BLACKWATCH

ENERGY SERVICES CORP.

Management's Discussion and Analysis and Unaudited Financial Statements
for the three and nine months ended September 30, 2009 and 2008.

BLACKWATCH ENERGY SERVICES CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS AT NOVEMBER 6, 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 and nine months ended September 30, 2009. Statements in this MD&A are based on information available as at November 6, 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 three and nine month periods ended September 30, 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, unless otherwise stated.

Additional information concerning the Company, including the Annual Information Form, is filed electronically on SEDAR and available at 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.

International operations

On September 30, 2009, the Company completed the acquisition of six drilling rigs currently operating in Mexico from a major international energy services company (the "vendor"). The acquired rigs are three diesel-electric triples and three super single style rigs, with maximum depth capacities ranging from 3,500 meters to 4,500 meters. The super single rigs are newly commissioned, state of the art, flexible and capable of operating in deeper applications. The triples have a mixture of self-moving, top drive and pipe handling systems. Included in the acquisition is a full complement of related operating assets including camps and high-end pressure control equipment. The purchase price for the acquisition was US$67.5 million which was settled with cash. The drilling rigs will be subject to a long term drilling services contract with the vendor, pursuant to the vendor's integrated project management contract with Petroleos Mexicanos ("Pemex"), the national oil company of Mexico. The drilling services contract provides that the rigs acquired by BlackWatch will be the last third party drilling rigs to be terminated for use by the vendor. The vendor has multiple long-term contracts with Pemex to drill wells in this region and BlackWatch understands that these Pemex contracts, together with the long-term drilling services contract to be entered into with BlackWatch, will provide drilling operations for BlackWatch for several years into the future. The long-term drilling services contract will provide a fixed day rate for each rig, subject to cost escalation adjustments annually. Additionally, BlackWatch's relationship with the vendor has the potential to provide additional services revenue in the future, and allow for the relocation by BlackWatch of currently underutilized equipment from Canada.

In addition on September 30, 2009 the Company announced that is had entered into a binding letter of intent to purchase a private directional services business for approximately US$16.5 million. The purchase price will consist of a cash payment in the amount of US$3 million, the issuance by BlackWatch of 11.4 million common shares and the assumption of approximately US$400,000 in net debt. The closing of this acquisition is expected to occur in November 2009.

The directional services business currently has limited operations in the United States, with the majority of its focus being in Mexico. Demand for directional services is increasing with the shift in drilling operations to horizontal applications, particularly in Latin America. This business has established strong relationships and operating capabilities with key customers in Mexico and the United States, including with large operators in the Haynesville, Barnett and Fayetteville shale regions of the U.S. The business has also established a significant field operating infrastructure in Mexico. The key individuals involved in this business, who pursuant to the transaction are to continue with BlackWatch, have a significant established track record in Latin America.

Canadian Operations

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 and borehole acoustic monitoring services. 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.

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.

SUMMARY FINANCIAL INFORMATION

($ thousands, except per share unit amounts)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue from continuing operations	$ 6,085	$ 8,356	$ 23,461	$ 28,676
Gross margin[1] from continuing operations	$ 152	$ 633	$ 3,995	$ 4,771
Adjusted EBITDA[1]	$ (553)	$ (463)	$ 1,761	$ 1,745
Loss from continuing operations	$ (1,334)	$ (3,128)	$ (4,292)	$ (6,706)
Per common share - basic and diluted	$ (0.01)	$ (0.09)	$ (0.06)	$ (0.20)

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

($ thousands)	As at September 30, 2009	As at December 31, 2008
Total assets	$ 140,889	$ 64,437
Debt and capital lease obligations:		
Current	$ 202	$ 42,907
Long-term	$ 113	$ 189
Shareholders' equity	$ 123,901	$ 15,038

In the three months ended September 30, 2009 revenues and gross margin were lower compared to the same quarter in 2008. The decrease in revenues reflects lower revenue in our downhole, production and rentals divisions. Revenue has decreased in these divisions due to reduced demand for BlackWatch's services attributed to reduced drilling activity in BlackWatch's operating areas. The consistency in revenue in our drilling division is due to the Company's ability to offer an expanded mix of drilling applications which is more appealing in the current oilfield services market. Lower gross margin led to a decrease in adjusted EBITDA for the three months ended September 30, 2009.

In the nine months ended September 30, 2009 the Company had decreased revenues compared to 2008, which led to lower gross margin. Adjusted EBITDA for the nine months ended September 30, 2009 has remained consistent because of lower selling, general and administration costs and improved margins within the drilling division.

Natural gas prices remained low during the three months ended September 30, 2009. Low commodity prices caused many producers to scale back their 2009 capital budgets. This reduced oil and gas industry activity in western Canada and demand for oilfield services, which had a negative effect on BlackWatch's results.

On June 11, 2009 the company announced a series of steps to position the Company to take advantage of opportunities available in the energy service industry. The Company agreed to issue 66.7 million shares at a price of $0.15 per share for gross proceeds of $10 million and convert its existing subordinated debt of approximately $24.2 million into 37.2 million shares. BlackWatch also added two members to its management team: John King as President and Chief Executive Officer and Hank Swartout as Chairman of the Board of Directors. The restructured management team is continuing with its strategy to allow BlackWatch to capitalize on the experience and skills of these new members and explore international and domestic investment opportunities that are available in the current environment. The Company closed the share offering in the amount $9.6 million and completed the subordinated debt conversion on June 29, 2009. The remaining share issuance of $0.4 million closed on July 10, 2009.

