



Management's Discussion and Analysis and Unaudited Financial Statements
for the three and six months ended June 30, 2008 and 2007.

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 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 and six months ended June 30, 2008. Statements in this MD&A are based on information available as at August 8, 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 June 30, 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 handling 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 13 coiled tubing units, nine electric-line ("e-line") units and two swabbing units. 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 Red Deer, 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 e-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.

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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 24 heavy transport units providing a variety of oilfield hauling services, including rig moving, heavy equipment transportation and specialized hauling. The fleet consists of: four mobile crane units for loading and unloading pipe, casing and heavy equipment; six bed trucks which are used for off-road heavy hauling such as positioning large rig pieces on well sites; and 14 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.

SUMMARY FINANCIAL INFORMATION

(\$ thousands, except per Trust unit amounts)	Quarter ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Revenue from continuing operations	\$ 4,279	\$ 4,575	\$ 25,100	\$ 26,049
Gross margin from continuing operations ¹	\$ (2,290)	\$ (4,096)	\$ 3,416	\$ 186
Normalized EBITDAC ¹	\$ (3,230)	\$ (5,421)	\$ 1,518	\$ (2,552)
Loss from continuing operations	\$ (6,644)	\$ (16,505)	\$ (5,894)	\$ (19,895)
Per Trust unit - basic and diluted	\$ (0.19)	\$ (0.67)	\$ (0.18)	\$ (0.80)
Funds from operations ¹	\$ (3,541)	\$ (6,431)	\$ 598	\$ (4,742)
Per Trust unit - basic and diluted	\$ (0.10)	\$ (0.26)	\$ 0.02	\$ (0.19)
Cash distributions declared per Trust unit	\$ -	\$ -	\$ -	\$ 0.065

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

(\$ thousands)	As at June 30, 2008	As at December 31, 2007
Total assets	\$ 74,049	\$ 81,894
Debt and future capital obligations:		
Current	\$ 40,081	\$ 43,726
Long-term	\$ 311	\$ 475
Unitholders' equity	\$ 30,254	\$ 33,650

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In the quarter ended June 30, 2008 the Trust showed a lower loss and reduced negative cash flow compared to the same period in 2007, on lower revenues. The reduction in revenues reflects lower pricing for services and very low industry drilling activity levels in the quarter, with average industry drilling rig utilization of approximately 19% in 2008 (2007 - 17%). The improvement in gross margin from negative 90% to negative 54%, 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 and downhole services divisions and has been achieved through improvements in cost control. Other divisions continued to experience lower demand for energy services, greater competition among energy service providers and lower prices. This has negatively affected the results of the transport, production services and rental divisions.

In the six months ended June 30, 2008 the Trust showed a lower loss and a reduced negative cash flow compared to the same period in 2007, on lower revenues. The reduction in revenues reflects lower pricing for services and flat industry activity levels in the period, with average industry drilling rig utilization of approximately 38% in 2008, compared to 39% in 2007. The improvement in gross margin from 1% to 14%, combined with lower administrative costs and cash interest costs, led to a significant improvement in EBITDAC for the six month period. The improved gross margin, which related primarily to the drilling division, was achieved through increased utilization in the first quarter of 2008 and improved cost control. Other divisions continued to experience lower demand for energy services and low prices.

Natural gas prices strengthened during the quarter with North American natural gas storage at June 30, 2008 below 2006 and 2007 levels and closer to historical averages. These stronger prices 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 August 8th BlackWatch has sold three electric-line units and five coil tubing units for net proceeds of \$3.6 million. BlackWatch hopes to dispose of additional 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. In March 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 by the fall of 2008.

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RESULTS OF OPERATIONS

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 4,279	\$ 5,506	\$ 25,100	\$ 29,637
Less: revenue from discontinued operations	-	931	-	3,588
Revenue from continuing operations	4,279	4,575	25,100	26,049
Operating Expenses				
Labour	2,935	4,823	10,864	14,792
Fuel	539	463	2,352	2,197
Repairs and maintenance	827	1,198	2,140	2,991
Sub-contractors	288	397	1,369	2,441
Other	1,980	2,966	4,985	7,687
Total	6,569	9,847	21,710	30,108
Less: expenses from discontinued operations	-	1,176	26	4,245
Expenses from continuing operations	\$ 6,569	\$ 8,671	\$ 21,684	\$ 25,863
Gross margin from continuing operations	\$ (2,290)	\$ (4,096)	\$ 3,416	\$ 186

Quarter ended June 30, 2008

The second quarter of the year is typically a period of low activity because of spring break-up and wet spring weather. In the second quarter of 2008 industry drilling rig utilization rates averaged only 19%, up slightly from 17% during the same period in 2007. The Trusts utilization rate for its drilling rigs in the second quarter was 3% (2007 – 5%), primarily because of an extended period of wet weather in core operating areas, which restricted the movement of equipment. The energy services industry continues to experience low demand and prices, contributing to the low revenues in the quarter. Demand for other services continues to be weakened by increased competition and lower prices for energy services.

Operating expenses consist of wages and benefits of operating personnel, fuel, repairs and maintenance, sub-contractors and other direct costs of the operating divisions. Operating expenses from continuing operations as a percentage of revenue from continuing operations were 154% (2007 – 190%) in the quarter ended June 30, 2008. Labour costs, which represent the most significant component of operating expenses, dropped from 88% of revenues in the quarter ended June 30, 2007 to 69% in the second quarter of 2008 because of changes in fixed compensation arrangements such as field bonus and guarantee arrangements within some of the operating divisions. As revenues fall operating costs tend to rise as a proportion of revenues because there are significant fixed costs that do not vary with activity levels. The overall reduction in operating costs as a percentage of revenues reflects the cost-cutting initiatives begun in the latter half of 2007.

Fuel costs increased from 8% of revenues during the second quarter of 2007 to 13% in 2008, which reflects the increase in the average price of gasoline and diesel fuel in 2008 compared to 2007. Subcontractor costs as a percentage of revenue remained consistent in 2008 compared to 2007. Repairs and maintenance declined from 22% of revenues in the quarter ended June 30, 2007 to 19% in 2008, reflecting a continuing effort to focus repairs and maintenance efforts on high utilization assets and improve expenditure approvals procedures. Other operating costs declined from 54% of revenues in the quarter ended June 30, 2007 to 46% 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 2008 to 2007 primarily reflects the focus on cost controls and redeployment of personnel and equipment.

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Six Months Ended June 30, 2008

Revenues for the six months ended June 30, 2008 were \$25 million, down slightly compared to \$26 million revenues from continuing operations for the six months ended June 30, 2007. The reduction in revenues reflects lower pricing for services and relatively constant industry activity levels in the period, with average industry drilling rig utilization of approximately 38% in 2008, compared to 39% in 2007.

Overall operating expenses from continuing operations as a percentage of revenue from continuing operations were 86% (2007 – 99%). Labour costs, which represent the most significant component of operating expenses, dropped from 50% to 43% of revenue because of changes in field bonus and guarantee arrangements within some of the operating divisions and reduction of staffing levels. Fuel costs increased from 7% of revenues in 2007 to 9% in 2008, which reflects an increase in the average price of gasoline and diesel fuel in 2008 compared to 2007. Subcontractor costs as a percentage of revenue decreased from 8% in 2007 to 5% in 2008. This decrease is attributable to sale of the pipeline construction division which occurred in the latter part of 2007; the pipeline division had an increased reliance on subcontractors. Repairs and maintenance declined from 10% of revenues to 9% 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 26% of revenues in 2007 to 20% in 2008. The decline from 2008 to 2007 primarily reflects the Trusts focus on cost controls and redeployment of personnel and equipment.

The overall reduction in operating costs as a percentage of revenues in the second quarter and the six months ended June 30, 2008 compared to the same periods in 2007 primarily reflects the cost-cutting initiatives undertaken in the latter half of 2007.

