



BLACKWATCH ENERGY SERVICES CORP.

Annual Information Form

Year Ended December 31, 2008

March 23, 2009

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GLOSSARY OF TERMS

In this Annual Information Form, unless the context otherwise requires, references to "we", "us", "our" or similar terms, or to the "Corporation" refer to BlackWatch Energy Services Corp. (either alone or together with its subsidiaries) and the following terms shall have the meanings set forth below, unless otherwise indicated.

"**ABCA**" means the *Business Corporations Act* (Alberta), together with any or all regulations promulgated thereunder, as amended from time to time;

"**Acquired Companies**" means, collectively, Austin's Transport (1990) Ltd., Strata Completions Limited, Ammonite Assets Inc., Caliber Energy Services Corp., Brantfords Consolidated Inc. and Brantfords Consolidated Ltd., and the subsidiaries of these companies, Mid-West Drilling Ltd., Ammonite Drilling Ltd., Rock Solid Coil Tubing Services Ltd., Caliber Coil Tubing Inc., 387097 Alberta Ltd., K&D Oilfield Services Ltd., Mark Ross Oilfield Hauling Ltd., MacKinnon General Service Ltd., 941040 Alberta Ltd. and 979735 Alberta Ltd. and "**Acquired Company**" means any one of them;

"**Acquisition**" means the acquisition by the Investment Partnership of the Acquired Companies pursuant to the Acquisition Agreements, the closing of which occurred on August 4, 2006;

"**Acquisition Agreements**" means the share purchase agreements entered into among the Investment Partnership and the shareholders of each of the Acquired Companies providing for the acquisition by the Investment Partnership of the Acquired Companies;

"**Annual Information Form**" means this annual information form;

"**Arrangement**" means the plan of arrangement between BlackWatch, the Trust, BlackWatch Opco and BlackWatch Subco under the provisions of section 193 of the ABCA, which closed on December 31, 2008;

"**Arrangement Agreement**" means the arrangement agreement dated as of November 10, 2008, among the Trust, BlackWatch OpCo, BlackWatch and BlackWatch SubCo pursuant to which the Trust, BlackWatch OpCo, BlackWatch and BlackWatch Subco implemented the Arrangement;

"**BlackWatch**" or the "**Corporation**" means BlackWatch Energy Services Corp., a corporation incorporated pursuant to the laws of Alberta, and includes all applicable Subsidiaries and predecessor entities of the Corporation, as the context requires;

"**BlackWatch Opco**" means BlackWatch Energy Services Operating Corp., a corporation amalgamated under the ABCA and a subsidiary of the Corporation, which company is the general partner of the Operating Partnership;

"**BlackWatch Services Ltd.**" means BlackWatch Energy Services Ltd., a corporation amalgamated under the ABCA and dissolved effective January 21, 2009, which company was the general partner of the Investment Partnership and the trustee of the Commercial Trust and the Holding Trust;

"**BlackWatch Securityholders**" means, collectively, the Unitholders and the holder of the Special Voting Unit;

"**BlackWatch Share**" means a common share in the capital of BlackWatch;

"**BlackWatch Subco**" means 1415033 Alberta Ltd., a corporation incorporated under the ABCA for the purpose of participating in the Arrangement and dissolved effective December 31, 2008 in connection with the Arrangement;

"**Board of Directors**" or "**Board**" means the board of directors of BlackWatch;

"**Canadian GAAP**" means generally accepting accounting principles in Canada as in effect from time to time;

"**CAODC**" means Canadian Association of Oilwell Drilling Contractors;

"Commercial Trust" means BlackWatch Energy Services Commercial Trust, an unincorporated open-ended trust established by the Commercial Trust Declaration of Trust and wound-up effective January 21, 2009;

"Commercial Trust Declaration of Trust" means the declaration of trust establishing Commercial Trust dated June 28, 2006, as amended and restated on July 27, 2006, as amended, supplemented or restated from time to time;

"Elite" means 1044793 Alberta Ltd. and 1044802 Alberta Ltd., operating as Elite Oilfield Rentals;

"Escrow Agreement" means the escrow agreement between the Corporation, the Investment Partnership and certain Unitholders on closing of the Acquisition pursuant to which such Unitholders agreed to hold certain of their Trust Units and Exchangeable Units (and Trust Units into which the Exchangeable Units may be exchanged) in escrow;

"Exchangeable Units" means class B exchangeable limited partnership units of the Investment Partnership;

"Exchangeable Unit Ratio" means the number of Trust Units issuable on exchange, redemption or conversion of each Exchangeable Unit;

"General Partnership Interest" means the interest of the general partner whether evidenced by partnership units or otherwise, in the Operating Partnership;

"Holding Trust" means BlackWatch Energy Services Holding Trust, an unincorporated investment trust established by the Holding Trust Declaration of Trust and wound-up effective January 21, 2009;

"Holding Trust Declaration of Trust" means the declaration of trust establishing the Holding Trust dated June 28, 2006, as amended and restated on July 27, 2006, as amended, supplemented or restated from time to time;

"Investment Limited Partnership Agreement" means the limited partnership agreement dated June 28, 2006, among BlackWatch Services Ltd., as general partner of the Investment Partnership, Holding Trust, as the initial limited partner, and each person who was admitted as an additional limited partner of the Investment Partnership from time to time in accordance with the Investment Limited Partnership Agreement, as amended and restated on July 27, 2006, as amended, supplemented or restated from time to time;

"Investment LP Units" means limited partnership units of the Investment Partnership issued from time to time in accordance with the Investment Limited Partnership Agreement;

"Investment Partnership" means BlackWatch Energy Services Limited Partnership, a limited partnership established under the laws of the Province of Alberta and wound-up effective January 21, 2009;

"Operating Limited Partnership Agreement" means the limited partnership agreement dated August 11, 2006, entered into among BlackWatch Opco, as general partner of the Operating Partnership, the Commercial Trust, as the initial limited partner, and each person who is admitted as an additional limited partner of the Operating Partnership from time to time in accordance with the Operating Limited Partnership Agreement, as amended, supplemented or restated from time to time;

"Operating LP Units" means class B common limited partnership units of the Operating Partnership;

"Operating Partnership" means BlackWatch Energy Services Operating Limited Partnership, a limited partnership established under the laws of the province of Alberta the limited partners of which are the Corporation and BlackWatch Opco and the general partner of which is BlackWatch Opco;

"Person" includes an individual, a body corporate, a trust, a union, a pension fund, a government and a governmental agency;

"Preferred Operating LP Units" means class C preferred limited partner units of the Operating Partnership which provide for a fixed return equal to the preferred return payable on the class C preferred limited partner units equal to 12% per annum, as issued from time to time in accordance with the Operating Limited Partnership Agreement;

"**Related Party**" or "**Related Parties**" have the meaning ascribed to such terms in Ontario Securities Commission Rule 61-501;

"**Special Voting Unit**" means special voting unit of the Trust issuable from time to time pursuant to the Trust Indenture and deposited with the Trustee under the Voting and Exchange Trust Agreement;

"**Stock Option Plan**" means the stock option plan of the Corporation;

"**Subordinated Debt Facility**" means the \$22.5 million subordinated debt facility of the Operating Partnership on the terms and conditions in effect on the date hereof;

"**Subsidiary**" or "**subsidiary**" means, with respect to any Person, a subsidiary (as that term is defined in the ABCA (for such purposes, if such person is not a corporation, as if such person were a corporation)) of such Person and includes any limited partnership, joint venture, trust, limited liability company, unlimited liability company or other entity, whether or not having legal status, that would constitute a subsidiary (as described above) if such entity were a corporation;

"**Tax Act**" means the *Income Tax Act* (Canada), together with any and all regulations promulgated thereunder, as amended from time to time;

"**Trust**" means BlackWatch Energy Services Trust, an unincorporated open-ended trust established by the Trust Indenture and formed pursuant to the laws of the Province of Alberta, which was wound-up on January 21, 2009;

"**Trust Indenture**" means the trust indenture establishing the Trust dated June 23, 2006, as amended and restated on July 27, 2006, as amended, supplemented or restated from time to time;

"**Trust Units**" means trust units of the Trust;

"**Trustee**" means Valiant Trust Company, the Trustee of the Trust;

"**TSX**" means the Toronto Stock Exchange;

"**Unitholder**" means a holder of the Trust Units or Exchangeable Units;

"**Voting and Exchange Trust Agreement**" means the voting and exchange trust agreement entered into among the Trust, the Investment Partnership and the Trustee; and

"**WCSB**" means the western Canadian sedimentary basin.

GENERAL MATTERS

The Corporation prepares its financial statements in Canadian dollars and in conformity with Canadian GAAP.

Unless otherwise indicated, all dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

The Corporation's website is located at www.blackwatchenergy.ca.

NON-CANADIAN GAAP MEASURES

This Annual Information Form may contain references to terms that are not specifically defined in Canadian GAAP when used to analyze operations. In addition to the primary measures of net earnings and net earnings per share, as recognized under Canadian GAAP, management believes that certain measures not recognized under Canadian GAAP assist management and the reader in assessing the Corporation's performance and understanding the Corporation's results. Each of these measures provides the reader with additional insight into the Corporation's performance.

- Gross margin – This measure is considered a primary indicator of operating performance and is calculated as revenue less operating expenses.
- EBITDA (Earnings before interest, income taxes, depreciation and amortization and share based compensation) – This measure is considered an indicator of the Corporation's ability to generate funds in order to meet ongoing operating commitments, servicing of debt, funding for capital programs and distributions.
- 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.

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this document, constitute forward looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. The expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in this document should not be unduly relied upon. These statements speak only as of the date of this document.

