



Management's Discussion and Analysis and Unaudited Financial Statements  
for the three months ended March 31, 2009 and 2008.

## **BLACKWATCH ENERGY SERVICES CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS AT MAY 8, 2009**

This Management's Discussion and Analysis ("MD&A") of BlackWatch Energy Services Corp. (the "Company" or "BlackWatch") is a review of the financial condition and results of operations of the Company and its predecessor BlackWatch Energy Services Trust and should be read in conjunction with the consolidated financial statements for the three months ended March 31, 2009. Statements in this MD&A are based on information available as at May 8, 2009. The definitions of certain non-GAAP measures used within this MD&A have been included at the end of this MD&A. Readers should also refer to the "Forward-Looking Statements" legal advisory at the end of this MD&A.

In certain circumstances the Company has amended the presentation of historical information to provide more meaningful comparative values for the period ended March 31, 2009. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all amounts presented are denominated in Canadian dollars.

Additional information concerning the Company, including the Annual Information Form, is filed electronically on SEDAR and available at [www.sedar.com](http://www.sedar.com).

### **OVERVIEW**

BlackWatch Energy Services Corp. ("NewCo") was incorporated on October 14, 2008 as a wholly owned subsidiary of BlackWatch Energy Services Trust (the "Trust"), a publicly traded, open-ended, unincorporated investment trust. On December 31, 2008 the unitholders of the Trust exchanged their units for common shares of NewCo. (on a one-for-one basis) as part of a plan of arrangement (the "Reorganization"). The plan of arrangement resulted in the Trust becoming wholly owned by NewCo. These transactions are accounted for on a continuity of interest basis and accordingly, the consolidated financial statements reflect the financial position, results of operations and cash flows of NewCo consolidated with the Trust and all its acquired subsidiaries (the "Company" or "BlackWatch") as if NewCo had always held the units of the Trust and carried on the business formerly carried on by the Trust and its subsidiaries. The Company trades on the Toronto Stock Exchange under the symbol BWT and provides a range of oilfield services to customers operating in the western Canadian sedimentary basin.

### **Drilling**

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 increase operational efficiency and provide improved safety for rig personnel. The rig systems are of a modular design that is scalable to suit diverse well drilling programs. The telescopic double pad rig is capable of drilling to depths of 3,400 meters. The rig is equipped with an AC electric power system, top drive, mechanical pipe handling system and a walking system that independently moves the rig between wells while fully rigged up.

### **Downhole Services**

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. The division 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.

### **Production Services**

The production services division provides a range of services focused on the supply, storage, handling, treatment and disposal of various oilfield fluid products. The division provides mobile storage systems, site access matting and related transportation services to support the supply and recovery 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.

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**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 equipment such as rig mats, swamp matting, flare tanks, storage tanks, premix tanks, shale bins, flock tanks, invert systems and other equipment. The rental division provides an array of transportation equipment to support the deployment of its rental equipment fleet to client locations. Rental operations are conducted from dedicated bases in Valleyview and Sundre Alberta and through other BlackWatch base locations as necessary. The division provides oilfield rental services to operators in west-central and north-western Alberta.

**Transportation**

The transportation division operated a fleet of 23 heavy transport units providing a variety of oilfield hauling services, including rig moving, heavy equipment transportation and specialized hauling. The fleet consisted of: three mobile crane units for loading and unloading pipe, casing and heavy equipment; six bed trucks which were used for off-road heavy hauling such as positioning large rig pieces on well sites; and 15 winch tractors primarily used for highway transportation of heavy equipment. The transportation division conducted operations from bases in Vegreville and Drumheller Alberta and provided services primarily in eastern and northern Alberta. In March the Company ceased all operations related to its transportation division and entered into an agreement to sell the assets of this division. The asset sale was completed on April 30, 2009 and the Company will realize net proceeds of approximately \$3.2 million.

**SUMMARY FINANCIAL INFORMATION**

(\$ thousands, except per share unit amounts)	Three months ended March 31,	
	2009	2008
Revenue from continuing operations	\$ 13,807	\$ 16,741
Gross margin <sup>1</sup> from continuing operations	\$ 4,010	\$ 5,321
EBITDA <sup>1</sup>	\$ 3,195	\$ 4,363
Income from continuing operations	\$ 284	\$ 1,312
Per common share - basic and diluted	\$ 0.01	\$ 0.04

<sup>1</sup> See definition within the *Non-GAAP Measures* section.

(\$ thousands)	As at March 31,	As at December 31,
	2009	2008
Total assets	\$ 62,480	\$ 64,437
Debt and capital lease obligations:		
Current	\$ 43,861	\$ 42,907
Long-term	\$ 154	\$ 189
Shareholders' equity	\$ 13,831	\$ 15,038

In the three months ended March 31, 2009 the Company had lower revenues and gross margin compared to 2008. The decrease in revenues reflects lower revenue in our drilling, downhole and rentals divisions somewhat offset by higher revenue in our production services division. The drilling division utilization decreased from 63% in 2008 to 47% in 2009. Industry drilling activity levels also decreased from 56% in 2008 to 37% in 2009. The lower gross margin led to a decrease in EBITDA for the three months ended March 31, 2009.

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Natural gas and crude oil prices remained low during the three months ended March 31, 2009. Low commodity prices coupled with decreasing global demand for oil and gas have caused many producers to scale back their 2009 capital budgets. This has had a negative effect on oil and gas industry activity in western Canada, reducing the demand for oilfield services.

Effective March 18, 2009 BlackWatch discontinued the operations of its transportation division. The asset sale was completed on April 30, 2009 and the Company will realize net proceeds of approximately \$3.2 million, which will be used to reduce senior debt. The truck fleet was aging and the financial results did not justify the significant maintenance capital investment necessary to continue operating the business unit. Gross margin contributed by this division in 2008 and in the first quarter of 2009 was negative and the discontinuance of operations is not expected to have a material negative effect on future cash flow from operations.

**RESULTS OF OPERATIONS**

(\$ thousands)	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Revenue from continuing operations	\$ 13,807	\$ 16,741
Operating Expenses		
Labour	6,173	6,491
Fuel	836	1,360
Repairs and maintenance	524	963
Sub-contractors	270	367
Other	1,994	2,239
Expenses from continuing operations	<u>9,797</u>	<u>11,420</u>
Gross margin from continuing operations	<u>\$ 4,010</u>	<u>\$ 5,321</u>

Revenues from continuing operations for the three months ended March 31, 2009 were \$13.8 million. Representing a decrease of \$2.9 million or 18% compared to the three months ended March 31, 2008. The decrease in revenues relates primarily to the drilling, rentals and downhole services divisions and was partially offset by an increase in revenue in the production services divisions. The decrease in revenue is the result of decreased industry activity levels in the first quarter, which saw industry average drilling rig utilization of 37% compared to 56% in 2008.

Overall operating expenses from continuing operations as a percentage of revenue from continuing operations were 71% (2008 – 68%). Labour costs, which represent the most significant component of operating expenses, increased from 39% to 45% of revenue. This increase is due to lower revenues and costs that didn't decrease as quickly as revenue because of the significant fixed cost component. Fuel costs decreased from 8% of revenues in 2008 to 6% in 2009, which reflects a decrease in the average price of gasoline and diesel fuel in 2009 compared to 2008. Repairs and maintenance declined from 6% of revenues to 4% in 2009. In 2009 the Company continues to focus its repairs and maintenance efforts on high utilization assets while demobilizing underutilized assets. Furthermore, management has implemented strict cost controls and expenditure approvals for repairs and maintenance programs. These controls, combined with the more robust preventative maintenance program, allowed the Company to limit repairs and maintenance expenses in the period and reduce unexpected repairs. Subcontractor and other costs as a percentage of revenue declined in a manner consistent with revenues in 2009 compared to 2008.

