in the statement of operations within operating expenses. Subsequent recoveries of amounts written off are credited against operating expenses in the period of settlement. The impairment allowance recognized during the period relates to collectability of accounts receivable. In calculating the provisions, Management individually reviewed all balances greater than 90 days old and applied a general provision based on historical loss rates for amounts less than 90 days old.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on these instruments. The maximum exposure to credit risk is represented by the net carrying value of financial assets.

Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analyses. The Trust maintains a senior credit facility with a $29 million limit as at March 31, 2008 and a $25 million limit as of June 1, 2008 (Note 4i). As at March 31, 2008 the Trust has drawn $22.6 million against this credit facility. In addition the Trust has a subordinated debt facility with a maximum limit of $27.5 million of which $22.5 million is outstanding as of March 31, 2008 (Note 4ii). The Trust's objective in managing liquidity is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

The following are the contractual maturities of financial liabilities, including interest payments to maturity:

($ thousands)	Carrying amount	Contractual Cash flows	6 months or less	6 to 12 months	2009 - 2010	2011 - 2012
Senior credit facility	$ 22,633	$ 23,077	$ 23,077	$ -	$ -	$ -
Subordinated debt	22,252	23,365	23,365	-	-	-
Capital lease obligations	749	834	210	185	388	51
Accounts payable and accrued liabilities	5,620	5,620	5,620	-	-	-
Total	$ 51,254	$ 52,896	$ 52,272	$ 185	$ 388	$ 51

The Trust is required to remain in compliance with various covenants in relation to its senior credit facility and subordinated debt. If the Trust has a breach in these covenants the lenders will have the ability to immediately call the loan and require repayment. When there is a risk based on expected results that the Trust will be in non-compliance of any covenants, the Trust manages this risk through continual communications and negotiation of temporary waivers of expected breaches with its lenders.

Market Risk

(i) Foreign Exchange Risk

The Trust does not engage in any material transactions not denominated in Canadian dollars and it does not have any financial assets or liabilities that are denominated in foreign currencies. As a result, foreign exchange risk is not significant.

(ii) Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Subordinated debt and capital lease obligations are based on fixed interest rates. The Trust is exposed to interest rate risk on funds borrowed under its senior credit facility at a floating interest rate. The Trust does not use interest rate hedges or fixed interest rate contracts to manage the Trust's exposure to interest rate fluctuations.

A 1% increase or decrease in interest rates would have changed the cash flow of the Trust during the quarter ended March 31, 2008 by approximately $55,000. This analysis assumes that all other variables remain constant.

(iii) Commodity risk

The Trust's revenue is indirectly sensitive to changes in commodity prices for crude oil and natural gas because the price variation affects activity levels of our customers and therefore the demand for services. This indirect impact is not quantifiable.

Fair Values

Financial instruments of the Trust consist of accounts receivable, accounts payable and accrued liabilities, obligations under capital leases and debt.

The net carrying values of accounts receivable, net of the allowance for doubtful accounts and accounts payable and accrued liabilities, approximate fair value due to the short-term nature of these instruments.

The carrying values of the Trust's debt and obligations under capital leases approximate their fair value as they bear interest rates consistent with current market lending rates for similar instruments.

In the period ended March 31, 2008, the Trust sold all of its marketable securities for net proceeds of $44,000 and realized a loss on the sale of $4,000.

8. Capital disclosures

The Trust manages its capital on a basis consistent with the risks of its business activities and the assets it holds. All sources of financing are analyzed by management and approved by the board of directors.

The Trust's objectives when managing capital are:

- To safeguard the Trust's ability to continue as a going concern, so that it can provide a return for unitholders;
- To maintain a capital structure that optimizes the overall cost of capital in the context of its financial situation, capital demands and the risks inherent in the business; and,
- To maintain appropriate levels of liquidity for operations and provide funding for investment to maintain existing business activities and allow investment in profitable new opportunities.

The Trust meets is objectives for managing capital through short-term and long-term cash flow forecasting to anticipate liquidity needs, detailed review and analysis of financial results and balances and detailed review of projected costs and cash flows for investment opportunities.

The Trust manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Trust may sell selected assets, adjust the amount of distributions paid to unitholders, issue new shares, issue new debt and/or issue new debt to replace existing debt with different characteristics.

The Trust's capital consists of debt, obligations under capital leases and unitholders' equity. The balance of each of these items at March 31, 2008 and December 31, 2007 were as follows:

($ thousands)	As at March 31, 2008	As at December 31, 2007
Debt	44,885	43,363
Obligations under capital leases	749	838
Unitholders' equity	35,985	33,650
Total Capital	81,619	77,851

As a result of the federal trust taxation legislation passed in June 2007 and effective January 1, 2011, the Trust is subject to certain capital growth restrictions or "normal growth" equity rules. These rules limit the amount of trust units that can be issued before January 1, 2011, based on the Trust's market capitalization on October 31, 2006.

As at March 31, 2008, the Trust was in compliance with these externally imposed capital restrictions.

9. Related party transactions

During the period ended March 31, 2008, the Trust incurred expenses of $129,000 (2007, $192,000) relating to the rental of land, buildings and equipment owned by certain officers who are also unitholders of the Trust. The Trust has incurred legal fees with a legal firm in which one of the Trust's directors is a partner in the amount of $59,000 (2007, $86,000). These fees relate to work completed on the senior credit facility and general corporate matters. Of these fees, $88,000 (2008, $86,000) is included in accounts payable as at March 31, 2008. The Trust has also issued units in the period ended March 31, 2008 in relation to its subordinated debt *Note 4(ii)*. These transactions were completed at exchange values which approximate fair values.

10. 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 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 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.

11. Discontinued operations

The following values related to the pipeline construction division have been reclassified as discontinued operations in the periods ended March 31, 2008 and 2007. This division was sold effective August 31, 2007.

	Period ended March 31,	
($ thousands)	2008	2007
Revenue	-	2,657
Operating costs	(26)	(3,070)
Amortization	-	(111)
Loss on the sale of equipment	(30)	-
Net loss from discountinued operations	(56)	(524)

12. Commitments

The Trust is committed to future minimum payments under operating lease contracts for equipment, vehicles, office and shop space of $5.3 million. The expiry dates of these obligations range from May 2008 to November 2012.

The required future commitment payments as at March 31, 2008 are as follows:

($ thousands)	Payments due by period					
	Total	2008	2009	2010	2011	2012
Operating lease obligations	$ 5,275	$ 1,829	$ 1,415	$ 1,176	$ 549	$ 306

13. Subsequent events

The Trust's management has reviewed its historical utilization rates and forecasted future utilization within the downhole services division. From this review management has determined that certain assets in the downhole services division are underutilized. As a result, subsequent to March 31, 2008, management made the decision to dispose of these assets, which has been approved by the senior lender. Management is actively seeking potential buyers and will work on a best efforts basis to sell all the units. All of the assets identified as being underutilized are currently included in property, plant and equipment under field service equipment and have a net book value as of April 22, 2008 of $5.8 million.