In particular, this document contains forward looking statements pertaining to: the Corporation's future growth; the business strategy of the Corporation; results of operations; performance of the Corporation; timing of sale of transportation assets; use of proceeds from sale of transportation assets; dividend policy of BlackWatch; ability to extend credit facilities; and business prospects and opportunities.

Actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this document:

- supply and demand for oilfield services relating to the drilling, completion and maintenance of oil and gas wells as well as services related to oilfield equipment rentals and production and ancillary services;
- competition for, among other things, capital and skilled personnel;
- general economic conditions in Canada and the United States;
- the Corporation's ability to raise capital;
- the Corporation's ability to retain access to bank and other financing;
- incorrect assessments of the value of acquisitions;
- fluctuations in the market for oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- political and economic conditions;
- failure of counter-parties to perform on contracts;
- regional competition;
- demand for the Corporation's services;
- the Corporation's ability to attract and retain customers and employees;
- amounts retained by the Corporation for capital expenditures;

- volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and gas services generally;
- uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed;
- fixed costs in relation to variable revenue streams; and
- the presence of heavy competition in the industry in which the Corporation currently operates and any or all of the factors discussed under "Risk Factors".

The forward-looking statements contained herein are based on certain key expectations and assumptions of BlackWatch concerning anticipated financial performance, business prospects, strategies, conditions in general economic and financial markets, regulatory developments, competition, exchange rates, applicable royalty rates, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms, which are subject to change based on commodity prices, market conditions and potential timing delays. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this Annual Information Form in order to provide shareholders 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 the Corporation will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive.

Other than the continuous disclosure obligations set forth in National Instrument 51-102 – *Continuous Disclosure Obligations*, the Corporation undertakes no obligation to publicly update or revise any forward looking statements, except as required pursuant to applicable securities laws. Readers should also carefully consider the matters discussed under the heading "Risk Factors" in this Annual Information Form.

BLACKWATCH ENERGY SERVICES CORP. AND RELATED ENTITIES

General

Corporate Structure

The Corporation was incorporated under the ABCA on October 14, 2008 as "1431879 Alberta Ltd.". On November 7, 2008 the Corporation filed articles of amendment to remove its private company restrictions and to change its name to "BlackWatch Energy Services Corp." The Corporation is the resulting "parent" entity following the Arrangement with the Trust. See "*The Arrangement*" below. Following the Arrangement, the Corporation became a reporting issuer in each of the provinces of Canada, except for Quebec and the BlackWatch Shares were listed on the TSX under the symbol "BWT".

The Corporation is an energy services company that carries on the business previously carried on by the Trust, namely providing a range of services to its customers operating in the WCSB including drilling, wireline and other well services, rig transportation and other oilfield hauling, oilfield equipment rental and production services.

The Trust was an unincorporated open-ended investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture. The Trust was wound up on January 21, 2009 in connection with certain internal transactions carried out to significantly simplify the Corporation's corporate structure.

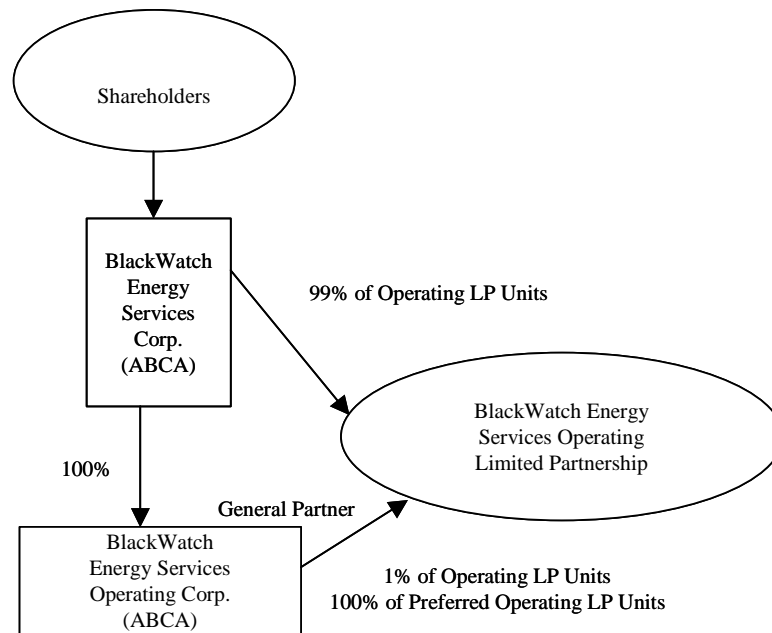
The Corporation currently has one wholly owned subsidiary, BlackWatch Opco, and is a limited partner of the Operating Partnership.

The head and principal office of BlackWatch is located at 300, 855 - 8 Avenue S.W., Calgary, Alberta T2P 3P1 and its registered office is located at 1400, 350 – 7th Avenue S.W., Calgary, Alberta T2P 3N9.

Intercorporate Relationships

Organizational Structure of the Corporation

The following diagram sets forth the organizational structure of the Corporation and each of its material subsidiary entities as at the date hereof:



BlackWatch Energy Services Operating Corp.

BlackWatch Opco was incorporated under the ABCA on May 19, 2006, as "1243924 Alberta Ltd." and filed articles of amendment to change its name to "BlackWatch Energy Services Operating Corp." on June 27, 2006. It amalgamated under the ABCA with 1243915 Alberta Ltd., the initial administrator of the Trust, on July 27, 2006, to form "BlackWatch Energy Services Operating Corp." and further amalgamated with the Acquired Companies on August 4, 2006, to form "BlackWatch Energy Services Operating Corp." On August 11, 2006, BlackWatch Opco amended its articles to create a new class of shares to be designated as "preferred shares". On October 6, 2006, BlackWatch Opco amalgamated pursuant to the ABCA with 1044793 Alberta Ltd. and 1044802 Alberta Ltd. to form "BlackWatch Energy Services Operating Corp.". All of the issued and outstanding common shares of BlackWatch Opco are owned by the Corporation.

BlackWatch Energy Services Operating Limited Partnership

The Operating Partnership is a limited partnership established under the laws of the province of Alberta pursuant to the Operating Limited Partnership Agreement to make investments in and carry on any business or activity involving, in relation to, or in furtherance of oil and gas services and such other businesses as the Board of Directors may determine, and activities ancillary and incidental thereto.

The general partner of the Operating Partnership is BlackWatch Opco who is responsible for the administration and management of the Operating Partnership and who generally carries out the objects, purposes and business of the Operating Partnership.

GENERAL DEVELOPMENT OF THE BUSINESS OF THE CORPORATION AND ITS OPERATING ENTITIES**General**

The Corporation is an energy services company that provides a range of services to its customers operating in the WCSB including drilling, wireline and other well services and other oilfield hauling, oilfield equipment rentals and production services.

Prior to completion of the Arrangement the Corporation had not carried on any active business since incorporation other than executing the Arrangement Agreement. Pursuant to the Arrangement, the Corporation acquired all of the Trust Units and Exchangeable Units and thereby acquired all of the assets and assumed all of the liabilities of the Trust. The former BlackWatch Securityholders are the shareholders of the Corporation.

A detailed description of the historical development of the business of the Trust is outlined below. Unless the context otherwise requires, references to "we", "us", "our" or similar terms, or to the "Trust" refer to the Corporation.

Historical Development of the Trust***2006***

The Trust, through the Investment Partnership, acquired, pursuant to the Acquisition Agreements, all of the outstanding shares of the Acquired Companies on August 4, 2006 in exchange for Trust Units and Exchangeable Units. Immediately after being acquired by the Investment Partnership, all of the outstanding shares of the Acquired Companies were conveyed to BlackWatch Opco and each of the Acquired Companies were amalgamated with BlackWatch Opco and all of the operating assets of the Acquired Companies were contributed to the Operating Partnership. As at December 31, 2006, the Operating Partnership operated each of the businesses of the Acquired Companies as well as the business of Elite (described below) in six operating divisions.

On August 4, 2006, the Trust established a \$29 million dollar bridge financing facility with Roynat Capital to facilitate the acquisition of the Acquired Companies. On October 17, 2006, the Trust amended the terms of this facility by converting it from a non-revolving to a revolving facility. The Trust was able to repay and borrow the principal amount without notice, bonus or penalty at any time prior to maturity. The facility was repaid in full on December 19, 2006, when the \$80 million syndicated credit facility noted below was obtained.

On August 4, 2006, the Trust also established a \$20 million revolving credit facility with a Canadian chartered bank. The facility was secured via a priority agreement between the Canadian chartered bank and Roynat Capital, which provided the bank with a first charge priority on all accounts receivable of the Trust and a second charge over all other assets. This facility was also repaid in full on December 19, 2006, when the \$80 million syndicated credit facility noted below was obtained.

On August 11, 2006, the Trust completed its initial public offering of 2,500,000 Trust Units at a price of \$10.00 per Trust Unit for gross proceeds of \$25 million. An additional 4,100,000 Trust Units were sold by certain third party Unitholders in a secondary offering at a price of \$10.00 per unit for gross proceeds to such Unitholders of \$41 million. The offering was carried out by a syndicate of investment dealers led by Blackmont Capital Inc. and including CIBC World Markets Inc., National Bank Financial Inc. and Raymond James Ltd. (collectively, the "**Agents**"). The net proceeds from the initial public offering were used to reduce debt assumed in connection with the acquisition by the Trust of the Acquired Companies, and for working capital purposes. The Trust Units commenced trading on the TSX under the symbol "BWT.UN".

On August 24, 2006, the Trust closed the over-allotment option granted to the Agents in connection with the initial public offering, which over-allotment consisted of the offering of 660,000 Trust Units at a price of \$10.00 per unit for gross proceeds of \$6,600,000. Proceeds realized upon exercise of the over-allotment option were utilized to reduce debt and for working capital purposes.