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**DIVISIONAL RESULTS**

(\$ thousands)	For the three months ended March 31, 2009				
	Consolidated	Drilling	Downhole Services	Production Services	Rentals
Revenue from continuing operations	\$ 13,807	\$ 9,685	\$ 1,618	\$ 1,398	\$ 1,106
Operating Expenses					
Labour	\$ 6,173	\$ 4,217	\$ 882	\$ 498	\$ 576
Fuel	836	641	46	76	73
Repairs and maintenance	524	369	27	47	81
Sub-contractors	270	68	65	4	133
Other	1,994	760	671	390	173
Total operating expenses from continuing operations	\$ 9,797	\$ 6,055	\$ 1,691	\$ 1,015	\$ 1,036
Gross margin from continuing operations	\$ 4,010	\$ 3,630	\$ (73)	\$ 383	\$ 70

Amounts above are shown after intercompany eliminations.

(\$ thousands)	For the three months ended March 31, 2008				
	Consolidated	Drilling	Downhole Services	Production Services	Rentals
Revenue from continuing operations	\$ 16,741	\$ 11,788	\$ 2,211	\$ 1,203	\$ 1,539
Operating Expenses					
Labour	\$ 6,491	\$ 4,386	\$ 943	\$ 585	\$ 577
Fuel	1,360	956	103	127	174
Repairs and maintenance	963	593	145	109	116
Sub-contractors	367	99	23	7	238
Other	2,239	1,010	787	238	204
Total operating expenses from continuing operations	\$ 11,420	\$ 7,044	\$ 2,001	\$ 1,066	\$ 1,309
Gross margin from continuing operations	\$ 5,321	\$ 4,744	\$ 210	\$ 137	\$ 230

Amounts above are shown after intercompany eliminations.

**Contract Drilling**

The drilling division generated revenues of \$9.7 million in the three months ended March 31, 2009 compared to \$11.8 million in 2008. Gross margin was \$3.6 million in 2009 compared to \$4.7 million in 2008. The decrease in revenue is the result of lower industry activity levels in the first quarter which saw industry average rig utilization of 37% compared to 56% in 2008. BlackWatch operated eleven rigs achieving an average utilization rate of 47% (62% - 2008) in this quarter. BlackWatch has been able to achieve higher utilization rates compared to the industry average due to its focus on diversification of drilling services, increased operational efficiencies and the addition of one telescopic double pad rig, which was completed in the third quarter of 2008 and operated throughout most of the first quarter.

Labour costs for rig crews increased from 37% of revenues in 2008 to 44% in 2009. This increase is the result of recommendations made by the Canadian Association of Oilwell Drilling Contractors (the "CAODC") in October of 2008 to increase hourly wages for rig crews. Subsequent to March 31, 2009 the CAODC recommended decreasing hourly wages for rig crews, with this reduction being effective May 1, 2009. Fuel decreased from 8% to 7% of revenue, reflecting the general decrease in fuel prices throughout the first quarter of 2009 compared to 2008. Repairs and maintenance decreased from 5% to 4% for the quarter ended March 31, 2009 compared to the same period in 2008. Management has continued improving cost controls and expenditure approvals for repairs and maintenance programs. These controls, combined with the more robust preventative maintenance program and minimal repairs required on the new telescopic double pad rig, allowed BlackWatch to limit repairs and maintenance expenses in the period and reduce unexpected repairs. Sub-contractors and other expenses remained consistent in the three months ended March 31, 2009 compared with the same period in 2008.

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**Downhole Services**

The downhole services division generated revenues of \$1.6 million in the three months ended March 31, 2009 compared to \$2.2 million in 2008. The introduction of pipe recovery services resulted in revenue of \$366,000 (2008 – nil) in the three months ended March 31, 2009. The reduction in revenue is primarily due to lower industry activity levels in our service areas. Fuel and repairs and maintenance costs as a percentage of revenues have decreased between periods, which reflect lower gasoline and diesel costs, better cost controls, logistics management and reduced equipment utilization. Labour and other operating expenses as a percentage of revenue have increased from 43% and 36% respectively in the three months ended March 31, 2008 to 55% and 41% for the three months ended March 31, 2009. This increase is the result of both decreased revenue and costs that didn’t decrease as quickly as revenue because of the fixed component of costs such as salaries and vehicle leases within this division. The downhole services division requires a high degree of specialization and as a result highly trained individuals are retained by BlackWatch throughout the year, which makes a significant portion of labour costs non-variable.

**Production Services**

Production services revenue increased to \$1.4 million (\$1.2 million – 2008) in the three months ended March 31, 2009. This increase in revenue is attributed to the addition of additional equipment in 2008 and the completion of the Company’s brine plant late in the first quarter of 2008. Labour costs have decreased to 36% (2008 – 49%) of revenues through the reduction of non-billable hours. Other costs have increased to 28% of revenues (2008 – 20%). This increase is due to higher product costs which have decreased the margins received on product sales, partially offset by lower costs for insurance and materials and supplies. Repairs and maintenance decreased from 9% to 3% of revenues for the quarter ended March 31, 2009 compared to the same period in 2008. Management has continued improving cost controls and expenditure approvals for repairs and maintenance programs. These controls, combined with the more robust preventative maintenance program allowed BlackWatch to limit repairs and maintenance expenses in the period and reduce unexpected repairs. Fuel decreased from 11% to 5% of revenues for the quarter ended March 31, 2009 compared to the same period in 2008, reflecting the general decrease in fuel prices and a shift from equipment and fluid hauling to equipment rentals and product sales, which have a decreased vehicle usage.

**Rentals**

The rentals division revenue decreased to \$1.1 million (\$1.5 million – 2008) in the three months ended March 31, 2009. This decrease in revenue is the result of decreased industry activity in the core operating areas of the division. Labour costs have increased to 52% (2008 – 37%) of revenues. This increase is due to the reduction in revenue as there is a significant portion of fixed salary costs within the division. Fuel decreased from 11% to 7% of revenues for the quarter ended March 31, 2009 compared to the same period in 2008, reflecting the general decrease in fuel prices throughout the first quarter of 2009 compared to 2008. Sub-contractor costs have decreased from 15% to 12% reflecting a reduction in the divisions’ reliance on outside services. All other operating costs within the rental division have remained generally consistent in 2009 compared to 2008.

***Selling, General and Administrative Expenses***

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
(\$ thousands, except where otherwise indicated)		
Selling, general and administrative	\$ 815	\$ 958
Percentage of revenue from continuing operations	6%	6%

In the quarter ended March 31, 2009 the Company’s selling, general and administrative expenses (“SG&A”) decreased by 15% compared to 2008. The decrease in SG&A was achieved through the elimination of discretionary expenditures and the reduction of outsourced services. These cost deductions were slightly offset by increases in advisory and professional fees associated with the Company’s conversion from a trust to a corporation and costs associated with the discontinuation of its transportation division operations. BlackWatch is continuing to focus on cost minimization initiatives and in May 2009 will implement further reductions to labour costs, including a global salary and wage reduction of between 5% and 7%.

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

***Interest Expense on Debt***

(\$ thousands)	Three months ended March 31,	
	2009	2008
Interest on debt	\$ 1,228	\$ 1,169
Other interest and bank charges	479	325
Total interest expense	\$ 1,707	\$ 1,494

Interest on debt for the three months ended March 31, 2009 remained consistent with the same period in 2008 because of lower debt levels throughout the period offset by higher interest rates. The average blended interest rate on the outstanding debt increased to 11.5% in 2009 (2008 – 10.2%).