DIVISIONAL RESULTS

(\$ thousands)	For the quarter ended June 30, 2008					
	Consolidated	Drilling	Downhole Services	Transport	Production Services	Rentals
Revenue	\$ 4,279	\$ 571	\$ 1,567	\$ 504	\$ 740	\$ 897
Revenue from discontinued operations	-	-	-	-	-	-
Revenue from continuing operations	\$ 4,279	\$ 571	\$ 1,567	\$ 504	\$ 740	\$ 897
Operating Expenses						
Labour	\$ 2,935	\$ 526	\$ 1,018	\$ 438	\$ 486	\$ 467
Fuel	539	135	103	120	85	96
Repairs and maintenance	827	373	114	179	74	87
Sub-contractors	288	84	42	49	6	107
Other	1,980	343	972	259	210	196
	\$ 6,569	\$ 1,461	\$ 2,249	\$ 1,045	\$ 861	\$ 953
Less: operating expenses from discontinued operations	-	-	-	-	-	-
Total operating expenses from continuing operations	6,569	1,461	2,249	1,045	861	953
Gross Margin from continuing operations	\$ (2,290)	\$ (890)	\$ (682)	\$ (541)	\$ (121)	\$ (56)

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(\$ thousands)	For the quarter ended June 30, 2007							
	Consolidated	Drilling	Downhole Services	Transport	Production Services	Rentals	Pipeline	
Revenue	\$ 5,506	\$ 799	\$ 2,103	\$ 354	\$ 708	\$ 611	\$ 931	
Revenue from discontinued operations	931	-	-	-	-	-	931	
Revenue from continuing operations	\$ 4,575	\$ 799	\$ 2,103	\$ 354	\$ 708	\$ 611	\$ -	
Operating Expenses								
Labour	\$ 4,823	\$ 949	\$ 2,147	\$ 314	\$ 456	\$ 453	\$ 504	
Fuel	463	78	139	68	90	9	79	
Repairs and maintenance	1,198	353	475	147	61	42	120	
Sub-contractors	397	(10)	41	37	20	129	180	
Other	2,966	997	1,131	112	217	216	293	
	\$ 9,847	\$ 2,367	\$ 3,933	\$ 678	\$ 844	\$ 849	\$ 1,176	
Less: operating expenses from discontinued operations	1,176	-	-	-	-	-	1,176	
Total operating expenses from continuing operations	8,671	2,367	3,933	678	844	849	-	
Gross Margin from continuing operations	\$ (4,096)	\$ (1,568)	\$ (1,830)	\$ (324)	\$ (136)	\$ (238)	\$ -	

(\$ thousands)	For the Six Months Ending June 30, 2008							
	Consolidated	Drilling	Downhole Services	Transport	Production Services	Rentals	Pipeline	
Revenue	\$ 25,100	\$ 12,359	\$ 5,082	\$ 3,280	\$ 1,943	\$ 2,436	\$ -	
Revenue from discontinued operations	-	-	-	-	-	-	-	
Revenue from continuing operations	\$ 25,100	\$ 12,359	\$ 5,082	\$ 3,280	\$ 1,943	\$ 2,436	\$ -	
Operating Expenses								
Labour	\$ 10,864	\$ 4,912	\$ 2,616	\$ 1,221	\$ 1,071	\$ 1,044	\$ -	
Fuel	2,352	1,091	310	469	212	270	-	
Repairs and maintenance	2,140	966	435	353	183	203	-	
Sub-contractors	1,369	183	155	673	13	345	-	
Other	4,985	1,353	2,223	535	448	400	26	
	\$ 21,710	\$ 8,505	\$ 5,739	\$ 3,251	\$ 1,927	\$ 2,262	\$ 26	
Less: operating expenses from discontinued operations	26	-	-	-	-	-	26	
Total operating expenses from continuing operations	21,684	8,505	5,739	3,251	1,927	2,262	-	
Gross Margin from continuing operations	\$ 3,416	\$ 3,854	\$ (657)	\$ 29	\$ 16	\$ 174	\$ -	

(\$ thousands)	For the Six Months Ending June 30, 2007							
	Consolidated	Drilling	Downhole Services	Transport	Production Services	Rentals	Pipeline	
Revenue	\$ 29,637	\$ 7,240	\$ 9,912	\$ 3,544	\$ 2,548	\$ 2,805	\$ 3,588	
Revenue from discontinued operations	3,588	-	-	-	-	-	3,588	
Revenue from continuing operations	\$ 26,049	\$ 7,240	\$ 9,912	\$ 3,544	\$ 2,548	\$ 2,805	\$ -	
Operating Expenses								
Labour	\$ 14,792	\$ 3,816	\$ 5,220	\$ 1,156	\$ 1,471	\$ 1,178	\$ 1,951	
Fuel	2,197	500	628	368	222	234	245	
Repairs and maintenance	2,991	1,010	953	366	169	224	269	
Sub-contractors	2,441	69	266	682	66	375	983	
Other	7,687	1,782	3,464	470	681	493	797	
	\$ 30,108	\$ 7,177	\$ 10,531	\$ 3,042	\$ 2,609	\$ 2,504	\$ 4,245	
Less: operating expenses from discontinued operations	4,245	-	-	-	-	-	4,245	
Total operating expenses from continuing operations	25,863	7,177	10,531	3,042	2,609	2,504	-	
Gross Margin from continuing operations	\$ 186	\$ 63	\$ (619)	\$ 502	\$ (61)	\$ 301	\$ -	

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Quarter ended June 30, 2008

Contract Drilling

The drilling division generated revenues of \$571,000 during the second quarter of 2008 compared to \$799,000 during the same period last year. Gross margin was negative \$890,000 in 2008 compared to negative \$1.6 million in 2007. The reduction in revenue is the result of lower utilization offset by slightly higher day rates. Utilization was 3% in the quarter ended June 30, 2008, compared to 5% in the quarter ended June 30, 2007. This low utilization reflects an extended period of wet weather in core operating areas in both years, which restricted the movement of equipment.

Labour costs for rig crews decreased to 92% of revenue in the three months ended June 30, 2008, compared to 119% in the same quarter of 2007. This decrease is the result of reductions in fixed labour costs. Fuel, as a percentage of revenue increased from 10% to 24%, reflecting the general increase in fuel prices, increased travel and an under accrual in June 2007. Repairs and maintenance as a percentage of revenue increased from 44% in 2007 to 65% in 2008. The higher first quarter activity levels resulted in higher repairs and maintenance expenditures in the second quarter. Other expenses decreased from 125% of revenues in 2007 to 60% in 2008 because of improved cost controls initiated in latter half of 2007.

Downhole Services

In the second quarter of 2008 the downhole services division generated revenues of \$1.6 million, compared to \$2.1 million during the same quarter last year. The reduction in revenues related primarily to a \$400,000 reduction in coil tubing revenues due to declines in shallow gas activity and decision to scale back the coil tubing operations. The Trust has sold three e-line units and five coiled tubing units for total proceeds of \$3.6 million. As a result of the reduced equipment, staffing levels and changes in field bonus and guarantee arrangements BlackWatch has reduced labour as a percentage of revenue from 102% in the quarter ended June 30, 2007 to 65% for the quarter ended June 30, 2008. Fuel costs as a percentage of revenues remain consistent between quarters as better cost controls, logistics management and reduced equipment utilization have been offset by higher fuel prices. Repairs and maintenance decreased by 16% of revenues to 7% in the second quarter of 2008 compared to 2007 because of lower utilization.

Transportation

The transport division generated revenues of \$504,000 in the quarter ended June 30, 2008 compared to \$354,000 during the same quarter last year. The loss of a major client in 2007 caused a significant decrease in revenues in the quarter ended June 30, 2007. In 2008 the transportation division reduced its concentration of customers and experienced increased activity.