On October 6, 2006, the Trust, through the Investment Partnership, completed the acquisition of all of the issued and outstanding shares of Elite, based out of Valleyview, Alberta. BlackWatch Opco then amalgamated pursuant to the ABCA with 1044793 Alberta Ltd. and 1044802 Alberta Ltd. to form "BlackWatch Energy Services Operating Corp.". Elite provided oilfield equipment leasing and rental services and had an inventory of storage tanks, flare tanks, rig mats and various support equipment to service its broad customer base in the Valleyview – Grande Prairie region of Alberta. The purchase was funded with \$5 million in cash, the assumption of \$233,000 in debt and the issuance of 402,688 Trust Units and 172,581 Exchangeable Units. The acquisition led to the creation of the Trust's Rental and Leasing Division and expanded the Trust's presence in the northwest sector of Alberta.

On December 19, 2006, the Trust obtained an \$80 million dollar revolving credit facility which replaced the \$29 million dollar bridge facility and \$20 million revolving credit facility described above. The \$80 million dollar facility was provided by a syndicate of major Canadian banks, led by the Bank of Nova Scotia and was implemented to facilitate the future growth initiatives of the Trust. This was a 364-day revolving facility and upon maturity, if not renewed, it would term out over a three year period. Approximately \$40 million was drawn as at December 31, 2006.

2007

Effective February 19, 2007, the Trust announced the suspension of its monthly distributions to Unitholders. The distributions were suspended to preserve cash flow, allow for debt repayment and to reinvest in the business of the Trust during a period of uncertain industry demand.

Effective March 6, 2007, Earl Connors resigned as President, Chief Executive Officer and a Director of BlackWatch Opco and all of its affiliates.

On April 25, 2007, rights ("**Options**") to purchase trust units at \$10.00 originally issued to the directors and an officer of BlackWatch Opco were acquired by BlackWatch Opco, on behalf of the Trust, for nominal consideration and cancelled. In addition, on July 4, 2007, the remaining Options held by officers of BlackWatch Opco were acquired by BlackWatch Opco, on behalf of the Trust for nominal consideration and cancelled. The total number of Options cancelled was 673,000.

On May 11, 2007, BlackWatch announced the appointment of Travis Robertson as the President and Chief Executive Officer of BlackWatch OpCo.

On June 1, 2007, the Trust announced a rights offering to Unitholders (the "**Rights Offering**"), which was completed on July 9, 2007. Pursuant to the Rights Offering, each holder of Trust Units and Exchangeable Units received one right (a "**Right**") for every Trust Unit or Exchangeable Unit held. For every 5.2 Rights held a holder thereof was entitled to purchase one Trust Unit at a price of \$1.68. A total of 4,765,656 Trust Units were subscribed for under the Rights Offering for gross proceeds to the Trust of \$8.0 million. The proceeds of the Rights Offering were used to repay outstanding debt of the Trust.

On June 8, 2007, the Trust announced that it had been in discussions with its senior lenders concerning amendments to its credit facility agreement, specifically reducing the amount drawn under the facility. As a result, the Trust signed a commitment letter with an entity substantially owned by a director of BlackWatch Opco (the "**Subordinated Lender**") offered to provide up to \$25 million of capital to BlackWatch, in the form of debt, which would be subordinate to the senior lenders (the "**Subordinated Debt Facility**"). The Board of Directors of BlackWatch Opco appointed a Special Committee to review this proposal, as two of BlackWatch's directors, M. Bruce Chernoff and David Rain, are indirect Unitholders of the Subordinated Lender with Mr. Chernoff owning the substantial majority of the units of the Subordinated Lender's parent and Mr. Rain serving as the President of the administrator of the Subordinated Lender. The Special Committee explored and considered alternatives available for raising additional capital, including issuing equity and subordinated debt, and the desire of the senior lenders to see a reduction in BlackWatch's senior debt until such time as earnings improved and the original covenants under the credit facility agreement were capable of being achieved. The members of the Special Committee agreed that the Subordinated Debt Facility, in combination with the Rights Offering were the best alternatives available and were necessary to: (i) re-capitalize BlackWatch's balance sheet; (ii) to facilitate discussions with its senior lenders concerning terms of the credit facility going forward; and (iii) to create some borrowing capacity for the Trust to continue to carry out its operations.

Interest on the Subordinated Debt Facility was payable quarterly at a rate of 9.5% per annum for the first three months the Subordinated Debt Facility was outstanding and 12% thereafter, until the date of maturity, being December 31, 2007. Interest was payable in cash (subject to approval of BlackWatch's secured lenders) or through the issuance of Units at the Subordinated Lender's option. As consideration for committing to the Subordinated Debt Facility, the Trust granted the Subordinated Lender 3,000,000 warrants to purchase Units (the "**Lender Warrants**") for a period of 18 months from the date of grant at an exercise price of \$1.68 per Unit. The Subordinated Lender was also paid a fee equal to 5% of the Subordinated Debt Facility commitment, payable in cash (subject to approval of BlackWatch's secured lenders) or through the issuance of Units at the Subordinated Lender's option. At the annual and special meeting of Unitholders held on July 6, 2007, Unitholders ratified and approved the Subordinated Debt Facility and the issuance of the securities pursuant to the Subordinated Debt Facility. The Subordinated Debt Facility closed on October 4, 2007.

On June 22, 2007, new legislation was passed pursuant to which, commencing January 1, 2011 (provided that the Trust only experiences "normal growth" and no "undue expansion" before then) certain distributions will be subject to a trust-level tax, and will be characterized as dividends to the Unitholders.

On July 3, 2007 the Trust completed the Rights Offering of 4,765,656 units of the Trust for gross proceeds of \$8.0 million.

On June 26, 2007, Kevin A. Bennett resigned from the Board of Directors of BlackWatch Opco due to the existence of a legacy agreement, unrelated to BlackWatch, which may possibly have impacted on BlackWatch's ability to pursue certain business opportunities in the future.

On August 24, 2007 the Trust announced the signing of a binding agreement with EMS Acquisition Canada, Inc, a wholly owned subsidiary of Energy Maintenance Service Group, I LLC, for the sale of the assets and business of BlackWatch's pipeline construction division (formerly K&D Oilfield Services). The sale price for the disposition was \$3.845 million and the transaction closed on August 31, 2007.

On October 4, 2007, the Trust announced that it had completed an amended and restated \$35 million syndicated senior credit agreement and the Subordinated Debt Facility described above. The amended and restated syndicated facility continued to be led by the Bank of Nova Scotia and includes the same group of major Canadian banks that BlackWatch has been dealing with since December, 2006. The new senior facility was to mature on June 30, 2008 and bear interest at prime plus 2.625%.

On November 7, 2007 Paul Partlo resigned as the Vice President, Finance and Chief Financial Officer of BlackWatch Opco to pursue another opportunity.

On November 15, 2007, the Trust announced that Wiley D. Auch, C.A. was appointed Vice President, Finance and Chief Financial Officer of BlackWatch Opco.

Effective November 15, 2007, the Trust granted to directors and officers of BlackWatch Opco, Options to acquire 792,000 Trust Units in accordance with its trust unit option plan. The Options were granted at a grant price of \$0.77 per Trust Unit. In addition, Options to purchase 400,000 Trust Units granted to an officer of BlackWatch Opco on June 13, 2007 at a strike price of \$1.74, were cancelled. Also effective November 15, 2007, Options to purchase 148,000 Trust Units held by certain employees of BlackWatch Opco, were re-priced. The re-pricing took the form of the cancellation of all existing Options held by the noted employees and the granting of new Options (to replace the cancelled Options) at a price of \$0.77. Another 303,000 Trust Units which were granted to employees of the Trust at a strike price of ten dollars (\$10.00), were purchase by the Trust for consideration of \$0.10 per Option and cancelled. These employees were not granted new rights to purchase trust units.

2008

On January 4, 2008 the Trust issued 792,271 Trust Units in payment of interest that accrued on the Subordinated Debt Facility \$521,000 of during the period of October 4, 2007 to December 31, 2007.

On March 7, 2008 the Trust purchased 148 27.9 cubic meter flow back tanks and related equipment for cash consideration of \$750,000.

On March 18, 2008 the Trust entered into a take-or-pay agreement (the "**Take-Or-Pay Agreement**") with an intermediate oil and gas producer for the use of a telescopic double drilling rig ("**Rig**") that was under construction. The agreement provided for a commitment of 200 days per year for two years and a separate cash payment to the Trust, half of which payment had been received in the first quarter of 2008 with the remainder paid on delivery of the completed rig in the third quarter of 2008. The costs to complete this rig were financed partly with the aforementioned cash payment, with the remainder from the Trust's senior credit facility.

On March 24, 2008, the Subordinated Lender agreed to extend the term of the Subordinated Debt Facility with the Trust to September 1, 2008, increase the size of the Subordinated Debt Facility by \$5 million to \$27.5 million and make certain other related amendments to the Subordinated Debt Facility. The additional \$5 million may be drawn for capital expenditures and strategic acquisitions as agreed to by the Subordinated Lender. As consideration for extending the term and increasing the size of the Subordinated Debt Facility, the Subordinated Lender was paid a fee equal to 2.75% of the facility commitment (being 2.75% of up to \$27.5 million, or \$618,750), payable through the issuance of 947,062 Trust Units at a price equal to the 10% discount to the 10 day weighted average trading price on the TSX (as calculated for the ten trading days immediately prior to closing). The Subordinated Lender was granted 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.

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

Pursuant to the loan agreement with its senior lenders, the Trust was subject to a financial covenant which required that BlackWatch maintain positive Cumulative Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) less cash interest, tax and lease payments, beginning with the fourth quarter of 2007, and through the maturity date of the facility. The senior lenders agreed to waive this covenant for the fourth quarter of 2007 and as a condition of that waiver, on June 1, 2008 the \$35 million maximum available under the facility was reduced to \$29 million.