The Company has incurred interest on its senior credit facility of \$396,000 (2008 - \$496,000) in the three months ended March 31, 2009. The interest rate for this period ranged from 6.125% - 8.5% (2008 – 7.875% - 8.375%). The prime lending rate decreased from 3.5% to 2.50% in the three months ended March 31, 2009. On January 22, 2009 the Company's lending rate was increased from prime plus 2.625% to prime plus 5.5%.

In January 2009 BlackWatch extended its \$22.5 million senior credit facility and \$22.5 million subordinated facility until June 1, 2009. An additional \$5 million bulge facility was granted by the senior lender to temporarily fund working capital, which bears interest at prime plus 1.25% and matures on June 1, 2009.

In the three months ended March 31, 2009 interest of \$832,000 (2008 - \$673,000) was incurred on the subordinated loan. The interest rate on the subordinated debt for 2009 was 15% (2008 - 9.5% - 12%). The subordinated lender has elected to defer the payment of interest until the delivery of an interest satisfaction election notice or the date that cash payments of interest are permitted under the senior credit facility.

Other interest and bank charges have increased in the three months ended March 31, 2009 compared to 2008, due to increased fees associated with the extension of the senior and subordinated facility.

The Company is required to pay an exit fee of \$250,000 if the senior credit facility is not repaid in full by June 1, 2009. The Company can only draw funds under the bulge facility with written consent of the subordinated lender, such consent not to be unreasonably withheld or delayed if such drawdown is for working capital purposes. Consent is required from the subordinated lender as they have provided the senior lender with a letter of credit securing the bulge facility.

The Company is in compliance with all financial covenants under the senior credit agreement as at March 31, 2009.

***Depreciation and Amortization***

(\$ thousands)	Three months ended March 31,	
	2009	2008
Depreciation of capital assets	\$ 1,424	\$ 2,394
Depreciation and amortization from discontinued operations	359	949
Depreciation and amortization from continuing operations	\$ 1,065	\$ 1,445

Depreciation and amortization from continuing operations has decreased by 26% in the three months ended March 31, 2009 compared to 2008 because of the lower net book values at March 31, 2009, reflecting depreciation charges in excess of additions and impairment write-down's at December 31, 2008.

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### **INCOME TAXES**

After the Reorganization the Company is a taxable Canadian entity. As a result, the Company has estimated its future tax position as at March 31, 2009. The excess of the net book value over related tax pools of property, plant and equipment indicates a future tax liability of approximately \$2.1 million, which is more than offset by a future income tax asset of \$10 million related to non-capital tax loss carry forwards and share issue costs available to offset future taxable income. The net future tax asset is not recorded because of the uncertainty of future taxable income to realize the tax asset.

### **INVESTING ACTIVITIES**

#### *Capital Expenditures*

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

The Company made no material capital purchases in the three months ended March 31, 2009. The senior credit facility restricts capital expenditures to no more than \$250,000 in aggregate for the period of January 21, 2009 to June 1, 2009 without the prior written consent of all of the Lenders.

The Company's capital expenditures for the three months ended March 31, 2009 were funded from operating cash flows and amounts drawn on the senior credit facility.

### **RELATED PARTY TRANSACTIONS**

During the quarter ended March 31, 2009, the Company incurred expenses of \$122,000 (2008 - \$129,000) relating to the rental of land, buildings and equipment owned by certain officers who are also shareholders of the Company. The Company has incurred legal fees in the three months ended March 31, 2009 with a legal firm in which one of the Company's directors is a partner in the amount of \$96,000 (2008 - \$59,000). These fees relate to work completed on the credit facility, subordinated debt, management information circular and general corporate matters. Of these fees \$114,000 (2008 - \$88,000) is included in accounts payable as at March 31, 2009. The Company has also incurred \$832,000 in interest charges on the subordinated debt in the three months ended March 31, 2009 and an extension fee of \$100,000.

The Company has a \$22.5 million subordinated loan with an entity substantially owned by a director. Accrued interest of \$832,000 (2008 - \$851,000) was outstanding as at March 31, 2009. Additionally, the subordinated lender has provided the Company's senior lender with a letter of credit securing the bulge component under the senior credit facility, at no additional cost to the Company. These transactions were completed at exchange values which approximate fair values.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2009 the Company had drawn approximately \$20.3 million of its available \$22.5 million syndicated senior credit facility and had drawn \$23.3 million under the subordinated loan including \$832,000 of accrued interest on the subordinated loan for the three months ended March 31, 2009. Furthermore, \$398,000 is outstanding related to lease financing on capital equipment, which are subject to fixed interest rates. See further details below within the *Contractual Obligations and Commitments* section. As of May 8, 2009 the Company had drawn approximately \$17.3 million on the senior credit facility. This balance does not reflect proceeds from the disposition of the transportation division assets, net of costs, estimated to be \$3.2 million and anticipated to be received in May. These proceeds will permanently reduce the amount available under the senior credit facility.

In January 2009 the Company extended its \$22.5 million senior credit facility and \$22.5 million subordinated facility until June 1, 2009. Interest on the extended credit facility is prime plus 5.5% and 15% on the subordinated debt. An additional \$5 million bulge facility was granted to temporarily fund working capital which bears interest at prime plus 1.25% and matures on June 1, 2009. The credit facility restricts capital expenditures to no more than \$250,000 in aggregate for the period of January 21, 2009 to June 1, 2009 without the prior written consent of all of the lenders.

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*Earnings Before Interest, Depreciation and Amortization, Tax and Stock Compensation*

(\$ thousands)	Three months ended March 31,	
	2009	2008
Income from continuing operations	\$ 284	\$ 1,312
Add: Depreciation and amortization	1,065	1,445
Add: Interest	1,707	1,494
Add: Stock based compensation	37	110
Add: Loss on sale of equipment	69	2
Add: Realized foreign exchange loss	42	-
Less: Other income	(9)	-
EBITDA from continuing operations	\$ 3,195	\$ 4,363

The Company generated sufficient EBITDA to fund the interest on its senior and subordinated debt during the first quarter. However, continuing weak demand for energy services in western Canada increases the uncertainty as to the Company's ability to improve its financial performance and generate sufficient cash flow to service its debt obligations and fund new capital investments. The Company's weak financial results, combined with poor general credit market conditions, make it uncertain that it will be able to renew its credit facilities beyond June 1, 2009, or refinance the debt obligations.

It is expected that funds from operations will be the primary sources of funding for other future capital expenditures. The Company made significant investments in new equipment in 2006 and early 2007 so its fleet of equipment is relatively new. BlackWatch is planning very limited capital expenditures in 2009, focused on accessing higher margin business and improving utilization of existing assets.

For further details on the Company's liquidity see *Contractual Obligations and Commitments* and the *Outlook* sections below.

**SHAREHOLDERS' EQUITY**

As of May 8, 2009 the Company had issued 38,453,953 common shares and 2,669,500 options to purchase common shares.

**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The Company has various vehicle and equipment obligations under capital leases with interest rates ranging from non-interest bearing to 14.2%. The leases have expiry dates ranging from May 2009 through November 2017.