Labour costs were relatively constant at 87% of revenues (2007 – 89%). Fuel costs have increased to 24% (2007 – 19%) of revenues because of increased prices for gasoline and diesel fuel. Repairs and maintenance and other expenses as a percentage of revenue increased to 87% (2007 – 73%) as additional repairs were required as part of the preventative maintenance program.

Production Services

During the second quarter of 2008 production services generated revenues of \$740,000 compared to \$708,000 during the same period last year. Operating costs within the production services division were generally consistent with 2007.

Rentals

The rental division generated revenues of \$897,000 in the quarter ended June 30, 2008, compared to \$611,000 during the same quarter last year. The increase in revenue is the result of increased industry activity in our rental service areas and incremental revenue from rental assets purchased in the first quarter of 2008. Labour costs decreased to 52% (2007 – 74%) as a percent of revenues primarily because a large portion of employee costs in this division are fixed. Fuel increased to 11% (2007 – 1%) as a percentage of revenue because of higher fuel prices and

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the shift in the divisions product mix from equipment rentals to equipment hauling. Subcontractor costs fell from \$129,000 in 2007 to \$107,000 in 2008 because of better management of deliveries in the period reduced the use of sub contractors.

Six Months Ended June 30, 2008

Contract Drilling

The drilling division generated revenues of \$12.4 million in 2008 versus \$7.2 million in 2007. Gross margin was \$3.9 million in 2008 compared to \$63,000 in 2007. The increase in revenue is the result of a very active first quarter which saw industry average rig utilization of 56%. BlackWatch operated ten rigs achieving an average utilization rate of 62% in this quarter. 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 first quarter by 53% to 564 drilling days from the 369 drilling days generated last year. This increased activity in the first quarter was partially offset by utilization of 3% in the second quarter of 2008 because of wet weather in the core operating areas, which restricted the movement of equipment.

Labour costs for rig crews decreased by 13% of revenues to 40% in 2008 compared to the same quarter of 2007. This decrease is the result of reductions in fixed labour costs and slightly higher day rates. Fuel, as a percentage of revenue increased from 7% to 9%, reflecting the general increase in fuel prices, increased travel and an under accrual in June 2007. Repairs and maintenance were \$966,000 for the six months ended June 30, 2008, down slightly from \$1,010,000 in the same period in 2007. This reflects better control of costs, offset by effect of higher activity levels. Other expenses were \$1,353,000 in the six months ended June 30, 2008 compared to \$1,782,000 in the same period in 2007, reflecting better control of costs.

Downhole Services

In the six months ended June 30, 2008 the downhole services division generated revenues of \$5.1 million, compared to \$9.9 million during the same quarter last year. The reduction related primarily to a \$3.9 million reduction in coil tubing revenues due to declines in shallow gas activity and the scale back of coil tubing operations. E-line revenues decreased by approximately \$1 million because of lower industry activity. Fuel costs as a percentage of revenues remain consistent between quarters as better cost controls, logistics management and reduced equipment utilization offset higher fuel costs. Other expenses were \$2,223,000 in the six months ended June 30, 2008 compared to \$3,464,000 in the same period in 2007. The reduction was primarily related to the reduction in activity and the scaling back of the coiled tubing operations.

Transportation

The transport division generated revenues of \$3.3 million in the six months ended June 30, 2008 compared to \$3.5 during the same period last year. The decrease in revenues is primarily the result of lower industry activity in the first quarter.

Labour costs increased to 37% (2007 – 33%) of revenues primarily because of the fixed component of labour and the reduced revenues. Fuel costs have increased to 14% (2007 – 10%) of revenues due to the increased price of gasoline and diesel fuel. Repairs and maintenance and other expenses as a percentage of revenue increased to 27% (2007 – 24%) because of additional repairs required under the preventative maintenance program.

Production Services

Production services generated revenues of \$1.9 million compared to \$2.5 million in the six month period ended June 30, 2008 and 2007. This reduction is the result of generally lower oilfield activity, with revenues from the largest customer approximately \$350,000 lower in the first quarter of 2008 compared to 2007. Other operating costs have decreased from 27% in 2007 to 23% in 2008, this reduction is the result of the cost control measures implemented in the latter half of 2007. All other operating costs within the production services division have remained consistent in 2008 compared to 2007.

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Rentals

The rentals division generated revenues of \$2.4 million, compared to \$2.8 million during the same period last year. The decrease in revenue is the result greater competition among energy service providers and lower prices. Fuel as a percentage of revenue is higher because of higher fuel prices and the shift in the divisions revenue mix from equipment rentals to equipment hauling. All other operating costs within the rental division have remained consistent in 2008 compared to 2007.

Selling, General and Administrative Expenses

(\$ thousands, except where otherwise indicated)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Selling, general and administrative	\$ 972	\$ 1,225	\$ 1,930	\$ 2,732
Percentage of revenue from continuing operations	23%	27%	8%	10%

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 June 30, 2008 the Trust reduced selling, general and administrative expenses ("SG&A") by 21% compared to the same quarter of 2007 and by 29% for the six months ended June 30, 2008. The reduction in SG&A was achieved through various cost rationalization initiatives that were implemented in the latter half of 2007, including head count reductions, revisions to benefit programs, reduction in office space, elimination of discretionary expenditures and reduction of outsourced services. BlackWatch is continuing these initiatives although it is unlikely we will achieve the same year over year cost reductions in future periods. Corporate office staff complement was reduced from an average of over 26 people at June 30, 2007 to 20 people at June 30, 2008.

Interest Expense on Debt

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Interest on debt	\$ 1,194	\$ 905	\$ 2,363	\$ 1,938
Other interest and bank charges	805	272	1,130	413
Total interest expense	\$ 1,999	\$ 1,177	\$ 3,493	\$ 2,351

Quarter ended June 30, 2008

Interest in the quarter ended June 30, 2008 compared to June 30, 2007 has increased despite lower debt levels because of higher interest rates, which increased the average blended interest rate by approximately 4.6% because of the replacement of a portion of debt drawn under the senior credit with the higher rate subordinated debt.

BlackWatch incurred interest on its senior credit facility of \$353,000 (2007 - \$905,000) in the quarter ended June 30, 2008. The interest rate for this period ranged from 7.375% - 7.875% (2007 - 7.125% - 8.375%). The Trust's interest rate increased from prime plus 1.125% to prime plus 2.625% under the terms of the amended credit facility that was entered into on October 4th, 2007. The prime lending rate decreased from 3.50% to 3.00% in the quarter ended June 30, 2008.

In the quarter ended June 30, 2008 interest of \$841,000 (2007 - \$ nil) was incurred on the subordinated loan which did not exist in the second quarter of 2007. Interest on the subordinated debt for the period was 15% and the interest for the quarter was settled through the issuance of 963,770 Trust units on July 7, 2008. Interest on the subordinated loan will be 15% in the third quarter of 2008.

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Other bank charges and interest have increased in the quarter ended June 30 as a result of fees paid to extend the subordinated loan facility and accretion expenses related to the conversion feature on the subordinated debt.

Six Months Ended June 30, 2008

Interest for the six months ended June 30, 2008 compared to June 30, 2007 increased because of higher interest costs partially offset by lower debt levels. The average blended interest rate on the outstanding debt increased by approximately 4.0% because of the replacement of a portion of debt drawn under the senior credit with the higher rate subordinated debt.

The Trust has incurred interest on its senior credit facility of \$849,000 (2007 - \$1.9 million) in the six months ended June 30, 2008. The interest rate for this period ranged from 7.375% - 8.625% (2007 - 7.125% - 8.375%). The Trust's interest rate increased from prime plus 1.125% to prime plus 2.625% under the terms of the amended credit facility that was entered into on October 4th, 2007. The prime lending rate decreased from 4.25% to 3.00% in the six months ended June 30, 2008.