On March 24, 2008 the Trust announced the acquisition of the well flowback tank systems and related equipment of Loadrunner Oilfield Hauling Inc. ("**Loadrunner**") of Drumheller, Alberta effective March 7, 2008, for cash consideration of \$750,000. Loadrunner is a private company and had been in the business of providing well flow-back and testing services and general oilfield hauling in Southern Alberta for 15 years. The addition of the Loadrunner assets to BlackWatch's existing service lines completed its offering of fluid support services used for the completion, stimulation and production of oil and gas wells. This integrated range of fluid products, rental equipment and specialised transport services is marketed as the "BlackWatch Frac Pack".

In September 2008 the Trust completed the construction of Rig #11 and this rig began working under the Take-Or-Pay Agreement. In October 2008 the Trust received the second of two \$1.375 million payments required from the client under the Take-Or-Pay Agreement, which amounts were used to partially fund the completion of Rig #11. The rig commenced operations on September 28, 2008.

In October 2008 the Trust ceased its remaining coil tubing operations and instituted a plan to sell its coil tubing assets not already held for sale. At September 30, 2008 the net book value of the Trust's coil tubing assets was \$9.2 million. Coil 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. In the second quarter of 2008 the Trust closed the Drumheller coil tubing and swabbing location and the Lloydminster coil tubing location.

The Arrangement

On December 31, 2008 the Trust, the Corporation, BlackWatch Opco and certain other parties completed the Arrangement, which resulted in the combination of the Trust and the Corporation, pursuant to which the Corporation became a reporting issuer in each of the provinces of Canada, except for Quebec and the BlackWatch Shares were listed on the TSX under the symbol "BWT" and the Trust Units were delisted from the TSX.

Pursuant to the Arrangement Unitholders of the Trust received BlackWatch Shares on a one-for-one basis and Unitholders of Exchangeable Units of the Investment Partnership exchanged their Exchangeable Units for BlackWatch Shares based on the Exchangeable Unit Ratio on a one-for-one basis. The Arrangement was structured to allow Unitholders resident in Canada to receive BlackWatch Shares on a tax-deferred basis, with Unitholders resident in Canada and who are not corporations, partnerships or trusts being entitled to elect that such exchange be carried out on a taxable basis. Further, Unitholders of Exchangeable Units received BlackWatch Shares on a tax-deferred basis. All of the members of the Board of Directors and the senior officers of BlackWatch Opco continued as the directors and officers of the Corporation. In addition, the lenders pursuant to the Trust's senior secured credit facility led by the Bank of Nova Scotia as well as the Subordinated Lender agreed to extend the term of the facilities to January 15, 2009. The original term of the credit facilities expired on December 31, 2008.

In accordance with Canadian GAAP, the Arrangement was accounted for as a continuity of interest, whereby the Trust was deemed to be the acquirer of the Corporation. As a result of the Arrangement, the Corporation became an energy services company that carries on the business previously carried on by the Trust and provides a range of services to its customers operating in the WCSB including drilling, wireline services, rig transportation and other oilfield, hauling, oilfield equipment leasing and rental services and production services.

Following completion of the Arrangement, effective January 21, 2009 the Corporation completed an internal reorganization to simplify its corporate structure, which resulted in the dissolution of BlackWatch Services Ltd. and the wind-up of the Investment Partnership, the Commercial Trust, the Holding Trust and the Trust.

Recent Developments

On January 22, 2009 the Corporation announced that the lenders under BlackWatch's senior secured credit facility led by the Bank of Nova Scotia, agreed to extend the maturity of its existing senior facility to June 1, 2009 and to increase the available facility by up to \$5 million to \$27.5 million.

In addition, the term of the Subordinated Debt Facility was extended and certain other amendments were made to the Subordinated Debt Facility, including:

- the new maturity date is June 1, 2009;

- interest on the Subordinated Debt Facility will be payable quarterly at a rate of 15% per annum, which will be payable in cash (subject to approval of BlackWatch's senior secured lenders) or through the issuance of BlackWatch Shares at the Subordinated Lender's option, to be issued at a 10% discount to the 10 day weighted average trading price of the BlackWatch Shares on the TSX (as calculated for the ten trading days immediately prior to the date of issuance);
- as consideration for extending the term of the Subordinated Debt Facility and the support of the senior facility increase by the Subordinated Lender on behalf of the Corporation (as described below), the Subordinated Lender was paid a fee of \$100,000, payable through the issuance of BlackWatch Shares issuable at a 10% discount to the 10 day weighted average trading price on the TSX (as calculated for the ten trading days immediately prior to the date of issuance) (the "**Amendment Fee**");
- the Subordinated Lender agreed with BlackWatch that the lowest 10 day weighted average trading price to be used in determining the number of BlackWatch Shares which may be issued in settlement of interest during the extended term of the Subordinated Debt Facility and in payment of the Amendment Fee will be \$0.60/share. The actual 10 day weighted average trading price of the BlackWatch Shares will be used if it is higher than \$0.60/share. Accordingly, the minimum price at which BlackWatch Shares may be issued in settlement of interest during the extended term of the Subordinated Debt Facility and in payment of the Amendment Fee will be \$0.54/share; and
- the Subordinated Lender will have the right to convert up to 15% of the outstanding loan balance to BlackWatch Shares at a conversion price of \$0.80 per BlackWatch Share from time to time until the Subordinated Debt Facility is repaid in full.

In addition, the Subordinated Lender agreed to support the senior facility increase on behalf of the Corporation through the issuance of a \$4 million letter of credit from the Subordinated Lender in favour of the senior secured lenders, with the Subordinated Lender being entitled to increase the letter of credit to \$5 million, as required. Accordingly, \$4 million of the senior facility increase is currently available with the remaining \$1 million becoming available to BlackWatch upon the provision of the increased letter of credit by the Subordinated Lender.

BlackWatch made an application to the TSX for approval of the listing of the additional BlackWatch Shares issuable pursuant to the terms of the amended Subordinated Debt Facility, which were not previously approved by the TSX, based on the financial hardship exemption. The exemption was granted and on January 30, 2009 1,760,527 BlackWatch Shares were issued to the Subordinated Lender in consideration of interest payments owing for the period ended December 31, 2008 and to pay the Amendment Fee.

Effective March 18, 2009 BlackWatch discontinued the operations of its transportation division. Management has entered into an agreement to liquidate the transportation assets in April 2009. Proceeds from the disposition of the assets will be used to reduce the senior debt. Previous initiatives to sell the division as a going concern were unsuccessful. The truck fleet is aging and the financial results do not justify the significant maintenance capital investment necessary to continue the business unit. Gross margin contributed by this division in 2008 was negative and the discontinuance of operations is not expected to have a material negative effect on future cash flow from operations.

Anticipated Changes in the Business of the Corporation

Other than as disclosed above, the Corporation does not anticipate that any material change in its business will occur during the balance of the 2009 financial year. See "*Recent Developments*".

Significant Acquisitions

The Corporation did not complete any acquisitions during the year ended December 31, 2008 for which disclosure is required under Part 8 of National Instrument of 51-102 *Continuous Disclosure Obligations*.

DESCRIPTION OF THE CORPORATION'S BUSINESS AND OPERATIONS

General

The Corporation is a growth-oriented energy services corporation that provides a range of services to its customers operating in the WCSB including drilling, wireline services, rig transportation and other oilfield hauling, oilfield equipment leasing and rental services and production services. The business and operation of each of the Corporation's operating divisions are described below.

Drilling Division

BlackWatch's drilling division provides drilling services to a variety of oil and gas exploration companies. The drilling division operates ten modern, highly mobile truck mounted single drilling rigs and one telescopic double pad rig. Of the ten single rigs, eight 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 the functionality required for diverse well drilling programs. The telescopic double pad rig ("**Rig #11**") is capable of drilling to depths of 3,400 meters. Rig #11 is equipped with an AC electric power system, top drive, automated pipe handling system and a walking system that independently moves the rig between well heads while fully rigged up.

Rig #11 was completed in September 2008 and began working under the Take-Or-Pay Agreement. The agreement provides for a commitment of 200 days per year for two years. In March and October 2008 BlackWatch received payments of \$1.375 million under the Take-Or-Pay Agreement, which were used to partially fund the completion of Rig #11. The rig commenced operations on September 28, 2008 and as of December 31, 2008 had worked for 85 days. In 2009 Rig #11 has worked steadily and is scheduled to work through spring break up.

As at December 31, 2008, the drilling division employed seven salaried employees and 82 hourly employees. Of these 89 employees, three are located in the head office and 79 are located in the field.

Transportation Division

Effective March 18, 2009 BlackWatch discontinued the operations of its transportation division. Management has entered into an agreement to liquidate the transportation assets in April 2009. Proceeds from the disposition of the assets will be used to reduce the senior debt.

Downhole Services Division

The downhole services division operates nine electric-wireline ("**e-line**") units. 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. It specializes in tubing conveyed perforating and 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.

As at December 31, 2008, the downhole services division employed 37 salaried employees, all of which are based out of the field offices.

Production Services Division

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 for re-use, storage or disposal using a modern fleet of vacuum trucks, hot oilers and tank 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.

As at December 31, 2008, the production services division employed six salaried and 19 hourly employees, all based out of the field office.

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 Sunde Alberta and through other BlackWatch base locations as necessary. The division provides oilfield rental services to operators in west-central and north-western Alberta.

As at December 31, 2008, the rentals division employed nine salaried employees and 17 hourly employees, all based out of the field offices.

Revenues Generated by Categories of Operating Division

The following sets out the consolidated revenues generated from BlackWatch's operating divisions for the noted period.