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

(\$ thousands)	Payments due by period					
	Total	2009	2010	2011	2012	2013 - 2017
Contractual obligations						
Debt	\$ 43,617	\$ 43,617	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	398	209	139	50	-	-
Operating leases	4,254	1,216	1,148	820	406	664
Purchase obligations	-	-	-	-	-	-
Other long term obligations	-	-	-	-	-	-
Total contractual obligations	\$ 48,269	\$ 45,042	\$ 1,287	\$ 870	\$ 406	\$ 664

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**SUMMARY OF QUARTERLY RESULTS**

(\$ thousands, except per Share unit amounts)	2009	2008					2007		
	Q1	Q4	Q3	Q2	Q1	Q4 <sup>1</sup>	Q3	Q2 <sup>1</sup>	
Revenue from continuing operations	\$ 13,807	\$ 11,326	\$ 8,359	\$ 3,577	16,741	\$ 6,720	\$ 7,519	\$ 3,734	
Gross margin from continuing operations	\$ 4,010	\$ 2,425	\$ 628	\$ (1,175)	\$ 5,321	\$ 825	\$ 1,461	\$ (2,201)	
Selling, general and administrative expenses	\$ 815	\$ 1,091	\$ 1,096	\$ 972	\$ 958	\$ 974	\$ 726	\$ 1,225	
Net income (loss) from continuing operations	\$ 284	\$ (7,524)	\$ (3,131)	\$ (4,764)	\$ 1,312	\$ (12,808)	\$ (1,311)	\$ (12,763)	
Per Share unit - basic	\$ 0.01	\$ (0.21)	\$ (0.09)	\$ (0.14)	\$ 0.04	\$ (0.41)	\$ (0.05)	\$ (0.52)	
Per Share unit - diluted	\$ 0.01	\$ (0.21)	\$ (0.09)	\$ (0.14)	\$ 0.04	\$ (0.41)	\$ (0.05)	\$ (0.51)	
Funds from continuing operations	\$ 1,747	\$ 660	\$ (864)	\$ (2,426)	\$ 3,754	\$ (367)	\$ (363)	\$ (4,586)	
Per Share unit - basic	\$ 0.05	\$ 0.02	\$ (0.02)	\$ (0.07)	\$ 0.11	\$ (0.01)	\$ (0.01)	\$ (0.18)	
Per Share unit - diluted	\$ 0.05	\$ 0.02	\$ (0.02)	\$ (0.07)	\$ 0.11	\$ (0.01)	\$ (0.01)	\$ (0.17)	
Weighted average Common Shares - basic	38,392	36,011	35,053	34,110	32,174	31,320	27,482	24,781	
Weighted average Common Shares - diluted	38,392	36,011	35,063	34,120	32,188	31,333	27,482	24,805	
Common Shares, end of period	38,454	38,269	36,692	35,118	34,154	32,174	29,499	24,781	

<sup>1</sup>The Company has revised its quarterly information to reflect the sale and discontinuation of its pipeline construction division and the discontinuation of its coiled tubing and transportation operations.

Variances between the quarters are primarily due to seasonality and levels of industry activity linked to commodity prices. Traditionally, second quarter results are the weakest for oil and gas services companies (see "Seasonality" below) and in 2008 and 2009 the sector experienced an early spring breakup.

**SEASONALITY**

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

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements as at March 31, 2009.

**FINANCIAL INSTRUMENTS**

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

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

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There was no change in the Company's internal control over financial reporting that occurred during the period beginning on January 1, 2009, and ended on March 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **BLACKWATCH ENERGY SERVICES CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS AT MAY 8, 2009**

### ***IFRS Conversion Plan:***

The Company is continuing to plan for the conversion to International Financial Reporting Standards ("IFRS"). As part of the planning process the Company is ensuring that individuals that will have a direct responsibility over the implementation process obtain appropriate training. The Company is developing a plan to identify the effects of IFRS on its accounting policies, information systems, internal controls, investor relations, external communications and other business activities. The Company expects to have a formalized plan documented in 2009.

### **CRITICAL ACCOUNTING ESTIMATES**

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

While there are many estimates and assumptions made by management in the preparation of financial statements in accordance with GAAP, the following critical accounting estimates have been identified by management:

#### **Estimates of Collectability of Accounts Receivable**

BlackWatch makes an estimate of amounts of accounts receivable that may not be collected. The Company regularly reviews its customers' financial condition and accounts receivable balances and makes an allowance for collectability if it considers the collection of an accounts receivable balance doubtful. The actual collections of accounts receivable are uncertain and could differ materially from this estimate.

Most of BlackWatch's customers are oil and gas producers, who have experienced reduced cash flow due to declines in commodity prices and are impacted by deteriorating capital market conditions. This may cause a quick, unanticipated deterioration in customers' financial condition and affect the collectability of accounts receivable balances.

#### **Estimates of Impairment of Property, Plant and Equipment**

BlackWatch assesses the fair market value of its property plant and equipment at least annually, often using external consultants. The estimate of fair market value is based on assumptions regarding market value of individual assets and future cash flows from the use of the asset, among other factors which are uncertain. A change in these factors could have a material effect on the estimate of impairment. No impairment has been recorded on long term assets in the period ended March 31, 2009 as management believes there has been no material deterioration in the net realizable value of these assets since December 31, 2008.

### **OUTLOOK**

The outlook for the western Canadian energy services sector for 2009 and beyond is largely dependant on capital spending by oil and natural gas explorers and producers which are in turn heavily influenced by world crude oil and North American natural gas prices. The global economic recession continues to negatively impact energy demand and natural gas storage levels in North America are currently near a five year high and 35% higher then storage levels a year ago. These factors have contributed to downward pressure on oil and natural gas prices. This lower pricing environment has reduced the economic value of oil and gas exploration and development plays within western Canada which has led to a significant number of oil and gas producers reducing their capital budgets and planned activities. As a result overall oil and gas service industry utilization rates have substantially decreased in the first quarter of 2009 compared to 2008. Decreasing utilization rates create competitive pricing pressures on all of BlackWatch's services which may negatively affect the Company's margins. This downward pricing pressure is expected to continue into the second quarter and potentially longer depending on activity levels. BlackWatch anticipates that the reduction in drilling activity in North America will reduce natural gas supply as production levels decline. This could improve commodity prices, which is required to support a recovery in drilling activity.

## **BLACKWATCH ENERGY SERVICES CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS AT MAY 8, 2009**

Despite record low drilling activity levels, BlackWatch has one rig under contract which it expects to continue working throughout the second quarter of 2009 and has successfully completed several drilling projects using casing drilling technology. Casing drilling continues to prove itself as one of the most cost-effective methods to drill certain types of shallow gas wells. This is reflected in the growing number of clients that have selected casing drilling over other drilling methods and equipment for shallow gas drilling.

Late last year the downhole services division participated in a borehole acoustic acquisition project with a third party technology provider. This project was designed to provide the client with borehole acoustic for a horizontal, multi-stage completion operation. This project is part of BlackWatch's strategy to increase its activity and revenue in the growing market for horizontal well technology and services. In addition, the Company continues to focus on growing two of its specialized downhole services 1) proprietary propellant technology to enhance perforation performance for little incremental cost, using licensed technologies; and 2) pipe recovery equipment and expertise for both open-hole and cased-hole applications.

In March 2009 the Alberta government announced a new incentive program for the oil and gas industry in Alberta, consisting of: 1) a royalty credit of \$200 per metre drilled for new conventional oil and natural gas wells; 2) lower royalty rates for the first year on production from new oil or gas wells; and, 3) a \$30 million fund to encourage clean up of inactive oil and gas wells. These changes may have a positive effect on industry activity levels in Alberta and BlackWatch's utilization in 2009.

In April 2009 Fred Meyer joined BlackWatch as VP of Sales and Marketing. Fred has reorganized the marketing group and developed a more focused plan to build on the Company's first quarter drilling success and emphasizing our diverse product offerings. In addition BlackWatch is continuing to focus on cost minimization initiatives and will implement further reductions to labour costs. This will be accomplished by a global salary and wage reduction of between 5% and 7%, a reduction in other employee benefits and lower employee headcount. These changes were made to reflect competitive conditions in the oilfield service industry, matching labour cost reductions of our competitors and adjusting our total workforce to lower expected industry activity levels.