In the six months ended June 30, 2008 interest of \$1.5 million (2007 - \$ nil) was incurred on the subordinated loan which did not exist in six months ended June 30, 2007. Interest on the subordinated debt for the period ranged from 12% - 15% and the interest for the period was settled through the issuance of 1,032,448 Trust units on April 5, 2008 and 963,770 Trust units on July 7, 2008.

Other bank charges and interest have increased in the six months ended June 30 as a result of fees that were paid to extend the subordinated loan facility and accretion expenses incurred for the conversion feature on the subordinated debt.

Depreciation and Amortization

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Depreciation of capital assets	\$ 1,776	\$ 2,455	\$ 4,170	\$ 5,224
Amortization of intangibles	\$ -	\$ 1,602	\$ -	\$ 3,891
Depreciation and amortization	<u>\$ 1,776</u>	<u>\$ 4,067</u>	<u>\$ 4,170</u>	<u>\$ 9,115</u>
Depreciation and amortization from discontinued operations	\$ -	\$ 110	\$ -	\$ 221
Depreciation and amortization from continuing operations	<u>\$ 1,776</u>	<u>\$ 3,957</u>	<u>\$ 4,170</u>	<u>\$ 8,894</u>

Depreciation and amortization has decreased by 55% and 53% in the three and six months ended June 30, 2008 compared to the same periods in 2007. Depreciation has decreased because of the lower net book value at June 30, 2008, reflecting 2007 depreciation and impairment charges. In addition depreciation within the downhole services division is lower as assets classified as held for sale are no longer being depreciated.

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 June 30, 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 \$5.8 million, which is offset by a future income tax asset of \$9.7 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.

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

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 \$1.5 million of capital expenditures incurred during the quarter ended June 30, 2008 were growth expenditures, primarily consisting of:

- \$1.2 million in the drilling division which relates to the construction of a telescopic double drilling rig ("Rig #11).
- \$118,000 within the rental division for the purchase of oilfield hauling equipment.

The \$2.9 million of capital expenditures incurred during the six months ended June 30, 2008 were growth expenditures, primarily consisting of:

- \$1.4 million in the drilling division which relates to the construction of a telescopic double drilling rig ("Rig #11) and coring related equipment.
- \$1.1 million within the rental and production services division for the purchase of oilfield hauling equipment, 148 flow back tanks and the construction of a new brine plant.
- \$295,000 within the transport division for the purchase of a new winch truck and other transportation related equipment

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

RELATED PARTY TRANSACTIONS

During the quarter ended June 30, 2008, the Trust incurred expenses of \$109,000 (2007 - \$134,000) 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 \$50,000 (2007 - \$114,000). These fees relate to general corporate matters. Of these fees \$34,000 is included in accounts payable as at June 30, 2008 (\$116,000 at June 30, 2007). On July 7, 2008 the Trust issued 963,770 units to settle interest charges on 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.

For the six months ended June 30, 2008, the Trust incurred expenses of \$238,000 (2007 - \$326,000) 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 \$109,000 (2007 - \$200,000). These fees relate to general corporate matters. On April 3, 2008 the Trust issued 1,032,448 units to settle interest charges on subordinated debt for the first quarter and 947,062 units to settle the commitment fee for the extension of the subordinated debt. On July 7, 2008 the Trust issued 963,770 units to settle interest charges on subordinated debt for the second quarter. 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 June 30, 2008 the Trust had drawn approximately \$17.6 million of its available \$25 million syndicated senior credit facility and had drawn \$22.5 million under the subordinated loan. Additional debt of approximately \$673,000 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 August 8, 2008 the

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

Trust had drawn approximately \$18.6 million on the senior credit facility. In the third quarter the Trust will draw on the senior credit facility to fund working capital and complete Rig 11.

The Trust negotiated 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 Cumulative Adjusted EBITDA, less interest, tax and lease payments, from October 1, 2007 shall be greater than zero at each quarter end. The Trust was not in compliance with this covenant at June 30, 2008. Based on discussions with its lead agent, the Trust believes that the facility will be extended to December 31, 2008, the maximum amount available under the credit facility will be reduced to \$22.5 million and the EBITDA covenant will be revised such that the Trust will be in compliance with the revised covenant as at June 30, 2008. In conjunction with the senior debt extension the Trust has also had discussions with its subordinated debt lender on extending the subordinated facility to December 31, 2008 coinciding with the proposed maturity of the senior facility, although no formal agreement has been signed with the senior lender or the subordinated debt lender

Funds from operations

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Loss from continuing operations	\$ (6,644)	\$ (16,505)	\$ (5,894)	\$ (19,895)
Add: Depreciation and amortization	1,776	3,957	4,170	8,894
Add: Unit based compensation expense	86	17	187	46
Add: Future income tax expense (recovery)	-	5,983	-	5,983
Add: Gain on sale of equipment	(405)	-	(405)	-
Add: Non cash interest	841	-	1,514	-
Add: Amortization of financing charges	805	117	1,026	230
Funds from operations	<u>\$ (3,541)</u>	<u>\$ (6,431)</u>	<u>\$ 598</u>	<u>\$ (4,742)</u>

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

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Loss from continuing operations	\$ (6,644)	\$ (16,505)	\$ (5,894)	\$ (19,895)
Add: Depreciation and amortization	1,776	3,957	4,170	8,894
Add: Interest	1,999	1,177	3,493	2,351
Add: Unit compensation	93	17	203	46
Add: Income tax	(65)	5,983	(65)	6,055
Add: Other income (expense)	16	(50)	16	(3)
Less: Gain on sale of equipment	405	-	405	-
EBITDAC from continuing operations	<u>\$ (3,230)</u>	<u>\$ (5,421)</u>	<u>\$ 1,518</u>	<u>\$ (2,552)</u>

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.

In the six months ended June 30, 2008, the Trust has incurred approximately \$1.4 million of capital costs relating to the construction of a telescopic double drilling rig ("Rig #11"), and received \$1.375 million fee on the associated 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.

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

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 August 8, 2008 the Trust had issued 30,847,274 Class A Trust Units, 4,270,810 Class B Exchangeable Units, 3,000,000 warrants for the purchase of Class A Trust Units and 2,095,519 options to purchase Class A Trust Units.

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

On April 3, 2008 the Trust issued 1,032,448 million units to settle \$673,000 interest accrued on the \$22.5 million subordinated loan for the period from January 1, 2008 to March 31, 2008 and 947,062 units to settle a commitment fee associated with the extension of the subordinated loan.

On July 7, 2008 the Trust issued 963,770 units to settle \$841,000 interest accrued on the \$22.5 million subordinated loan during the period from April 1, 2008 to June 30, 2008.

DISTRIBUTIONS

Standardized distributable cash is calculated as follows:

(\$ thousands)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Funds from operations	\$ (3,541)	\$ (6,431)	\$ 598	\$ (4,742)
Deduct:				
Property, plant and equipment expenditures, net of proceeds from disposals	1,054	(787)	155	(5,886)
Standardized distributable cash	\$ (2,487)	\$ (7,218)	\$ 753	\$ (10,628)

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 July 2008 through November 2017.