	Year Ended December 31, 2008	
	\$'000's	% of Total Revenue
Drilling Division	22,830	49.4
Transportation Division	6,228	13.5
Downhole Services Division	6,702	14.5
Production Services Division	4,980	10.7
Rental and Leasing Division	5,491	11.9
Total	46,231	100.0

New Products

In the first quarter of 2008 BlackWatch completed contracts for oilsands coring, allowing it to participate in the growing market for oilsands development. This work was new for BlackWatch and its drilling rig designs are ideally suited for coring. In late 2007 BlackWatch developed the ability to drill wells with casing which, in certain applications, eliminates the need for drill pipe and reduces or eliminates tripping and pipe handling. Casing drilling can significantly increase drilling efficiency and has the potential to reduce formation damage associated with fluid exposure and pressure surges. BlackWatch's single drilling rigs are well suited to drilling with casing because of the remote mechanical pipe handling and the refined hydraulic torque control of the top drive design. In the second half of 2007 BlackWatch added two new completions services: (i) proprietary propellant technology to enhance perforation performance for little incremental cost, using licensed technologies; and (ii) pipe recovery equipment and expertise for both open-hole and cased-hole applications. In March 2008 BlackWatch purchased 148 flow-back tanks and related equipment, which were added to its production services division to enhance its offering of fluid support services for the completion, stimulation and production of oil and gas wells.

Competitive Conditions

The Corporation, through its operating divisions, provides oil and gas services primarily to the field operation locations of oil and gas exploration and production companies located in western Canada. The oil and gas services businesses is highly competitive and in order to be successful, the Corporation and its subsidiaries must provide services that meet the specific needs of our clients at competitive prices. The principal competitive factors in the markets in which the Corporation operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and a reputation for safety and price. The Corporation competes with several smaller and larger regional competitors. Competitors offer similar services in all geographic regions in which the Corporation operates. Reduced levels of activity in the oil and natural gas industry lower demand for oilfield services, intensify competitive pressures and reduce revenues and margins.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to BlackWatch. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an effect upon BlackWatch's ability to generate revenue and earnings.

Cyclical and Seasonal Nature of Industry

The level of activity within the oil and gas industry in the WCSB is influenced by seasonal weather patterns. This cyclicity is also affected by geography; as a rule of thumb, activity further north in the WCSB is generally more affected by seasonal weather patterns. However, the annual drilling cycle affects the entire WCSB and can generally be viewed in four components:

- Spring Break-up — occurs between mid-March and mid-May. The northern drilling locations thaw and southern lands become impractical for travel due to wet road and surface conditions. Drilling and other oilfield activity is generally low with companies planning for the summer drilling season.
- Summer and Fall Drilling Season — occurs between mid-May and mid-October, generally focused on areas that are accessible in the summer (i.e. not situated in areas covered with muskeg); summer drilling activity is generally not as strong as the winter drilling season.
- Switch Over to Winter Drilling Season— occurs between mid-October and mid-November and is characterized by lighter drilling activity when many companies are moving off summer drilling locations and preparing winter drilling leases for delivery of equipment.
- Winter Drilling Season— occurs between mid-November through mid-March and is the period when the majority of rig activity takes place and oil and natural gas companies take advantage of the frozen landscape to access northern drilling locations.

The volatility in the weather and temperature can therefore create unpredictable activity and utilization rates, which can have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Corporation.

Environmental Considerations

The Canadian oil and gas industry is regulated by a number of federal and provincial governmental bodies and agencies under a variety of complex federal and provincial legislation that sets forth numerous prohibitions and requirements, with respect to planning and approval processes related to land use, sustainable resource management, waste management, responsibility for the release of presumed hazardous materials, protection of wildlife and the environment and the health and safety of workers. Legislation provides for restrictions and prohibitions on the transport of dangerous goods and the release or emission of various substances, including substances used and produced in association with certain oil and gas industry operations. The legislation addresses various permits, drilling, well completion, installation of surface equipment, air

monitoring, surface and ground water monitoring in connection with these activities, waste management and access to remote or environmentally sensitive areas.

BlackWatch is subject to the above noted regulatory regime, and as a consequence, the various environmental and health and safety statutes and regulations governing the manufacturing, processing, importation, transportation, handling and disposal of substances used in the operations. Government authorities have the power to make orders and take other actions (including enforcement action) to protect the environment and ensure safety, including licensing, equipment certification, environmental assessments, reclamation orders and safety regimes.

The Corporation is pro-active in its approach to environmental concerns. Procedures are in place to ensure that care is taken in the day-to-day management of the Corporation's oilfield services operations. All government regulations and procedures are followed in strict adherence to the law.

Bankruptcy and Similar Procedures

There have been no bankruptcy, receivership or similar proceedings against the Corporation or any of its subsidiaries or related entities, or any voluntary receivership, bankruptcy or similar proceeding by the Corporation or any of its subsidiaries or related entities since the inception of the Corporation or during or proposed for the current financial year.

Social and Environmental Policies

BlackWatch is committed to meeting and exceeding industry standards with respect to environment health and safety policy. Management, employees and contractors are governed by and required to comply with BlackWatch's environment, health and safety policy as well as all applicable federal, provincial and municipal legislations and regulations.

Management of BlackWatch is responsible for implementing the environmental health and safety policy, auditing the policy and, communicating and ensuring that the process is being followed. A health, safety and environment manager of BlackWatch along with one dedicated Safety Coordinator will be required to monitor the implementation and compliance with policies in this area.

It is the primary responsibility of the rig managers, supervisors and other senior field staff of BlackWatch to oversee safe work practices and ensure that rules, regulations, policies and procedures are being followed. BlackWatch has established roles and responsibilities to facilitate effective management of this policy throughout the organization.

RISK FACTORS

The following is a summary of certain risk factors relating to the business of the Corporation. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this document. Shareholders and potential shareholders should consider carefully the information contained herein and, in particular, the following risk factors.

Going Concern

In the year ended December 31, 2008 the Corporation incurred a significant loss and generated insufficient cash flow from operations. In order to continue as a going concern the Corporation must generate sufficient income and cash flow to repay its debt obligations, finance working capital and fund capital investments. Continuing weak demand for energy services in western Canada increases the uncertainty as to the Corporation's ability to improve its financial performance and generate sufficient cash flow to service its debt obligations and continue operations.

BlackWatch's senior and subordinated debt facilities both mature on June 1, 2009. In order to continue as a going concern the Corporation requires the continued support of both its senior and subordinated lenders to renew the facilities. The Corporation's weak financial results, combined with poor general credit market conditions, make it uncertain that it will be able to renew these facilities beyond June 1, 2009, or otherwise refinance the debt obligations.

Volatility of Industry Conditions

The demand, pricing and terms for oil and gas services largely depend upon the level of industry activity for Canadian natural gas and, to a lesser extent, oil exploration and development. Industry conditions are influenced by numerous factors over which BlackWatch has no control, including: the level of oil and gas prices; expectations about future oil and gas prices and production; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; worldwide weather conditions; global political, military, regulatory and economic conditions; alternative fuel requirements; increasing consumer demand for alternatives to oil and gas; technological advances in fuel economy and energy generation devices; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and gas production activities will continue or that demand for oil and gas services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for services to oil and gas customers. A material decline in oil or gas prices or Canadian industry activity could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows. The business and activities of BlackWatch are directly affected by fluctuations in the levels of exploration, development and production activity carried on by its customers.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns. These factors could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Access to Additional Financing

BlackWatch may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to BlackWatch when needed or on terms acceptable to BlackWatch. BlackWatch's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit BlackWatch's growth and could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Leverage and Restrictive Covenants

The ability of BlackWatch to make payments or advances will be subject to applicable laws and contractual restrictions in the instruments governing any indebtedness of those entities (including the credit facilities). The degree to which BlackWatch is leveraged could have important consequences for the shareholders including: (i) BlackWatch's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) all or part of BlackWatch's cash flow from operations may be dedicated to the payment of the principal of and interest on BlackWatch's indebtedness, thereby reducing funds available for future operations; (iii) certain of BlackWatch's borrowings will be at variable rates of interest, which exposes BlackWatch to the risk of increased interest rates; and (iv) BlackWatch may be more

vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

The credit facilities contain numerous covenants that limit the discretion of management with respect to certain business matters. These covenants will place restrictions on, among other things, the ability of BlackWatch to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facilities contain a number of financial covenants that require BlackWatch to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, would permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of BlackWatch would be sufficient to repay in full that indebtedness.

Any failure of BlackWatch to repay or refinance any or all of the credit facilities at their maturity dates on acceptable terms or to comply with applicable covenants under its credit facilities could have a material adverse effect on BlackWatch and its cash flow. There is no assurance that BlackWatch will be able to refinance any or all of the credit facilities at their maturity dates on acceptable terms, or on any basis.

Seasonality

In Canada, the level of activity in the oil and gas services industry is influenced by seasonal weather patterns. Spring break-up during the second quarter leaves many secondary roads temporarily incapable of supporting the weight of heavy equipment, which results in severe restrictions in the level of oil and gas activities. Wet weather and the spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. The duration of this period will have a direct impact on the level of the BlackWatch's activities. Spring break-up occurs earlier in the year in south eastern Alberta than it does in northern Alberta and British Columbia. The timing and duration of spring break-up are dependant on weather patterns, but it generally occurs in April and May. Certain oil and gas producing areas are located in areas that are inaccessible other than during winter months, because the ground surrounding the drillings sites in these areas consists of swampy terrain. Additionally, if an unseasonably warm winter prevents sufficient freezing, BlackWatch may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The demand for oil and gas services may also be affected by the severity of the Canadian winters. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues. The volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which can have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of BlackWatch.