BlackWatch recognizes that significant challenges remain, and we are taking a systematic approach to addressing them. We continue to take steps to stabilize the business financially and are addressing the opportunities available to us to position BlackWatch for success. Our goal is to create an entity that is viable during periods of low economic activity but which is able to take full advantage of a future recovery in industry activity levels. Management continues to believe in the long term viability of the western Canadian sedimentary basin.

### **FORWARD-LOOKING STATEMENTS**

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements with respect to the focus of capital expenditures; future operating and financial results; capital expenditure programs for 2009; amount of general and administrative expenses; effect of weaker natural gas prices and crude oil prices on the oil and gas industry; effect of the Alberta governments new royalty programs on the oil and gas industry in Alberta and on BlackWatch's business; disposal of underutilized assets and the use of proceeds; extension of the senior debt facility to June 1, 2009 and the increase of the amount of the facility and the EBITDA covenant; plans to pay down senior debt; extension of the subordinated debt facility to June 1, 2009; sources of funding; timing of implementation of changes in accounting policies, including conversion to IFRS; future oil and gas service activity;

## **BLACKWATCH ENERGY SERVICES CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS AT MAY 8, 2009**

specific events and trends in the oil and gas industry; and treatment under governmental regulatory regimes and tax laws.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond BlackWatch's control, including the impact of general economic conditions; industry conditions; volatility of commodity prices; decreased demand for energy services; competition from other energy services providers; the lack of availability of qualified personnel or management; ability of BlackWatch to re-finance or extend the maturity date of its senior debt and its subordinated loan and generate positive cash flow; failure of counter-parties to perform on contracts; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; seasonality; loss of key customers; fluctuations in foreign exchange or interest rates and stock market volatility; supply and demand for oilfield services relating to the drilling, completion and maintenance of oil and gas wells as well as services related to pipeline construction, oilfield equipment rentals and production and ancillary services; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; ability to access sufficient capital from internal and external sources and the other risks considered under "Risk Factors" in our annual information form for the year ended December 31, 2008 which is available on [www.sedar.com](http://www.sedar.com).

With respect to forward-looking statements contained in this MD&A, BlackWatch has made assumptions regarding: current commodity prices and royalty regimes; availability of skilled labour; timing and amount of capital expenditures; ability of BlackWatch to re-finance or extend the maturity date of its senior debt and its subordinated loan; future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; supply and demand for oilfield services relating to the drilling, completion and maintenance of oil and gas wells as well as services related to pipeline construction, oilfield equipment rentals and production and ancillary services; effects of regulation by governmental agencies; and future operating costs.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide 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 BlackWatch will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of in this MD&A and BlackWatch disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

### **NON-GAAP MEASURES**

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

**BLACKWATCH ENERGY SERVICES CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS AT MAY 8, 2009**

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

**BlackWatch Energy Services Corp.**  
Travis Robertson  
President and Chief Executive Officer

Wiley Auch  
VP Finance and CFO

**Units Listed – Symbol: BWT**  
Toronto Stock Exchange

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## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company for the three months ended March 31, 2009 have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"Travis Robertson"  
President and Chief Executive Officer

"Wiley Auch"  
Vice President and Chief  
Financial Officer

**BlackWatch Energy Services Corp.****Consolidated Balance Sheets**

(Unaudited)

(Stated in thousands of Canadian dollars)	As at March 31, 2009	As at December 31, 2008
<b>Assets</b>		
Current assets		
Accounts receivable	\$ 8,511	\$ 7,723
Inventory	65	105
Prepaid expenses and deposits	389	470
Equipment held for sale (Note 3)	3,238	-
	<u>12,203</u>	<u>8,298</u>
Inventory	1,088	1,167
Equipment held for sale (Note 3)	4,226	4,243
Property, plant and equipment (Note 3)	44,963	50,729
	<u>\$ 62,480</u>	<u>\$ 64,437</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,634	\$ 6,303
Debt (Note 4)	43,617	42,608
Current portion of obligations under capital leases	244	299
	<u>48,495</u>	<u>49,210</u>
Obligations under capital leases	154	189
	<u>48,649</u>	<u>49,399</u>
Basis of presentation (Note 1)		
Subsequent events (Note 13)		
<b>Shareholders' equity</b>		
Common shares (Note 5)	256,494	256,394
Contributed surplus (Note 5)	1,234	1,197
Conversion option on subordinated debt (Note 4)	248	248
Deficit	(244,145)	(242,801)
	<u>13,831</u>	<u>15,038</u>
	<u>\$ 62,480</u>	<u>\$ 64,437</u>

*See accompanying notes to unaudited consolidated financial statements*

**BlackWatch Energy Services Corp.**  
**Consolidated Statements of Operations and Comprehensive Income (Loss) and Deficit**  
(Unaudited)

(Stated in thousands of Canadian dollars, except per share amounts)	Three months ended	
	March 31, 2009	March 31, 2008
<b>Revenue</b>		
Service	\$ 13,066	\$ 16,021
Product	308	246
Rental	433	474
	13,807	16,741
<b>Expenses</b>		
Operating	9,797	11,420
Selling, general & administration	815	958
Depreciation and amortization	1,065	1,445
Realized foreign exchange loss	42	-
Stock based compensation	37	110
Interest on debt	1,228	1,169
Other interest, bank charges and financing charges	479	325
	13,463	15,427
<b>Income before other items</b>	<b>344</b>	<b>1,314</b>
Other income	9	-
Loss on sale of equipment	(69)	(2)
<b>Net income from continuing operations</b>	<b>284</b>	<b>1,312</b>
Net loss from discontinued operations (Note 11)	(1,628)	(618)
<b>Comprehensive income (loss) and net income (loss) for the period</b>	<b>(1,344)</b>	<b>694</b>
<b>Deficit, beginning of period</b>	<b>(242,801)</b>	<b>(219,812)</b>
<b>Deficit, end of period</b>	<b>\$ (244,145)</b>	<b>\$ (219,118)</b>
Net income from continuing operations per share - basic and diluted (Note 5)	\$ 0.01	\$ 0.04
Net loss from discontinued operations per share - basic and diluted (Note 5)	\$ (0.04)	\$ (0.02)
Net income (loss) and comprehensive income (loss) per share - basic and diluted (Note 5)	\$ (0.03)	\$ 0.02

*See accompanying notes to unaudited consolidated financial statements*

**BlackWatch Energy Services Corp.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

(Stated in thousands of Canadian dollars)	Three months ended	
	March 31, 2009	March 31, 2008
<b>Operating Activities</b>		
Income for the period from continuing operations	\$ 284	\$ 1,312
Items not requiring an outlay of cash:		
Depreciation and amortization	1,065	1,445
Stock based compensation expense	37	101
Loss on sale of equipment	69	2
Non cash interest expense	-	673
Amortization of financing charges	292	221
	1,747	3,754
Change in non-cash working capital	(1,497)	(5,810)
Cash flows from (used in) continuing operations	250	(2,056)
Net loss from discontinued operations	(1,628)	(618)
Items not requiring an outlay of cash:		
Depreciation and amortization	359	949
Impairment of property, plant and equipment	1,041	-
Loss (gain) on disposal of assets	2	(2)
Change in non-cash working capital	(156)	(898)
Cash flows used in discontinued operations	(382)	(569)
<b>Financing Activities</b>		
Repayment of capital lease obligations	(56)	(48)
Increase in debt	1,332	2,000
Cash reclassified against debt	(146)	205
Financing charges	(369)	(37)
Change in non-cash working capital	147	(6)
Cash flows from continuing financing activities	908	2,114
Repayment of capital lease obligations	(34)	(41)
Cash flows used in financing activities of discontinued operations	(34)	(41)
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(10)	(1,093)
Proceeds on disposal of property, plant and equipment	-	468
Fee for take-or-pay contract	-	1,375
Change in non-cash working capital	(752)	76
Cash flows from (used in) continuing investing activities	(762)	826
Purchase of property, plant and equipment	-	(274)
Proceeds on disposal of property, plant and equipment	20	-
Cash flows used in investing activities of discontinued operations	20	(274)
<b>Change in cash</b>	-	-
<b>Cash at beginning of period</b>	-	-
<b>Cash at end of period</b>	\$ -	\$ -
Supplementary cash flow information		
Cash interest paid	\$ 396	\$ 496
Cash taxes paid	\$ -	\$ -