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

(\$ thousands)	Payments due by period					
	Total	2008	2009	2010	2011	2012
Contractual obligations						
Debt	\$ 39,719	\$ 39,719	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	673	186	299	138	50	-
Operating leases	4,731	927	1,519	1,218	761	306
Purchase obligations	-	-	-	-	-	-
Other long term obligations	-	-	-	-	-	-
Total contractual obligations	\$ 45,123	\$ 40,832	\$ 1,818	\$ 1,356	\$ 811	\$ 306

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

SUMMARY OF QUARTERLY RESULTS

(\$ thousands, except per Trust unit amounts)	2008		2007				2006	
	Q2	Q1	Q4 ¹	Q3	Q2 ²	Q1 ²	Q4	Q3
Revenue from continuing operations	\$ 4,279	20,821	\$ 8,300	\$ 9,795	\$ 4,609	\$ 21,656	\$ 13,438	\$ 8,984
Gross margin from continuing operations	\$ (2,290)	5,706	\$ (406)	\$ 767	\$ (4,046)	\$ 4,464	\$ 1,222	\$ 2,685
Selling, general and administrative expenses	\$ 972	\$ 958	\$ 974	\$ 726	\$ 1,225	\$ 1,507	\$ 1,598	\$ 615
Net income (loss) from continuing operations	\$ (6,644)	\$ 750	\$ (20,243)	\$ (3,827)	\$ (16,505)	\$ (3,394)	\$ (161,639)	\$ (1,233)
Per Trust unit - basic	\$ (0.19)	\$ 0.02	\$ (0.65)	\$ (0.14)	\$ (0.67)	\$ (0.14)	\$ (6.54)	\$ (0.10)
Per Trust unit - diluted	\$ (0.19)	\$ 0.02	\$ (0.65)	\$ (0.14)	\$ (0.67)	\$ (0.14)	\$ (6.54)	\$ (0.10)
Funds from continuing operations	\$ (3,541)	\$ 4,139	\$ (1,598)	\$ (1,057)	\$ (6,431)	\$ 1,657	\$ (1,132)	\$ 1,114
Per Trust unit - basic	\$ (0.10)	\$ 0.13	\$ (0.05)	\$ (0.04)	\$ (0.26)	\$ 0.07	\$ (0.05)	\$ 0.09
Per Trust unit - diluted	\$ (0.10)	\$ 0.13	\$ (0.05)	\$ (0.04)	\$ (0.26)	\$ 0.07	\$ (0.05)	\$ 0.09
Weighted average Trust units - basic	34,110	32,174	31,320	27,482	24,781	24,781	24,724	12,188
Weighted average Trust units - diluted	34,120	32,187	31,333	27,482	24,805	24,808	24,754	12,323
Trust units, end of period	35,118	34,154	32,174	29,499	24,781	24,781	24,781	24,206

¹ Revenue in Q1 and Q2 2007 include \$182,000 and \$34,000 which was generated by the pipeline construction division from other divisions of the Trust

² The Trust has revised the quarterly information that was previously reported in Q3 and Q4 2007 and Q1 2008 to properly reflect the sale of its pipeline construction division. Previously all values for pipeline were recorded as adjustments to gross margin, net loss, and funds from continuing operations in Q4 2007 and not broken out quarterly in Q3 2007 and Q1 2008, as a result the year to date values are correct but the quarterly values were over or understated.

Variances between the quarters are primarily due to seasonality and a weakening of oil field services activity throughout 2007. Traditionally, second quarter results are the weakest for oil and gas services companies (see "Seasonality" below) and in 2007 and 2008 the sector experienced 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 June 30, 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.

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

FINANCIAL RISKS AND UNCERTAINTIES

Access to Financing

The Trust has senior debt of approximately \$17.6 million and subordinated debt of \$22.5 million outstanding as of June 30, 2008. The senior credit facility matured on June 30, 2008 and the subordinated loan matures on September 1, 2008. The ability of the Trust to re-finance or extend the maturity date of its senior debt and its subordinated loan and generate positive cash flow are necessary for the Trust to continue operations. Based on discussions with its lead agent, the Trust believes that the facility will be extended to December 31, 2008, the maximum amount available under the credit facility will be reduced to \$22.5 million and the EBITDA covenant will be revised such that the Trust will be in compliance with the revised covenant as at June 30, 2008. In conjunction with the senior debt extension the Trust has also had discussions with its subordinated debt lender on extending the subordinated facility to December 31, 2008 coinciding with the proposed maturity of the senior facility, although no formal agreement has been signed with the senior lender or the subordinated debt lender. The interim financial statements do not reflect required adjustments should the going concern assumption no longer be appropriate.

Customer Dependence

The top five customers of the Trust accounted for approximately 56% (2007 – 48%) of the reported revenues and its largest customer accounted for 41% (2007 – 20%) of reported revenues in the second quarter of 2008. The top five customers of the Trust accounted for approximately 53% (2007 – 47%) of the reported revenues and its largest customer accounted for 20% (2007 – 15%) of reported revenues in the six months ended June 30, 2008. The Trust also has two (2007 – 3) customers which account for greater than ten percent of revenues in the six months ended June 30, 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 made and that appropriate collection procedures are 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.

BLACKWATCH ENERGY SERVICES TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

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 June 30, 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 June 30, 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.

FOREIGN OWNERSHIP

Based on information from the statutory declarations by unitholders, we estimate that, approximately 4% of our unitholders are non-Canadian residents with the remaining 96% 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*.

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

- (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.
- (v) In the second quarter the Trust began planning for the conversion to International Financial Reporting Standards ("IFRS"). As part of the planning process the Trust is ensuring that individuals that will have a direct responsibility over the implementation process obtain appropriate training. The Trust is developing a plan to identify the effects of IFRS on its accounting policies, information systems, internal controls, investor relations, external communications and other business activities. The Trust expects to have a formalized plan documented by the latter half of 2008.

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 half of 2008 has seen some improvements in natural gas prices and industry sources are optimistic about oilfield activity for the remainder of the year. However, we are not yet seeing improvements in prices and gross margins for our services.

BlackWatch has undertaken several initiatives designed to provide service differentiation, to help it compete for work and diversify to a broader range of industry activity. For example, in the first quarter of 2008 BlackWatch added significant drilling activity through oilsands related drilling and coring work, allowing us to participate in the growing market for oilsands development. Also in the first quarter BlackWatch entered into an agreement with an

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

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 further improvements to drilling efficiency. 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 our 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 late 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 in industry activity levels. 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 BlackWatch's plans, strategies, objectives, expectations and intentions. Expressions such as "may", "anticipate", "expect", "project", "believe", "estimate", "intend", "will", "continue" and "forecast" and similar expressions and statements are intended to identify forward looking statements. Such statements represent BlackWatch's internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although BlackWatch believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause BlackWatch's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, BlackWatch.

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to the focus of capital expenditures; future operating and financial results; capital expenditure programs for the remainder of 2008; amount of general and administrative expenses; timing of completion of construction and putting into service of Rig 11; effect of stronger natural gas prices combined with strong crude oil prices on the oil and gas industry; effect of the Alberta governments new royalty programs on the oil and gas industry in Alberta and on BlackWatch's business; disposal of underutilized assets and the use of proceeds; extension of the senior debt facility to December 31, 2008 and the reduction of the amount of the facility and the EBITDA covenant; plans to

BLACKWATCH ENERGY SERVICES TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008

pay down senior debt; extension of the subordinated debt facility to December 31, 2008; sources of funding; timing of implementation of changes in accounting policies, including conversion to IFRS; timing of implementation of a down-hole camera technology; future oil and gas service activity; specific events and trends in the oil and gas industry; and treatment under governmental regulatory regimes and tax laws.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond BlackWatch's control, including the impact of general economic conditions; industry conditions; ability to complete construction of Rig 11 within projected time frames; volatility of commodity prices; decreased demand for energy services; competition from other energy services providers; the lack of availability of qualified personnel or management; ability of BlackWatch to re-finance or extend the maturity date of its senior debt and its subordinated loan and generate positive cash flow; failure of counter-parties to perform on contracts; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry and income trusts; seasonality; loss of key customers; fluctuations in foreign exchange or interest rates and stock market volatility; supply and demand for oilfield services relating to the drilling, completion and maintenance of oil and gas wells as well as services related to pipeline construction, oilfield equipment rentals and production and ancillary services; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; ability to access sufficient capital from internal and external sources and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2007 which is available on www.sedar.com.