Reliance on Major Customers

BlackWatch will not generally enter into long-term contracts with its customers. The loss of one or more major customers, or any significant decrease in 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 BlackWatch's business, financial condition, results of operations and cash flows.

Agreements and Contracts

The business operations of BlackWatch will depend on verbal, performance based agreements with its customer base that are cancellable at any time by BlackWatch, or its customers. The key factors which will determine whether a client continues to use BlackWatch are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience, reputation for safety and competitive price. There can be no assurance that BlackWatch's relationship with the former customers of the Trust will continue, and a significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to BlackWatch. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an effect upon BlackWatch's ability to generate revenue and earnings.

Government Regulation

The operations of BlackWatch are subject to a variety of federal, provincial and local laws, regulations, and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment, the operation of equipment used in its operations and the transportation of materials and equipment it provides for its clients. BlackWatch believes that each of its subsidiaries and operating entities are currently in compliance with such laws and regulations. BlackWatch currently invests financial and managerial resources to ensure such compliance and will continue to do so in the future. Such laws or regulations are subject to change, accordingly, it is impossible for BlackWatch to predict the cost or impact of such laws and regulations on BlackWatch's future operations.

Reliance on Key Personnel

BlackWatch's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on BlackWatch. BlackWatch does not have any key person insurance in effect for management. The contributions of the existing management team to the immediate and near term operations of BlackWatch are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that BlackWatch will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of BlackWatch.

Competition

BlackWatch provides oil and gas services primarily to the field operation locations of oil and gas exploration and production companies located in western Canada. The oil and gas services business in which BlackWatch operates is highly competitive. To be successful, BlackWatch must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which BlackWatch operates are service quality and availability, reliability and performance of equipment used to perform its services, technical knowledge and experience and reputation for safety and price. BlackWatch will compete with several regional competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic regions in which BlackWatch operates. As a result of competition, BlackWatch may be unable to continue to provide its present services or to acquire additional business opportunities, which could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Credit Risk

All of BlackWatch's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. BlackWatch may be exposed to third party credit risk through its contractual arrangements with its current or future customers and other parties. In the event such entities fail to meet their contractual obligations to BlackWatch, such failures could have a material adverse effect on BlackWatch and its cash flow from operations.

Operating Risks and Insurance

BlackWatch's operations are subject to hazards inherent in the oil and gas industry, such as equipment defects, malfunction and failures, and natural disasters which result in fires, vehicle accidents, explosions and uncontrollable flows of natural gas or well fluids that can cause personal injury, loss of life, suspension of operations, damage to oil and gas formations, wells or facilities of customers, business interruption and damage to or destruction of property, equipment and the environment. These risks could expose BlackWatch to substantial liability for personal injury, wrongful death, property damage, loss of oil and gas production, pollution, and other environmental damages. The frequency and severity of such incidents will effect operating costs, insurability and relationships with customers, employees and regulators.

BlackWatch continuously monitors its operations for quality control and safety. However, there are no assurances that BlackWatch's safety procedures will always prevent such damages. Although BlackWatch maintains insurance coverage that it believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover its liabilities. In addition, there can be no assurance that BlackWatch will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by BlackWatch, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on BlackWatch, BlackWatch's ability to conduct normal business operations and on BlackWatch's business, financial condition, results of operations and cash flows.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. Management cannot predict the impact of changing demand for oil and natural gas could have on the demand for oil and gas services, and any major changes may have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Equipment and Technology Risks

The ability of BlackWatch to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment and there can be no assurance that BlackWatch will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by BlackWatch to do so could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over BlackWatch.

In the future BlackWatch may seek patents or other similar protections in respect of particular tools, equipment and technology, however, BlackWatch may not be successful in such efforts. Competitors may also develop similar tools, equipment and technology to those of BlackWatch thereby adversely affecting BlackWatch's competitive advantage in one or more of their businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by BlackWatch, may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Potential Replacement or Reduced Use of Products and Services

Certain of BlackWatch's equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be preferable for environmental or other reasons. BlackWatch will need to keep current with the changing market for oil and gas services and technological and regulatory changes. If BlackWatch fails to do so, this could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Acquisition and Development Risks

BlackWatch expects to selectively seek strategic acquisitions. BlackWatch's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on BlackWatch's resources and, to the extent necessary, BlackWatch's ability to obtain financing on satisfactory terms, if at all. Acquisitions may expose BlackWatch to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of BlackWatch's operations; entry into markets in which BlackWatch has little or no direct experience; difficulties in retaining key employees of the acquired operations; and disruptions to BlackWatch's ongoing business.

In addition, future acquisitions could result in the incurrence of additional debt, costs, and contingent liabilities. BlackWatch may also incur costs for and divert management attention to potential acquisitions that are never consummated. For acquisitions that are consummated, expected synergies may not materialize. BlackWatch's failure to effectively address any

of these issues could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

While BlackWatch's acquisition process typically includes due diligence on the business or assets to be acquired, and the acquisition agreements typically include detailed representations and warranties respecting the business or assets being acquired, there can be no assurance that BlackWatch would not become subject to certain undisclosed liabilities in proceeding with such transactions. However, these representations and warranties, if obtained, may not fully cover the liabilities because of their limited scope, amount or duration, the financial resources of the indemnitor or warrantor or for other reasons. BlackWatch has completed a number of acquisitions and there may exist liability that BlackWatch's due diligence failed or was unable to discover prior to the consummation of these acquisitions. To the extent that prior owners of businesses failed to comply with or otherwise violated applicable laws, BlackWatch, as a successor-owner, may be financially responsible for these violations. The discovery of any material liabilities could have a material adverse effect on BlackWatch's business, financial condition and future prospects.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Corporation makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Corporation.

Dividends

The Corporation has not paid any dividends on its outstanding shares. Any decision to pay dividends on the BlackWatch Shares will be made by the board of directors of BlackWatch on the basis of BlackWatch's earnings, financial requirements and other conditions existing at such future time.

Conflicts of Interest

Certain directors of BlackWatch are also directors of other oil and gas service companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "*Directors and Officers – Conflicts of Interest*".

Dilution

BlackWatch may make future acquisitions or enter into financings or other arrangements involving the issuance of securities of BlackWatch which may be dilutive.

Sources, Pricing and Availability of Equipment and Equipment Parts

BlackWatch sources its equipment and equipment parts from a variety of suppliers, most of whom are located in Canada and the United States. Should any suppliers of BlackWatch be unable to provide the necessary equipment or parts or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services or in the time required to find new suppliers could have a material adverse effect on BlackWatch's business, financial condition, results of operations and cash flows.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore effected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar although the Canadian dollar has recently decreased from such levels. To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Corporation may contract. An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, which could negatively impact the market price of the BlackWatch Shares.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Most of the Corporation's customers are oil and natural gas producers, whose operations and activity levels may be significantly impacted by regulations designed to limit the emissions of greenhouse gases, such as the new regulatory framework announced on March 10, 2008 by the Federal Government, the proposed *Clean Air Act* (Canada) of 2006 and Alberta's recently enacted *Climate Change and Emissions Management Act* and *Specified Gas Emitters Regulation*. The direct or indirect costs of these regulations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or the new regulatory framework, could have a material impact on oil and natural gas exploration and development activities in western Canada. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict at this time either the nature of those requirements or the impact on BlackWatch and its operations and financial condition.

DIVIDEND POLICY

The Corporation has not declared or paid any dividends since its incorporation. Any decision to pay dividends on the BlackWatch Shares will be made by the board of directors of the Corporation on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

DISTRIBUTION POLICIES

Distribution Policy of the Trust

Prior to the completion of the Arrangement, Unitholders of the Trust of record on a distribution record date were entitled to receive distributions which were paid by the Trust to its Unitholders on the corresponding distribution payment date. Distributions declared in respect of a month were paid to Unitholders of record as at the close of business on or about the last day of calendar month on the date that is 15 days immediately following the end of each calendar month. In addition, the Trust Indenture provided that, if necessary, on December 31 of each year, the Trust will distribute an additional amount such that the Trust would not be liable for ordinary income taxes for such year.

The amount of any such distributions to Unitholders was determined based upon the consolidated cash flow of the Trust, the consolidated growth and maintenance capital requirements and the consolidated debt repayment requirements of the Trust. The intent was to maximize the cash flow of the Trust giving consideration to these consolidated financial requirements and long term Unitholder value.

As announced on February 19, 2007, the Trust suspended distributions. This action was taken to preserve cash flow and allow for debt repayment.

Cash Distributions to Unitholders

The following is a summary of the distributions made by the Trust since formation.

For the 2006 Period Ended	Distributions per Unit	Payment Date
August 31	0.0916	September 15, 2006
September 30	0.0916	October 16, 2006
October 31	0.0916	November 15, 2006
November 30	0.0916	December 15, 2006
December 31	0.0916	January 15, 2007
For the 2007 Period Ended	Distributions per Unit	Payment Date
January 31	0.065	February 15, 2007
February 28 ⁽¹⁾	Nil	n/a

Note:

- (1) BlackWatch suspended distributions on February 19, 2007. No further distributions were paid in the years ended December 31, 2007 and 2008.

DESCRIPTION OF THE CORPORATION'S SECURITIES

The authorized capital of the Corporation consists of an unlimited number of BlackWatch Shares and an unlimited number of preferred shares. The following is a summary of the rights, privileges, restrictions and conditions attaching to the securities of the Corporation. As of March 20, 2009, the Corporation had 38,453,953 BlackWatch Shares and no preferred shares issued and outstanding.

Common Shares

Holders of BlackWatch Shares are entitled to one vote per share at meetings of shareholders of BlackWatch, to receive dividends if, as and when declared by the board of directors of BlackWatch and to receive *pro rata* the remaining property and assets of BlackWatch upon its dissolution or winding-up, subject to the rights of preferred shares having priority over the BlackWatch Shares.