See accompanying notes to unaudited consolidated financial statements



**1. Nature of operations and basis of presentation**

BlackWatch Energy Services Corp. ("NewCo") was incorporated on October 14, 2008 as a wholly owned subsidiary of BlackWatch Energy Services Trust (the "Trust"), a publicly traded, open-ended, unincorporated investment trust. On December 31, 2008 the unitholders of the Trust exchanged their units for common shares of NewCo. (on a one-for-one basis) as part of a plan of arrangement (the "Reorganization"). The plan of arrangement resulted in the Trust becoming wholly owned by NewCo. These transactions are accounted for on a continuity of interest basis and accordingly, the consolidated financial statements reflect the financial position, results of operations and cash flows of NewCo consolidated with the Trust and all its acquired subsidiaries (the "Company" or "BlackWatch") as if NewCo had always held the units of the Trust and carried on the business formerly carried on by the Trust and its subsidiaries. The Company trades on the Toronto Stock Exchange under the symbol BWT and provides a range of oilfield services to customers operating in the western Canadian sedimentary basin.

These interim financial statements for BlackWatch were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Company's consolidated audited financial statements for the year ended December 31, 2008. These interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles in Canada for annual financial statements. As a result, these interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2008. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a normal recurring nature) necessary to present fairly the consolidated financial position as at March 31, 2009 and the consolidated results of its operations and cash flows for the three months ended March 31, 2009 and 2008.

**Going concern**

The Company's financial statements as at and for the three months ended March 31, 2009 and 2008 were prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations. In the year ended December 31, 2008, the Company incurred a significant loss and generated nominal cash flow from operations. In order to continue as a going concern, the Company 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 Company'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 Company requires the continued support of both its senior and subordinated lenders to renew the facilities. The Company'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.

The financial statements do not include any required adjustments, which could be material, if the going concern assumption were not appropriate.

**2. Recent accounting pronouncements**

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and plan for the convergence of Canadian GAAP and IFRS.

In January 2009, the CICA issued three new accounting standards: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling



**BlackWatch Energy Services Corp.**

**Notes to the Consolidated Financial Statements**

*As at and for the three month period ended March 31, 2009 and 2008*

*(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)*

*(Unaudited)*

interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Section 1582 replaces Section 1581, and establishes standards for business combination accounting. It provides equivalent guidance to the International Financial Reporting Standard IFRS 3 – Business Combinations. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace 1600 – Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

**3. Property, plant and equipment**

**As at March 31, 2009**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Drilling rigs	\$ 39,121	\$ (7,871)	\$ 31,250
Field service equipment	17,426	(9,496)	7,930
Shop tools and equipment	1,229	(565)	664
Computer equipment	711	(439)	272
Transport vehicles	4,516	(3,172)	1,344
Furniture and fixtures	277	(104)	173
Buildings	656	(110)	546
Rental equipment	6,552	(3,978)	2,574
Leaseholds	40	(10)	30
	<b>70,528</b>	<b>(25,745)</b>	<b>44,783</b>
Land	180	-	180
	<b>70,708</b>	<b>(25,745)</b>	<b>44,963</b>
Equipment held for sale - current	4,279	(1,041)	3,238
Equipment held for sale - long term	7,227	(3,001)	4,226
	<b>\$ 82,214</b>	<b>\$ (29,787)</b>	<b>\$ 52,427</b>



**BlackWatch Energy Services Corp.**  
**Notes to the Consolidated Financial Statements**  
*As at and for the three month period ended March 31, 2009 and 2008*  
*(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)*  
*(Unaudited)*

**As at December 31, 2008**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Drilling rigs	\$ 39,110	\$ (7,369)	\$ 31,741
Field service equipment	17,542	(9,235)	8,307
Shop tools and equipment	1,230	(529)	701
Computer equipment	716	(411)	305
Transport vehicles	13,818	(7,763)	6,055
Furniture and fixtures	280	(96)	184
Buildings	656	(104)	552
Rental equipment	6,552	(3,879)	2,673
Leaseholds	40	(9)	31
	<b>79,944</b>	<b>(29,395)</b>	<b>50,549</b>
Land	180	-	180
	<b>80,124</b>	<b>(29,395)</b>	<b>50,729</b>
Equipment held for sale	7,244	(3,001)	4,243
	<b>\$ 87,368</b>	<b>\$ (32,396)</b>	<b>\$ 54,972</b>

At March 31, 2009, \$1.4 million (December 31, 2008, \$1.4 million) of equipment is subject to capital leases for which \$500,000 of accumulated depreciation was recognized (December 31, 2008, \$465,000). These capital assets are included in the appropriate property, plant and equipment assets classes and depreciated based on the specified rate for that asset class.

In the first quarter of 2008, the Company received a fee of \$1.375 million from a contract that was renegotiated on an asset under construction. The funds received were recorded as a reduction to the cost of the asset.

Effective March 18, 2009, BlackWatch discontinued the operations of its transportation division. Management entered into an agreement to liquidate the transportation assets in April 2009. The transportation assets' net book value of \$3.2 million at March 31, 2009 is recorded as equipment held for sale in current assets. The net book value of the Transportation assets has decreased in the first quarter by \$1,041,000 in impairment recognized to reflect net realizable value, \$359,000 in amortization, and an intersegment transfer of \$401,000.

BlackWatch is attempting to sell certain assets in the downhole services division. These assets had a net book value of \$4.2 million as at March 31, 2009 and have been classified as held for sale in non-current assets.

**4. Debt**

	<b>As at March 31, 2009</b>	<b>As at December 31, 2008</b>
Senior credit facility (i)	\$ 20,285	\$ 20,108
Subordinated debt (ii)	23,332	22,500
Debt	<b>\$ 43,617</b>	<b>\$ 42,608</b>

**(i) Senior credit facility**

The maximum amount available under the credit facility was \$22.5 million as of March 31, 2009, and the facility has a maturity date of June 1, 2009. Interest is payable on the balance at prime plus 5.5% (8.0% at March 31, 2009). On January 21, 2009, the Company negotiated a temporary increase to the



**BlackWatch Energy Services Corp.**

**Notes to the Consolidated Financial Statements**

*As at and for the three month period ended March 31, 2009 and 2008*

*(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)*

*(Unaudited)*

senior credit facility in the amount of \$5 million to fund expanded working capital needs during the busier winter season. Amounts drawn under this portion of the facility bears interest at prime plus 1.25% (3.75% at March 31, 2009).

The Company's senior credit facility has the following two financial covenants:

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

The Company was in compliance with these financial covenants at March 31, 2009.

**(ii) Subordinated debt**

The subordinated debt is subordinated to the senior credit facility, is owed to an entity substantially owned by a director, and matures on June 1, 2009.