With respect to forward-looking statements contained in this MD&A, BlackWatch has made assumptions regarding: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; ability of BlackWatch to re-finance or extend the maturity date of its senior debt and its subordinated loan; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; supply and demand for oilfield services relating to the drilling, completion and maintenance of oil and gas wells as well as services related to pipeline construction, oilfield equipment rentals and production and ancillary services; effects of regulation by governmental agencies; and future operating costs. Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide Unitholders with a more complete perspective on BlackWatch's future operations and such information may not be appropriate for other purposes. BlackWatch's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that BlackWatch will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of in this MD&A and BlackWatch disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

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.

**BLACKWATCH ENERGY SERVICES TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS AT AUGUST 8, 2008**

- 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.

BlackWatch Energy Services Trust
Travis Robertson
President and Chief Executive Officer

Wiley Auch
VP Finance and CFO

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BlackWatch Energy Services Trust
Consolidated Balance Sheets
(Unaudited)

(Stated in thousands of Canadian dollars)	As at June 30, 2008	As at December 31, 2007
Assets		
Current Assets		
Marketable securities	\$ -	\$ 48
Accounts receivable	4,188	6,345
Prepaid expenses and deposits	677	821
Equipment held for sale (Note 13)	1,314	-
	<u>6,179</u>	<u>7,214</u>
Inventory	1,907	2,108
Equipment held for sale (Note 3)	3,133	-
Property, plant and equipment (Note 3)	62,830	72,572
	<u>\$ 74,049</u>	<u>\$ 81,894</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,403	\$ 3,978
Taxes payable	-	65
Debt (Note 4)	39,719	43,363
Current portions of obligations under capital leases	362	363
	<u>43,484</u>	<u>47,769</u>
Obligations under capital leases	311	475
	<u>43,795</u>	<u>48,244</u>
Basis of presentation (Note 1, 12, and 13)		
Unitholders' equity		
Trust units (Note 5)	254,692	252,573
Contributed surplus (Note 5)	1,076	889
Conversion option on debt	248	-
Deficit	(225,762)	(219,812)
	<u>30,254</u>	<u>33,650</u>
	<u>\$ 74,049</u>	<u>\$ 81,894</u>

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 June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenue				
Service	\$ 3,693	\$ 4,300	\$ 23,641	\$ 24,009
Product	213	154	612	688
Rental	373	121	847	1,352
	<u>4,279</u>	<u>4,575</u>	<u>25,100</u>	<u>26,049</u>
Expenses				
Operating	6,569	8,671	21,684	25,863
Selling, general & administration	972	1,225	1,930	2,732
Depreciation and amortization (Note 3)	1,776	3,957	4,170	8,894
Unit based compensation	93	17	203	46
Other interest, bank charges and financing charges	805	272	1,130	413
Interest on debt	1,194	905	2,363	1,938
	<u>11,409</u>	<u>15,047</u>	<u>31,480</u>	<u>39,886</u>
Loss before other items	(7,130)	(10,472)	(6,380)	(13,837)
Other income (expense)	16	(50)	16	(3)
Gain on sale of equipment	405	-	405	-
Loss from operations before income taxes	(6,709)	(10,522)	(5,959)	(13,840)
Income taxes (recovery)				
Current	(65)	-	(65)	72
Future	-	5,983	-	5,983
	<u>(65)</u>	<u>5,983</u>	<u>(65)</u>	<u>6,055</u>
Loss from continuing operations	(6,644)	(16,505)	(5,894)	(19,895)
Net loss from discontinued operations (Note 11)	-	(357)	(56)	(885)
Comprehensive loss and net loss for the period	(6,644)	(16,862)	(5,950)	(20,780)
Deficit, beginning of period	(219,118)	(179,647)	(219,812)	(174,118)
Distributions for the period	-	-	-	(1,611)
Deficit, end of period	\$ (225,762)	\$ (196,509)	\$ (225,762)	\$ (196,509)
Loss from continuing operations per unit - basic and diluted (Note 5)	\$ (0.19)	\$ (0.67)	\$ (0.18)	\$ (0.80)
Loss from discontinued operations per unit - basic and diluted (Note 5)	\$ -	\$ (0.01)	\$ (0.00)	\$ (0.04)
Comprehensive loss and net loss per unit - basic and diluted (Note 5)	\$ (0.19)	\$ (0.68)	\$ (0.18)	\$ (0.84)

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 June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating Activities				
Income (loss) for the period from continuing operations	\$ (6,644)	\$ (16,505)	\$ (5,894)	\$ (19,895)
Items not requiring an outlay of cash:				
Depreciation and amortization	1,776	3,957	4,170	8,894
Unit based compensation expense	86	17	187	46
Future income tax expense	-	5,983	-	5,983
Loss (gain) on sale of equipment	(405)	-	(405)	-
Non cash interest expense	841	-	1,514	-
Amortization of financing charges	805	117	1,026	230
	<u>(3,541)</u>	<u>(6,431)</u>	<u>598</u>	<u>(4,742)</u>
Change in non-cash working capital	8,640	9,508	1,932	3,743
Cash flows from continuing operations	<u>5,099</u>	<u>3,077</u>	<u>2,530</u>	<u>(999)</u>
Net loss from discontinued operations	-	(357)	(56)	(885)
Depreciation and amortization	-	109	-	221
Cash flow from discontinued operations	<u>-</u>	<u>(248)</u>	<u>(56)</u>	<u>(664)</u>
Financing Activities				
Repayment of capital leases	(76)	(238)	(165)	(422)
Increase (decrease) in debt	(6,000)	46	(4,000)	11,784
Cash and cash equivalents, reclassified against debt	70	(3,534)	275	(3,534)
Distributions to unitholders	-	-	-	(3,881)
Financing charges	(55)	(234)	(92)	(356)
Change in non-cash working capital	(94)	-	(100)	-
Cash flows from continuing financing activities	<u>(6,155)</u>	<u>(3,960)</u>	<u>(4,082)</u>	<u>3,591</u>
Investing Activities				
Purchase of property, plant and equipment	(1,523)	(711)	(2,890)	(5,793)
Proceeds on disposal of property, plant and equipment	2,577	-	3,045	-
Fee for take-or-pay contract	-	-	1,375	-
Change in non-cash working capital	2	-	78	-
Cash flows from continuing investing activities	<u>1,056</u>	<u>(711)</u>	<u>1,608</u>	<u>(5,793)</u>
Purchase of capital assets	-	(76)	-	(93)
Cash flows from discontinued investing activities	<u>-</u>	<u>(76)</u>	<u>-</u>	<u>(93)</u>
Decrease in cash	-	(1,918)	-	(3,958)
Cash at beginning of period	-	1,918	-	3,958
Cash at end of period	\$ -	\$ -	\$ -	\$ -
Supplementary cash flow information				
Cash interest paid	\$ 353	\$ 821	\$ 849	\$ 1,995
Cash taxes paid	\$ -	\$ 47	\$ -	\$ 3,227

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 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 and six months ended June 30, 2008 and 2007.

Going concern

The Trust’s financial statements as at and for the periods ended June 30, 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. The Trust has experienced losses and negative cash flow. At June 30, 2008, the Trust had borrowed approximately \$40 million under its existing senior credit facility and its subordinated debt facility.

The senior credit facility matured on June 30, 2008 and the subordinated debt facility matures on September 1, 2008 (Note 4). The ability of the Trust to re-finance or extend the maturity date of its senior debt and its subordinated loan and generate positive cash flow are necessary for the Trust to continue operations. Based on discussions with its lead agent, the Trust believes that the facility will be extended to December 31, 2008, the maximum amount available under the credit facility will be reduced to \$22.5 million and the EBITDA covenant will be revised such that the Trust will be in compliance with the revised covenant as at June 30, 2008. In conjunction with the senior debt extension the Trust has also had discussions with its subordinated debt lender on extending the subordinated facility to December 31, 2008 coinciding with the proposed maturity of the senior facility, although no formal agreement has been signed with the senior lender or the subordinated debt lender. 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.