Preferred Shares

Each series of preferred shares shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the board of directors of BlackWatch prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of shareholders of BlackWatch. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of BlackWatch, whether voluntary or involuntary, the preferred shares are entitled to preference over the BlackWatch Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over the BlackWatch Shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series.

Stock Option Plan

BlackWatch has a Stock Option Plan pursuant to which options to purchase BlackWatch Shares may be granted by the board of directors to directors, officers and employees of, and consultants to, the BlackWatch or any of its Subsidiaries. The aggregate number of BlackWatch Shares subject to options granted under the Stock Option Plan, from time to time, cannot exceed 10% of the aggregate number of BlackWatch Shares outstanding from time to time and the aggregate number of BlackWatch Shares reserved for issuance to any one person under the Stock Option Plan within a one-year period, together with all of our other share compensation arrangements, must not exceed 5% of the then outstanding BlackWatch Shares. Following completion of the Arrangement, BlackWatch granted options to purchase 2,572,000 BlackWatch Shares to directors, officers, employees and consultants of BlackWatch. The Corporation currently has options to purchase 2,572,000 BlackWatch Shares issued and outstanding.

DESCRIPTION OF THE SECURITIES OF THE CORPORATION'S SUBSIDIARIES

BlackWatch Energy Services Operating Corp.

The authorized capital of BlackWatch Opco consists of an unlimited number of common shares and an unlimited number of preferred shares. Each common share entitles its holder to receive notice of and to attend all meetings of the shareholders of BlackWatch Opco and to one vote at such meetings. The holders of common shares are, at the discretion of the board and subject to applicable legal restrictions, entitled to receive any dividends declared by the board on the common shares. The holders of common shares are entitled to share equally in any distribution of the assets of BlackWatch Opco upon the liquidation, dissolution, bankruptcy or winding-up of BlackWatch Opco or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

Holders of preferred shares are not entitled to notice of or to attend at meetings of the shareholders of BlackWatch Opco or to vote at such meetings, other than matters that the holders of BlackWatch Opco preferred shares are entitled to vote on as a class or otherwise under the ABCA. The holders of BlackWatch Opco preferred shares are, at the discretion of the Board and subject to applicable legal restrictions, entitled to receive any dividends declared by the Board in priority to the common shares and are entitled to participate in any distribution of the assets of BlackWatch Opco upon the liquidation, dissolution, bankruptcy or winding-up of BlackWatch Opco or other distribution of its assets among its shareholders for the purpose of winding-up its affairs in priority to the holders of the common shares.

BlackWatch Energy Services Operating Limited Partnership

The Operating Partnership is authorized to issue an unlimited number of units comprised of the General Partnership Interest, the Operating LP Units and the Preferred Operating LP Units, all of which are issued solely to the Corporation and to BlackWatch Opco. Holders of Operating LP Units will be entitled to notice of, and to attend and vote at, all meetings of holders of the Operating Partnership units. The Preferred Operating LP Units are issued solely to BlackWatch Opco.

The Operating LP Units have the right to one vote for each Operating LP Units on any ordinary resolution or extraordinary resolution of the limited partners, the right to receive the distributions declared payable from time to time on the Operating LP Units and on a distribution of property and assets of the Operating Partnership in the event of the liquidation, dissolution or winding-up of the Operating Partnership, the right to receive an amount equal to 99.999% of all remaining property and assets of the Operating Partnership upon dissolution, *pro-rata* with the holder of the General Partnership Interest, if any, after deducting therefrom, all amounts payable to the holders of Preferred Operating LP Units.

Preferred Operating LP Units have the right to one vote, separately as a class, for each Preferred Operating LP Unit on any extraordinary resolution of the limited partners to (i) modify any existing class of units or create a new class of units having the right to receive distributions of the Operating Partnership (including on liquidation and dissolution) in priority to the Preferred Operating LP Units; (ii) dissolve the Partnership, as contemplated by the Operating Limited Partnership Agreement; or (iii) modify, amend, or change the rights, privileges and restrictions applicable to the Preferred Operating LP Units. The Preferred Operating LP Units have the right to receive an annual return on the Preferred Operating LP Units subject to the terms of the Operating Limited Partnership Agreement and on a distribution of the property of the Operating Limited Partnership in the event of the liquidation, dissolution or winding-up of the Operating Partnership, the right to receive an amount as determined in accordance with the terms and conditions of the Operating Limited Partnership Agreement.

RATINGS

The Corporation has not received or requested any stability ratings or any other kind of rating.

MARKET FOR SECURITIES

BlackWatch Shares

The BlackWatch Shares are listed and trade on the TSX and commenced trading under the symbol "BWT" following the completion of the Arrangement on January 7, 2009. The following table sets forth the trading history of the BlackWatch Shares since January 7, 2009.

	Price Range		Volume
	High (\$)	Low (\$)	
2009			
January (from January 7)	0.165	0.06	64,435
February	0.195	0.08	42,200
March (to March 20)	0.08	0.015	554,170

Prior to the completion of the Arrangement, the Trust Units were listed and traded on the TSX under the trading symbol "BWT.UN". As a result of the completion of the Arrangement, the Units were delisted from the TSX after the close of markets on December 31, 2008.

The following table sets forth the trading history of the Units from January 2008 to December 31, 2008.

Period	High	Low	Volume
	(\$)	(\$)	
2008			
January	0.93	0.75	98,595
February	0.95	0.65	130,044
March	0.99	0.70	128,519
April	0.74	0.51	175,769
May	0.80	0.64	319,737
June	1.07	0.74	251,792
July	0.99	0.85	247,232
August	0.95	0.56	182,485
September	0.64	0.26	132,507
October	0.35	0.15	229,604
November	0.20	0.10	274,746
December	0.23	0.06	460,908

ESCROWED SECURITIES

As at December 31, 2008, the following securities were held in escrow:

Designation of Class	Number of Securities held in Escrow	Percentage of Class
BlackWatch Shares	32,010 ⁽¹⁾	0.001%

Notes:

- (1) These securities are held in escrow pursuant to the Escrow Agreement dated August 4, 2006. The escrow agent for the BlackWatch Shares is Burnet, Duckworth & Palmer LLP. Pursuant to the Escrow Agreement, these BlackWatch Shares will be released from escrow on August 4, 2009.

DIRECTORS AND OFFICERS

The following table sets forth the name, place of residence, date first elected as a director of BlackWatch and positions for each of the proposed directors and officers of BlackWatch, together with their principal occupations during the last five years. The directors of BlackWatch shall hold office until the next annual meeting of shareholders or until their respective successors have been duly elected or appointed.

Name and Place of Residence	Position with BlackWatch	Year Became Director or Officer of BlackWatch and BlackWatch OpCo	Principal Occupation and Positions for the Past Five Years
John A. Brussa ⁽²⁾ Alberta, Canada	Director	November 2008 and August 2006	Barrister and Solicitor; Partner of Burnet, Duckworth & Palmer LLP (a law firm); Chairman of Penn West Energy Trust.
M. Bruce Chernoff ⁽¹⁾⁽²⁾ Alberta, Canada	Director	November 2008 and August 2006	Professional Engineer; Chairman of Harvest Energy Trust and President and Director of Caribou Capital Corp. (a private investment management company) since June 1999.
David J. Rain ⁽¹⁾ Alberta, Canada	Director	November 2008 and August 2006	Chartered Accountant; Vice President and Director of Caribou Capital Corp. since June 1999; Vice President, Chief Financial Officer of Harvest Energy Trust from July 2004 to February 2006 and Corporate Secretary since July 2002; prior thereto Vice President, Finance and Chief Financial Officer of Petrobank Energy and Resources Ltd. from October 2001 to March 2004.
Howard J. Crone ⁽¹⁾ Alberta, Canada	Director	November 2008 and August 2006	Professional Engineer; January 2002 to June 2004, Chief Operating Officer and Vice President, Corporate Development of Cequel Energy Inc.
Travis Robertson Alberta, Canada	President and Chief Executive Officer	November 2008 and May 2007	President and Chief Executive Officer from May 2007 to present; Professional Engineer; From May 2002 to November 2005 held a number of senior management positions with Precision Drilling Energy Services Group; From November 2005 to May 2007 held the position of Vice President, Upstream Oilfield Services, Weatherford Canada, being the Canadian oilfield services unit of Weatherford International Ltd.
Wiley Auch Alberta, Canada	Vice President, Finance and Chief Financial Officer	November 2008 and November 2007	Vice President, Finance and Chief Financial Officer from November 2007 to present; Vice President, Finance and Chief Financial Officer of Gibraltar Exploration Ltd. from September 2003 to August 2007; prior thereto served as a financial advisor to Enron Canada Corp. from March 2002 to September 2003.

Notes:

(1) Member of Audit Committee.

(2) Member of Governance and Compensation Committee.

As at March 19, 2009 the officers and directors of BlackWatch, as a group, beneficially own or direct or control, directly and indirectly, an aggregate of 13,269,640 BlackWatch Shares, being approximately 34.5% of the outstanding BlackWatch Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as set forth below, no proposed director of BlackWatch is or within the ten years prior to the date of the Information Circular has been, a director, chief executive officer or chief financial officer of any issuer (including BlackWatch, BlackWatch OpCo and the Trust) that:

- (b) while that person was acting in that capacity, was the subject of a cease trade order or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days; or
- (c) was the subject of a cease trade order or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days, after the director ceased to be a director, chief executive officer or chief financial officer of the issuer and which resulted from an event that occurred while that person was acting in such capacity; or
- (d) was declared bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person; or
- (e) was a director or executive officer of a corporation (including BlackWatch, BlackWatch OpCo and the Trust) that while that person acting in that capacity or within a year of the person ceasing to act as a director or executive officer of the corporation became bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Brussa was a director of Imperial Metals Limited, a corporation engaged in both oil and gas and mining operations, in the year prior to that corporation implementing a plan of arrangement under the *Company Act* (British Columbia) and under the *Companies' Creditors Arrangement Act* (Canada) which resulted in the separation of its two businesses and the creation of two public corporations: Imperial Metals Corporation and IEI Energy Inc. (which became Rider Resources Ltd.). The plan of arrangement was completed in April 2002.