Interest may be payable in cash (subject to approval of the Company's senior lenders) or through the issuance of common shares at the option of the lender. The lender has the right to defer the payment of interest until the date that a cash payment is authorized by the senior lender or a date that it chooses to accept common shares as payment. The subordinated lender elected to defer the interest for the three months ended March 31, 2009. As such, accrued interest of \$832,000 is included in the balance of subordinated debt.

Common shares are issued as interest payments at 10% below market value, to a minimum of \$0.54 per share. Interest on the subordinated debt is charged at 15%. As part of the extension to June 1, 2009, the Company incurred a \$100,000 extension fee that was settled through the issuance of 185,185 common shares on January 30, 2009.

The subordinated lender has the right to convert up to 15% of the outstanding loan balance to common shares at a conversion price of \$0.80 per common share, from time to time until the facility is repaid in full. The value of the conversion feature is presented as shareholders' equity. At March 31, 2009, the full value of the conversion feature had been accreted to the balance of the subordinated debt.

**5. Shareholders' equity**

*Common shares*

**Authorized:**

The authorized share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of first preferred shares.

**Issued and Outstanding:**

Common shares

	Shares	Amount
<b>Balance, December 31, 2008</b>	<b>38,268,768</b>	<b>\$ 256,394</b>
Common shares issued in the period (Note 4(ii))	185,185	100
<b>Balance, March 31, 2009 <sup>1</sup></b>	<b>38,453,953</b>	<b>\$ 256,494</b>

<sup>1</sup>Of the total common shares that are outstanding, 32,010 are held in escrow and will be released on August 4, 2009.



**BlackWatch Energy Services Corp.**  
**Notes to the Consolidated Financial Statements**  
*As at and for the three month period ended March 31, 2009 and 2008*  
*(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)*  
*(Unaudited)*

The basic and diluted weighted average numbers of common shares used in the calculation of earnings (loss) per share for the three months ended March 31, 2009 and 2008 are summarized in the following table:

	<b>For the three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Weighted average common shares - basic	38,392,225	32,174,804
Unit awards convertible to trust units	-	13,007
Weighted average common shares for diluted net earnings	38,392,225	32,187,811

For the calculation of the weighted average number of diluted common shares outstanding for the three months ended March 31, 2009, 2,572,000 (2008 – 2,386,250) stock options, nil (2008 – 13,000) unit awards, 3,000,000 warrants (2008 – 3,000,000), and the conversion feature on the subordinated debt were excluded as they were determined to be anti-dilutive.

On April 4, 2009, the 3,000,000 warrants outstanding expired unexercised.

***Contributed surplus***

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

Balance as at December 31, 2008	\$	1,197
Stock based compensation expense		37
Balance as of March 31, 2009	\$	1,234

In the three months ended March 31, 2009 the Company recorded stock based compensation expense in the amount of \$37,000 (2008 - \$110,000). The entire amount charged to stock based compensation expense is expected to be settled through the issuance of common shares.

**6. Segmented information**

On March 18, 2009, the Company ceased all operations related to the transportation division. The property, plant and equipment relating to the transportation division has been reclassified as held for sale and the related results of operations have been treated as discontinued operations. All remaining operating segments operate in one geographic region, being western Canada. The Company has identified reportable segments based on the type of services performed. Revenue is generated in the identifiable segments from the following services:

Downhole Services

The downhole services division operated nine electric wireline units in the three months ended March 31, 2009. The electric wireline units are used in the well completion process to deliver cased-hole logging tools and perforating guns or to install mechanical plugs in well bores. The division is also engaged in pipe recovery services that are used during downhole fishing operations. The division specializes in tubing conveyed perforating and offers proprietary propellant services used in the perforation process.



**BlackWatch Energy Services Corp.**

**Notes to the Consolidated Financial Statements**

As at and for the three month period ended March 31, 2009 and 2008

(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)

(Unaudited)

Drilling

The drilling division operates ten mobile truck mounted single drilling rigs and one telescopic double drilling 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. The telescopic double rig is capable of drilling to depths of 3,400 meters.

Production Services

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

Rentals

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

Corporate

Provides support services for each of the divisions in areas such as legal, operational, regulatory and financial reporting.

**Three months ended March 31, 2009**

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Intersegment Eliminations	Total
Revenue	\$ 1,618	\$ 9,686	\$ 1,408	\$ 1,179	\$ -	\$ (84)	\$ 13,807
Intersegment sales in discontinued operations	-	-	-	-	-	18	18
Operating costs	1,691	6,159	1,015	1,034	-	(102)	9,797
Depreciation and amortization	180	566	124	166	29	-	1,065
Other expenses (income)	10	47	78	(37)	2,545	-	2,643
Net income (loss) from continuing operations	\$ (263)	\$ 2,914	\$ 191	\$ 16	\$ (2,574)	\$ -	\$ 284
Capital purchases	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ 10

**Three months ended March 31, 2008**

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Intersegment Eliminations	Total
Revenue	\$ 2,211	\$ 11,788	\$ 1,206	\$ 1,787	\$ -	\$ (251)	\$ 16,741
Intersegment sales in discontinued operations	-	-	-	-	-	(80)	(80)
Operating costs	2,007	7,197	1,070	1,317	-	(171)	11,420
Depreciation and amortization	353	495	200	356	41	-	1,445
Other expenses (income)	(2)	(9)	(15)	132	2,538	-	2,644
Net income (loss) from continuing operations	\$ (147)	\$ 4,105	\$ (49)	\$ (18)	\$ (2,579)	\$ -	\$ 1,312
Capital purchases	\$ 57	\$ 112	\$ 161	\$ 761	\$ 2	\$ -	\$ 1,093

**As at March 31, 2009**

	Downhole Services	Transportation	Drilling	Production Services	Rentals	Corporate	Total
Net book value of property, plant and equipment	\$ 4,786	\$ 232	\$ 32,921	\$ 3,285	\$ 3,410	\$ 329	\$ 44,963
Equipment held for sale - current	-	3,238	-	-	-	-	3,238
Equipment held for sale - long term	4,226	-	-	-	-	-	4,226
Total assets	11,093	4,278	38,484	3,916	4,198	511	62,480

**BlackWatch Energy Services Corp.****Notes to the Consolidated Financial Statements***As at and for the three month period ended March 31, 2009 and 2008**(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)**(Unaudited)***As at December 31, 2008**

	Downhole Services		Transportation	Drilling	Production Services		Rentals	Corporate	Total
Net book value of property, plant and equipment	\$	4,967	\$ 5,039	\$ 33,478	\$ 3,354	\$ 3,533	\$ 358	\$ 50,729	
Equipment held for sale - long term		4,243	-	-	-	-	-	4,243	
Total assets		11,426	5,636	37,987	4,213	4,615	560	64,437	

**7. Financial risk management**

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

**Credit Risk**

Credit risk arises from the possibility that a counterparty to which the Company provides goods or services is unable or unwilling to fulfill their obligations. This could reduce the amount of future cash inflows from financial assets such as accounts receivable. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. The majority of the Company's revenues and trade accounts receivable are from entities in the oil and gas industry and, as such, the Company is exposed to many of the risks associated with that industry. The Company utilizes regular credit monitoring processes, such as credit checks and customer deposits to mitigate credit risks. Concentration of accounts receivable from customers increases credit risk and is mitigated to the extent possible by limiting concentrations to credit worthy clients. At March 31, 2009 the largest customer accounted for 16% of the Company's accounts receivable balance and the five largest balances comprise 53% (December 31, 2008, 45%) of the overall balance. The top five customers of the Company accounted for approximately 59% (2008 – 48%) of the reported revenues and its largest customer accounted for 17% (2008 – 16%) of reported revenues in the three months ended March 31, 2009.