BlackWatch Energy Services Trust
Notes to the Consolidated Financial Statements
As at and for the three and six month period ended June 30, 2008 and 2007
(Unaudited)

- (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.

3. Property, plant and equipment

As at June 30, 2008

(\$ thousands)	Cost	Accumulated Depreciation	Ending NBV
Drilling rigs	\$ 30,433	\$ (6,742)	\$ 23,691
Coil tubing stands	367	(115)	252
Field service equipment	23,936	(6,774)	17,162
Shop tools and equipment	1,543	(470)	1,073
Computer equipment	866	(400)	466
Transport vehicles	14,046	(5,798)	8,248
Furniture and fixtures	387	(111)	276
Buildings	656	(44)	612
Rental equipment	6,690	(1,424)	5,266
Leaseholds	58	(19)	39
	\$ 78,982	\$ (21,897)	\$ 57,085
Land	258	-	258
Assets under construction	5,487	-	5,487
	\$ 84,727	\$ (21,897)	\$ 62,830
Equipment held for sale - current	1,314	-	1,314
Equipment held for sale - long term	3,133	-	3,133
	\$ 89,174	\$ (21,897)	\$ 67,277

As at December 31, 2007

(\$ thousands)	Cost	Accumulated Depreciation	Ending NBV
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



BlackWatch Energy Services Trust
Notes to the Consolidated Financial Statements
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(Unaudited)

At June 30, 2008, \$1.3 million (December 31, 2007, \$1.3 million) of equipment is subject to capital leases for which \$381,000 of accumulated depreciation was recognized (December 31, 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 first quarter of 2008, the Trust received a 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.

As a result of low utilization, management has decided to attempt to sell certain assets in the downhole services division. These assets had a net book value of \$6.2 million. Management is actively seeking potential buyers and will work on a best efforts basis to sell all the units. At June 30, 2008, the Trust had successfully disposed of assets with a net book value of \$1.7 million for proceeds of \$2.3 million.

4. Debt

(\$ thousands)	As at June 30, 2008	As at December 31, 2007
Credit facilities (i)	\$ 17,590	\$ 20,863
Subordinated debt (ii)	22,129	22,500
Debt	39,719	43,363

(i) Senior credit facility

The maximum amount available under the credit facility was \$25 million as of June 30, 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.

As at June 30, 2008, the Trust was not in compliance with its earnings covenant. The lenders have not demanded repayment of the facility and the Trust is continuing to work with the lenders to arrange an extension of the facility. Based on discussions with its lead agent, the Trust believes that the facility will be extended to December 31, 2008, the maximum amount available under the credit facility will be reduced to \$22.5 million and the EBITDA covenant will be revised such that the Trust will be in compliance with the revised covenant as at June 30, 2008. In conjunction with the senior debt extension the Trust has also had discussions with its subordinated debt lender on extending the subordinated facility to December 31, 2008 coinciding with the proposed maturity of the senior facility, although no formal agreement has been signed with the senior lender or the subordinated debt lender.

(ii) Subordinated debt

The subordinated debt is held by an entity substantially owned by a director and matures on September 1, 2008. The amount of the facility is \$27.5 million, of which the Trust has drawn \$22.5 million as at June 30, 2008. The remaining \$5 million may be drawn for capital expenditures and strategic acquisitions with the consent of the lender. The debt is subordinated to the amended and restated senior credit facility. The carrying value of the debt at June 30, 2008 was \$22.1 million.



BlackWatch Energy Services Trust
Notes to the Consolidated Financial Statements
As at and for the three and six month period ended June 30, 2008 and 2007
(Unaudited)

Interest may 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. Interest costs of \$673,000 during the first quarter were settled through the issuance of 1,032,448 Trust units on April 5, 2008. Interest costs of \$841,000 during the second quarter were settled through the issuance of 963,770 Trust units on July 7, 2008. Interest on the subordinated debt was 12% in the first quarter and was increased to 15% in second quarter as the "Cash Flow" to "Net Debt" ratio in the first quarter did not exceed 46%. Interest will be 15% in the third quarter as the "Cash Flow" to "Net Debt" ratio in the second quarter did not exceed negative 17%.

The subordinated lender has 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 value of the conversion feature has been netted against the face value of the debt, presented as unitholders' equity and is being accreted as an additional financing charge over the five month term of the subordinated debt.

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	335	3,351
Units issued in the period ³	1,980	1,292
Unit issue costs	-	(14)
Trust units to be issued for interest ⁴	964	841
Balance, June 30, 2008	30,847	\$ 209,984

Exchangeable units ² (thousands)	Units	Amount
Balance, December 31, 2007	4,606	\$ 48,059
Conversion of exchangeable units	(335)	(3,351)
Balance, June 30, 2008	4,271	\$ 44,708

Total units outstanding, June 30, 2008	35,118	\$ 254,692
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¹Of the total Trust units that were issued, 3.5 million are held in escrow of which 3.4 million were released on August 4, 2008 and 115,055 will be released on October 6, 2008.

² Of the total exchangeable units outstanding at June 30, 2008, 86,290 are held in escrow and will be released on October 6, 2008.

³ Issued 947,062 units to settle the commitment fee associated with the loan extension in the first quarter and 1,032,448 units to settle interest charges on the subordinated debt related to obligations as at March 31, 2008.

⁴ On July 7, 2008, the Trust issued 963,770 units to settle interest charges related to the second quarter on the subordinated debt.



BlackWatch Energy Services Trust
Notes to the Consolidated Financial Statements
As at and for the three and six month period ended June 30, 2008 and 2007
(Unaudited)

The basic and diluted weighted average numbers of Trust units used in the calculation of loss per unit for the periods ended June 30, 2008 and 2007 are summarized in the following table:

(\$ thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Weighted average Trust units - basic	34,110	24,781	33,124	24,781
Trust unit options exercisable for Trust units	-	-	-	-
Debt convertible to Trust units	-	-	-	-
Unit awards convertible to Trust units	10	24	10	24
Weighted average Trust units for diluted net earnings	34,120	24,805	33,134	24,805

For the calculation of the weighted average number of diluted Trust units outstanding for the three and six month periods ended June 30, 2008, 2.1 million (2007, 1.5 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 they were determined to be anti-dilutive.

Contributed surplus

During the period, the Trust's contributed surplus has increased as follows:

(\$thousands)	
Opening contributed surplus, January 1, 2008	889
Fair value of trust unit options issued	187
Ending balance as of June 30, 2008	1,076

In the three and six month periods ended June 30, 2008 the Trust has recorded unit based compensation expense in the amount of \$203,000 of which \$187,000 is expected to be settled through the issuance of Trust units and has been recorded in contributed surplus. The remaining \$16,000 is expected to be settled in 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.

Downhole Services

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.

Transport

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.