Personal Bankruptcies

In addition, no proposed director or officer or securityholder which holds a sufficient number of securities of BlackWatch to affect materially the control of BlackWatch has, within the last ten years prior to the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or securityholder.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of BlackWatch will be subject in connection with the operations of BlackWatch. In particular, certain of the directors and officers of BlackWatch may be involved with other oil and gas service entities whose operations may, from time to time, be in direct competition with those of BlackWatch or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of BlackWatch. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event a director or officer of a company is a party to, or is a director or officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with BlackWatch, the director shall disclose his interest in such contract and, in the case of directors, shall refrain from voting on any matter in respect of such contract unless otherwise provided by the ABCA.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as disclosed herein, none of the directors or executive officers of BlackWatch or the proposed directors or executive officers of BlackWatch, or any person or company that will be the direct or indirect owner of, or will exercise control or direction of, more than 10% of any class or series of BlackWatch's outstanding voting securities, or any associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any past arrangement or any proposed arrangement that has materially affected or will materially affect BlackWatch, other than as disclosed below.

The Corporation has entered into the Subordinated Debt Facility, with the Subordinated Lender, being an entity substantially owned by M. Bruce Chernoff, a director of BlackWatch. The Subordinated Debt Facility matures on June 1, 2009, unless it is extended. Interest on the subordinated debt is accruing at a quarterly at a rate of 15% per annum and may be payable in cash (subject to approval of the Corporation's senior lenders) or through the issuance of BlackWatch Shares at the option of the Subordinated Lender. BlackWatch Shares issued as interest payments are issued at 10% below market value, but cannot be issued for less than \$0.54 per BlackWatch Share. The Subordinated Lender has the right to convert up to 15% of the outstanding loan balance to BlackWatch Shares at a conversion price of \$0.80 per BlackWatch Shares from time to time until the facility is repaid in full. Interest on the subordinated debt was 12% in the first quarter and was increased to 15% beginning in the second quarter.

As consideration for committing to the Subordinated Debt Facility, the Corporation granted the Subordinated Lender 3,000,000 warrants to purchase BlackWatch Shares until April 2009 at an exercise price of \$1.68 per BlackWatch Shares. The Subordinated Lender was also paid a fee equal to 5% of the Subordinated Debt Facility commitment, paid through the issuance of Trust Units.

On January 22, 2009 the Subordinated Debt Facility was extended and certain other amendments were made to the Subordinated Debt Facility, including the extension of the maturity date to June 1, 2009. In addition, the Subordinated Lender agreed to support an increase to the senior facility on behalf of the Corporation through the issuance of a \$4 million letter of credit from the Subordinated Lender in favour of the senior secured lenders, with the Subordinated Lender being entitled to increase the letter of credit to \$5 million, as required. As consideration for extending the term of the Subordinated Debt Facility and the support of the senior facility increase by the Subordinated Lender on behalf of the Corporation, the Subordinated Lender was paid a fee of \$100,000, payable through the issuance of BlackWatch Shares issuable at a 10% discount to the 10 day weighted average trading price on the TSX (as calculated for the ten trading days immediately prior to the date of issuance). On January 30, 2009 1,760,527 BlackWatch Shares were issued to the Subordinated Lender in consideration of interest payments owing for the period ended December 31, 2008 and to pay the Amendment Fee.

As at the date hereof Mr. Chernoff, directly or indirectly through entities controlled by him, has ownership or control over 9,535,884 BlackWatch Shares, options to purchase 33,000 BlackWatch Shares and 1,666,667 Warrants.

MATERIAL CONTRACTS

The Corporation currently has in place the following material contracts:

1. the Operating Limited Partnership Agreement;
2. the Acquisition Agreements;
3. Loan Agreement with the Subordinated Lender, as amended, dated January 21, 2009;
4. the Escrow Agreements; and
5. the credit agreement dated January 21, 2009, as amended, among the Corporation and its subsidiaries, and a syndicate of Canadian Chartered Banks led by Bank of Nova Scotia.

The documents referenced above may be inspected during normal business hours at the head office of the Corporation at 300, 855 - 8th Avenue SW, Calgary, Alberta T2P 3P1 and have been filed on SEDAR at www.sedar.com.

AUDITORS, TRANSFER AGENT AND REGISTRAR OF THE CORPORATION

Deloitte & Touche LLP, Chartered Accountants, 3000, 700 - 2nd Street SW, Calgary, AB T2P 0S7, are the auditors of the Corporation.

Valiant Trust Company, 310, 606-4th Street SW, Calgary, AB T2P 1T1, is the Transfer Agent and Registrar of the Corporation.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than Deloitte & Touche LLP, the Corporation's auditors. As at December 31, 2008, Deloitte & Touche LLP and its partners did not hold any registered or beneficial ownership interests, directly or indirectly, in the securities of the Corporation or its associates or affiliates. Deloitte & Touche LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate and Terms of Reference

The Mandate and Terms of Reference of the Audit Committee of the board of directors is incorporated herein by reference and is available on SEDAR at www.sedar.com.

Composition of the Audit Committee

The members of the Audit Committee are independent (in accordance with National Instrument 52-110) and are financially literate. The following table sets out the assessment of each of Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name and Place of Residence	Independent	Financially Literate	Relevant Education and Experience
David Rain (Chairman) Alberta, Canada	Yes	Yes	Chartered Accountant; Vice President and Director of Caribou Capital Corp., (a private investment management company) since June 1999; Vice President, Chief Financial Officer of Harvest Energy Trust from July 2004 to February 2006 and Corporate Secretary since July 2002; prior thereto Vice President, Finance and Chief Financial Officer of Petrobank Energy and Resources Ltd. from October 2001 to March 2004.
Howard Crone Alberta, Canada	Yes	Yes	Professional Engineer; January 2002 to June 2004, Chief Operating Officer and Vice President, Corporate Development of Cequel Energy Inc.; 1996 to 2001, Chief Operating Officer and Vice President, Operations of Cypress Energy Ltd.
M. Bruce Chernoff Alberta, Canada	No	Yes	Professional Engineer; Chairman of Harvest since July 2002 and President and Director of Caribou since June 1999. Chief Financial Officer and Director of Petrobank Energy and Resources Ltd. from 2000 to 2001; Chief Financial Officer and Director of Pacalta Resources Ltd. from 1998 to 1999.

Pre-Approval of Policies and Procedures

The Audit Committee must pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors or the external auditors of the Corporation's subsidiary entities, as applicable. Prior to engaging the auditors to provide any services over and above the regular audit engagement, management contacts the Chair of the Audit Committee for approval. The Chair of the Audit Committee assesses whether or not he should seek the approval of the entire Audit Committee prior to approving the engagement.

Audit Service Fees

The Audit Committee has reviewed the nature and amount of non-audit services provided by Deloitte & Touche LLP to the Corporation to ensure auditor independence. Fees incurred with Deloitte & Touche LLP for audit and non-audit services in the last two fiscal years for audit fees are outlined in the following table.

Nature of Services	Fees Billed by Auditor in Year Ended December 31, 2007	Fees Billed by Auditor in Period Ended December 31, 2008
Audit Fees ⁽¹⁾	\$212,844	\$246,634
Audit-Related Fees ⁽²⁾	\$17,000	\$13,862
Tax Fees ⁽³⁾	\$38,887	\$29,500
All Other Fees ⁽⁴⁾	Nil	Nil
Total	\$268,731	\$289,996

Notes:

(1) "Audit Fees" include fees necessary to perform the annual audit and quarterly reviews of the Corporation's consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.

(2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.

(3) "Tax Fees" include fees for all tax services other than those included in "Audit Fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

(4) "All Other Fees" include all other non-audit services.

Reliance Upon the Exemption in Section 3.6 of National Instrument 52-110

We are relying on the exemption set forth in Section 3.6 (Temporary Exemption for Limited and Exceptional Circumstances) of National Instrument 52-110 from the requirements of Section 3.1(3) of National Instrument 52-110, which requires every audit committee member to be independent. Mr. Bruce Chernoff is not considered to be independent, as the Subordinated Lender is substantially owned by Mr. Chernoff. The Board feels that Mr. Chernoff is able to exercise the impartial judgment necessary for him to fulfill his responsibilities as an audit committee member and that his appointment is in the best interests of BlackWatch and its shareholders, due to his extensive public and private company experience.

REGULATORY ACTIONS

During the year ended December 31, 2008 there have been (i) no penalties or sanctions imposed against the Corporation or its related entities by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against the Corporation or its related entities that would likely be considered important to a reasonable investor in making an investment decision; and (iii) no settlement agreements the Corporation entered into with a court relating to securities legislation or with a securities regulatory authority.

LEGAL PROCEEDINGS

There are currently no outstanding legal proceedings to which the Corporation or any of the subsidiaries of the Corporation are a party or that any of its property is or was the subject of during the year ended December 31, 2008.

ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of BlackWatch Shares and securities authorized for issuance under equity compensation plans, will be contained in the Corporation's Information Circular for the most recent annual meeting of shareholders that involved the election of directors of BlackWatch.

Additional financial information is provided for in the Corporation's financial statements and management's discussion and analysis for the year ended December 31, 2008.