The aging of trade receivables at the reporting date was:

	As at March 31, 2009	As at December 31, 2008
Not past due, under 30 days	\$ 3,873	\$ 4,047
Outstanding 31 - 60 days	3,238	2,223
Outstanding 61 - 120 days	975	1,014
More than 120 days	965	918
Total trade receivables	9,051	8,202
Impairment allowance	846	799
Net trade receivables	8,205	7,403
Other receivables	306	320
Total receivables	\$ 8,511	\$ 7,723

The Company assesses impairment of its financial assets quarterly. During the three month period ended March 31, 2009, the Company recorded an impairment allowance of \$86,000. The amount of the expense is recognized in the statement of operations within operating expenses. Subsequent recoveries of amounts written off are credited against operating expenses in the period of settlement. The impairment allowance recognized during the period relates to collectability of accounts receivable. In calculating the provisions, management individually reviewed all balances greater than 90 days old and applied a general provision based on historical loss rates for amounts less than 90 days old. The changes in the impairment allowance were as follows:

**BlackWatch Energy Services Corp.****Notes to the Consolidated Financial Statements***As at and for the three month period ended March 31, 2009 and 2008**(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)**(Unaudited)*

Opening impairment allowance - January 1, 2009	\$ 799
Impairment of receivables	86
Receivables written off as uncollectible	(39)
<hr/>	
Ending impairment allowance - March 31, 2009	\$ 846

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

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is through regular monitoring of cash requirements by preparing short-term and long-term cash flow analyses. The Company maintains a \$22.5 million senior credit facility (*Note 4i*). As at March 31, 2009, the Company had drawn \$20.5 million against this credit facility. In addition the Company has a subordinated debt facility with a principal balance of \$22.5 million and accrued interest of \$832,000 outstanding as at March 31, 2009 (*Note 4ii*). The Company's objective in managing liquidity is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

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

	Carrying amount	Contractual Cash flows	6 months or less	6 to 12 months	2010	2011
Senior credit facility	\$ 20,285	\$ 20,808	\$ 20,808	\$ -	\$ -	\$ -
Subordinated debt	23,332	23,895	23,895	-	-	-
Capital lease obligations	398	431	173	96	112	50
Accounts payable and accrued liabilities	4,634	4,634	4,634	-	-	-
<b>Total</b>	<b>\$ 48,649</b>	<b>\$ 49,768</b>	<b>\$ 49,510</b>	<b>\$ 96</b>	<b>\$ 112</b>	<b>\$ 50</b>

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

**Market Risk****(i) Foreign Exchange Risk**

The Company is exposed to foreign currency fluctuations as certain expenses are denominated in U.S. dollars. Both realized foreign exchange gains and losses and the unrealized gains and losses on the translation of liabilities are included in net earnings.

**(ii) Interest Rate Risk**

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



A 1% increase or decrease in interest rates would have changed the cash flow of the Company during the three months ended March 31, 2009 by approximately \$54,000. This analysis assumes that all other variables remain constant.

(iii) Commodity risk

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

**Fair Values**

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

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

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

**8. Capital disclosures**

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

The Company's objectives when managing capital are:

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

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

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



**BlackWatch Energy Services Corp.**  
**Notes to the Consolidated Financial Statements**  
*As at and for the three month period ended March 31, 2009 and 2008*  
*(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)*  
*(Unaudited)*

The Company's capital consists of debt, obligations under capital leases and shareholders' equity. The balances of each of these items as at March 31, 2009 and December 31, 2008 were as follows:

	As at March 31, 2009	As at December 31, 2008
Debt	\$ 43,617	\$ 42,608
Obligations under capital leases	398	488
Shareholders' equity	13,831	15,038
Total Capital	\$ 57,846	\$ 58,134

The Company is subject to two restrictive financial covenants under its senior credit facility (*Note 4i*).

As at March 31, 2009, the Company was in compliance with the externally imposed capital restrictions discussed in *Note 4*.

**9. Related party transactions**

During the quarter ended March 31, 2009, the Company incurred expenses of \$122,000 (2008 - \$129,000) relating to the rental of land, buildings and equipment owned by certain officers who are also shareholders of the Company. The Company has incurred legal fees in the three months ended March 31, 2009 with a legal firm in which one of the Company's directors is a partner in the amount of \$96,000 (2008 - \$59,000). These fees relate to work completed on the debt renewal and general corporate matters. Of these fees \$114,000 (2008 - \$88,000) is included in accounts payable as at March 31, 2009. The Company has also incurred \$832,000 in interest charges on the subordinated debt in the three months ended March 31, 2009 and an extension fee of \$100,000 (*Note 4ii*).

The Company has a \$22.5 million subordinated loan with an entity substantially owned by a director. Accrued interest of \$832,000 (2008 - \$851,000) was outstanding as at March 31, 2009. Additionally, the subordinated lender has provided the Company's senior lender with a letter of credit securing the bulge component under the senior credit facility, at no additional cost to the Company. These transactions were completed at exchange values which approximate fair values.

**10. Seasonality of operations**

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

**BlackWatch Energy Services Corp.****Notes to the Consolidated Financial Statements***As at and for the three month period ended March 31, 2009 and 2008**(tabular amounts in thousands of Canadian dollars, except common shares and per share amounts)**(Unaudited)***11. Discontinued operations**

Effective March 18, 2009 the Company ceased all operations relating to the transportation division. Management has entered into an agreement to liquidate the transportation assets in April 2009. In October, 2008, the Company ceased all operations relating to the coil tubing business unit of the downhole services division. The pipeline construction division was sold effective August 31, 2007. The pipeline construction, the coil tubing, and the transportation business units have been classified as discontinued operations.

	For the three months ended March 31, 2009			
	Transportation	Coil Tubing	Pipeline	Total
Revenue	\$ 1,151	\$ 62	\$ -	\$ 1,213
Operating costs	(1,320)	(119)	-	(1,439)
Amortization	(359)	-	-	(359)
Impairment of property, plant and equipment	(1,041)	-	-	(1,041)
Loss on the sale of equipment	(2)	-	-	(2)
<b>Net loss from discontinued operations</b>	<b>\$ (1,571)</b>	<b>\$ (57)</b>	<b>\$ -</b>	<b>\$ (1,628)</b>

  

	For the three months ended March 31, 2008			
	Transportation	Coil Tubing	Pipeline	Total
Revenue	\$ 2,777	\$ 1,303	\$ -	\$ 4,080
Operating costs	(2,206)	(1,489)	(56)	(3,751)
Amortization	(523)	(426)	-	(949)
Gain (loss) on the sale of equipment	-	2	-	2
<b>Net loss from discontinued operations</b>	<b>\$ 48</b>	<b>\$ (610)</b>	<b>\$ (56)</b>	<b>\$ (618)</b>

**12. Commitments**

The Company is committed to future minimum payments under operating lease contracts for equipment, vehicles, office and shop space of \$4.3 million. The settlement dates of these obligations range from May 2009 to November 2017.

The required future commitment payments as at March 31, 2009 are as follows:

	Payments due by period					
	Total	2009	2010	2011	2012	2013 - 2017
Operating lease obligations	\$ 4,254	\$ 1,216	\$ 1,148	\$ 820	\$ 406	\$ 664

**13. Subsequent events**

On April 30, 2009 the Company closed the previously announced sale transaction respecting the assets of its transportation division. The net sale proceeds of approximately \$3.2 million will be applied to BlackWatch's senior secured debt.