Drilling

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



BlackWatch Energy Services Trust
Notes to the Consolidated Financial Statements
As at and for the three and six month period ended June 30, 2008 and 2007
(Unaudited)

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 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 June 30, 2008

(\$ thousands)	Downhole			Production			Total
	Services	Transport	Drilling	Services	Rentals	Corporate	
	2008	2008	2008	2008	2008	2008	2008
Net income (loss) from continuing operations	\$ (785)	\$ (957)	\$ (956)	\$ (434)	\$ (385)	\$ (3,127)	\$ (6,644)
Revenue	1,567	504	571	740	897	-	4,279
Intercompany revenues	-	92	3	1	28	-	124
Operating costs	2,249	1,045	1,461	861	953	-	6,569
Depreciation and Amortization	556	495	92	238	357	38	1,776
Interest on debt	-	-	-	-	-	1,194	1,194
Other interest and bank charges	(2)	(2)	(21)	4	-	826	805
Capital purchases	23	43	1,290	48	117	2	1,523

Three months ended June 30, 2007

(\$ thousands)	Downhole			Production			Total
	Services	Transport	Drilling	Services	Rentals	Corporate	
	2007	2007	2007	2007	2007	2007	2007
Net income (loss) from continuing operations	\$ (3,276)	\$ (1,232)	\$ (1,743)	\$ (972)	\$ (883)	\$ (8,399)	\$ (16,505)
Revenue	2,103	354	799	708	611	-	4,575
Intercompany revenues	-	53	-	-	238	-	291
Operating costs	3,933	678	2,367	844	849	-	8,671
Depreciation and Amortization	1,441	965	131	701	668	51	3,957
Interest on debt	-	-	-	-	(4)	909	905
Other interest and bank charges	4	-	1	15	4	248	272
Capital purchases	1,002	-	389	(246)	(467)	33	711

Six months ended June 30, 2008

(\$ thousands)	Downhole			Production			Total
	Services	Transport	Drilling	Services	Rentals	Corporate	
	2008	2008	2008	2008	2008	2008	2008
Net income (loss) from continuing operations	\$ (1,555)	\$ (974)	\$ 3,099	\$ (486)	\$ (272)	\$ (5,706)	\$ (5,894)
Revenue	5,082	3,280	12,359	1,943	2,436	-	25,100
Intercompany revenues	-	168	3	4	267	-	442
Operating costs	5,739	3,251	8,505	1,927	2,262	-	21,684
Depreciation and Amortization	1,336	1,017	587	438	713	79	4,170
Interest on debt	-	-	-	-	-	2,363	2,363
Other interest and bank charges	3	(4)	(16)	16	-	1,131	1,130
Capital purchases	80	317	1,400	209	880	4	2,890

Six months ended June 30, 2007

(\$ thousands)	Downhole			Production			Total
	Services	Transport	Drilling	Services	Rentals	Corporate	
	2007	2007	2007	2007	2007	2007	2007
Net income (loss) from continuing operations	\$ (3,682)	\$ (1,487)	\$ (715)	\$ (1,629)	\$ (1,259)	\$ (11,123)	\$ (19,895)
Revenue	9,912	3,544	7,240	2,548	2,805	-	26,049
Intercompany revenues	-	113	-	-	313	-	426
Operating costs	10,531	3,042	7,177	2,609	2,504	-	25,863
Depreciation and Amortization	3,071	2,099	582	1,403	1,641	98	8,894
Interest on debt	-	-	-	-	-	1,938	1,938
Other interest and bank charges	15	2	1	30	4	361	413
Capital purchases	1,643	-	2,552	529	851	218	5,793



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As at June 30, 2008

(\$ thousands)	Downhole		Production			Corporate	Total
	Services	Transport	Drilling	Services	Rentals		
Net book value of property, plant and equipment	12,106	6,318	31,070	5,444	7,469	423	62,830
Equipment held for sale - current	1,314	-	-	-	-	-	1,314
Equipment held for sale - long term	3,133	-	-	-	-	-	3,133
Total Assets	19,545	7,139	32,323	5,955	8,203	884	74,049

As at December 31, 2007

(\$ thousands)	Downhole		Production			Corporate	Total
	Services	Transport	Drilling	Services	Rentals		
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 \$497,000 which were excluded from the segmented note as the assets of the division were sold in 2007. This amount consists of accounts receivable not collected as at December 31, 2007.

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 June 30, 2008 the largest customer accounted for 16% of the Trust's accounts receivable balance and the five largest balances comprise 44% (2007, 38%) of the overall balance.



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The aging of trade receivables at the reporting date was:

(thousands of Canadian dollars)	As at June 30, 2008	As at December 31, 2007
Current	\$ 2,565	\$ 3,269
Outstanding 31 - 60 days	440	1,749
Outstanding 61 - 90 days	225	300
More than 90 days	1,402	884
Total trade receivables	4,632	6,202
Impairment allowance	444	438
Net trade receivables	4,188	5,764
Other receivables	-	581
Total receivables	\$ 4,188	\$ 6,345

The Trust assesses quarterly if there is any impairment of its financial assets. During the three and six month periods ended June 30, 2008, the Trust recorded a recovery of \$81,000 and an expense of \$5,000 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 \$25 million senior credit facility (Note 4i). As at June 30, 2008, the Trust has drawn \$17.6 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 June 30, 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 existing senior credit facility expired on June 30, 2008. Based on discussions with its lead agent, the Trust believes that the facility will be extended to December 31, 2008, the maximum amount available under the credit facility will be reduced to \$22.5 million and the EBITDA covenant will be revised such that the Trust will be in compliance with the revised covenant as at June 30, 2008. In conjunction with the senior debt extension the Trust has also had discussions with its subordinated debt lender on extending the subordinated facility to December 31, 2008 coinciding with the proposed maturity of the senior facility, although no formal agreement has been signed with the senior lender or the subordinated debt lender.



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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	\$ 17,590	\$ 18,231	\$ 18,231	\$ -	\$ -	\$ -
Subordinated debt	22,129	\$ 23,064	\$ 23,064	\$ -	\$ -	\$ -
Capital lease obligations	673	745	213	196	285	51
Accounts payable and accrued liabilities	3,403	3,403	3,403	-	-	-
Total	\$ 43,795	\$ 45,443	\$ 44,911	\$ 196	\$ 285	\$ 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 three and six months ended June 30, 2008 by approximately \$110,000 and \$204,000. 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.



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 its 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 units, 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 as at June 30, 2008 and December 31, 2007 were as follows:

\$ thousands	As at June 30, 2008	As at December 31, 2007
Debt	39,719	43,363
Obligations under capital leases	673	838
Unitholders' equity	30,254	33,650
Total Capital	70,646	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 June 30, 2008, the Trust was in compliance with these externally imposed capital restrictions, except the debt covenant violation as discussed in Note 4.

9. Related party transactions

During the quarter ended June 30, 2008, the Trust incurred expenses of \$109,000 (2007, \$134,000) 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 \$50,000 (2007, \$114,000). These fees relate to work completed on the credit facility, subordinated debt, annual information form and general corporate matters. Of these fees \$34,000 (2007, \$116,000) is included in accounts payable as at June 30, 2008.

For the six months ended June 30, 2008, the Trust incurred expenses of \$238,000 (2007, \$326,000) relating to the rental of land, buildings and equipment owned by certain officers who are also



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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 \$109,000 (2007, \$200,000). These fees relate to work completed on the credit facility, subordinated debt, annual information form and general corporate matters. On April 3, 2008 the Trust issued 1,032,448 units to settle interest charges on subordinated debt for the first quarter and 947,062 units to settle the commitment fee associated with the extension of the subordinated debt. On July 7, 2008 the Trust issued 963,770 units to settle interest charges on subordinated debt for the second quarter. 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.

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 amount relate to the pipeline construction division which has been classified as a discontinued operation. This division was sold effective August 31, 2007.

(\$ thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Revenue	-	931	-	3,588
Operating costs	-	(1,176)	(26)	(4,245)
Amortization	-	(109)	-	(221)
Loss on the sale of equipment and other expenses	-	(3)	(30)	(7)
Net loss from discontinued operations	-	(357)	(56)	(885)

12. Commitments

The Trust is committed to future minimum payments under operating lease contracts for equipment, vehicles, office and shop space of \$4.7 million. The settlement dates of these obligations range from July 2008 to November 2017.

The required future commitment payments as at June 30, 2008 are as follows:

\$ thousands	Payments due by period					
	Total	2008	2009	2010	2011	2012
Operating lease obligations	4,731	927	1,519	1,218	761	306

13. Subsequent events

In July, the Trust sold three coil tubing units with a net book value of \$1.4 million for proceeds of \$1.3 million. The fair value of this equipment was reclassified at June 30, 2008 as a current asset and the loss was recognized in the three and six month periods ending June 30, 2008.