On September 18, 2009 the Company issued 86,250,000 common shares at $1.00 per share for total net proceeds of approximately $81.2 million.

On September 30, 2009 the Company acquired six drilling rigs in Mexico for US$67.5 million and entered into a binding letter of intent to purchase a private directional services business for approximately US$16.5 million.

The proceeds from the share offerings were used to reduce the Company's bank debt to nil at September 30, 2009 and fund the acquisition of the six drilling rigs.

RESULTS OF OPERATIONS

($ thousands)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Revenue from continuing operations	6,085	8,356	$ 23,461	$ 28,676
Operating Expenses				
Labour	2,116	3,880	9,560	12,583
Fuel	232	863	1,302	2,607
Repairs and maintenance	354	524	1,159	2,106
Sub-contractors	1,580	308	2,075	893
Other	1,651	2,148	5,370	5,716
Expenses from continuing operations	5,933	7,723	19,466	23,905
Gross margin from continuing operations	$ 152	$ 633	$ 3,995	$ 4,771

Quarter ended September 30, 2009

Revenue has decreased due to lower activity in the Company's operating areas. This decrease has been partially off set by the Company's proactive decision to modify its business model to counteract the continued weakening business fundamentals in it core operating areas. One of the most significant changes is BlackWatch's introduction of fixed price performance based contracts. These contracts involve the coordination of multiple services offered by BlackWatch and other service companies ("Fixed price contract"). In addition the Company has been able to add other services such as pipe recovery and borehole acoustic monitoring services.

Operating expenses from continuing operations as a percentage of revenue from continuing operations were 98% (2008 – 92%). Labour costs, which represent the most significant component of operating expenses, decreased to 35% (2008 – 46%) of revenue because of efforts to reduced fixed labour costs in reaction to the lower activity levels in our operating areas. Fuel costs decreased from 10% of revenues in 2008 to 4% in 2009, which reflects a decrease in the average price of gasoline and diesel fuel in 2009 compared to 2008, reduced indirect travel and the completion of certain fixed price contracts. Repairs and maintenance costs remained consistent at 6%. 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 costs have increased in the period as the Company has increased its reliance on sub contractors to complete certain stages of its fixed price contracts within the drilling division. Other costs as a percentage of revenue have remained consistent with the decline in revenues in 2009 compared to 2008.

Nine months ended September 30, 2009

Revenue has decreased due to lower activity in the Company's operating areas. This decrease has been off set by the introduction of fixed price contracts, pipe recovery and borehole acoustic monitoring services. Overall operating expenses from continuing operations as a percentage of revenue from continuing operations were 83% (2008 – 83%). Labour costs, which represent the most significant component of operating expenses, decreased to 41% (2008 – 44%) of revenue. Labour costs have a significant fixed component that does not decrease in proportion with revenues. The Company has placed greater emphasis on the reduction of these fixed costs and in anticipation of lower industry demand and reduced equipment utilization the Company has been able to reduce these fixed costs in 2009 compared to 2008. Fuel costs decreased from 9% 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, reduced indirect travel and the completion of certain fixed price contracts by the drilling division. Repairs and maintenance declined from 7% of revenues in 2008 to 5% of revenues 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. Subcontractor costs have increased in the period as the Company has increased its reliance on sub contractors to complete certain stages of its fixed price contracts within the drilling division. Other costs as a percentage of revenue have increased to 23% (2008 – 20%). This increase is due to additional costs relating to the completion of fixed price contracts.

DIVISIONAL RESULTS

($ thousands)	For the three months ended September 30, 2009				
	Consolidated	Drilling	Downhole Services	Production Services	Rentals
Revenue from continuing operations	$ 6,085	$ 3,448	$ 1,055	$ 703	$ 879
Operating Expenses					
Labour	$ 2,116	$ 941	$ 435	$ 370	$ 370
Fuel	232	108	21	48	55
Repairs and maintenance	354	171	51	42	90
Sub-contractors	1,580	1,105	395	4	76
Other	1,651	826	450	187	188
Total operating expenses from continuing operations	$ 5,933	$ 3,151	$ 1,352	$ 651	$ 779
Gross Margin from continuing operations	$ 152	$ 297	$ (297)	$ 52	$ 100
Revenues and operating expenses are net of intercompany transactions					

($ thousands)	For the three months ended September 30, 2008				
	Consolidated	Drilling	Downhole Services	Production Services	Rentals
Revenue from continuing operations	$ 8,356	$ 3,360	$ 1,882	$ 1,607	$ 1,507
Operating Expenses					
Labour	$ 3,880	$ 1,900	$ 850	$ 630	$ 500
Fuel	863	501	93	135	134
Repairs and maintenance	524	246	85	89	104
Sub-contractors	308	72	61	6	169
Other	2,148	655	785	442	266
Total operating expenses from continuing operations	$ 7,723	$ 3,374	$ 1,874	$ 1,302	$ 1,173
Gross Margin from continuing operations	$ 633	$ (14)	$ 8	$ 305	$ 334
Revenues and operating expenses are net of intercompany transactions					

($ thousands)	For the nine months ended September 30, 2009				
	Consolidated	Drilling	Downhole Services	Production Services	Rentals
Revenue from continuing operations	$ 23,461	$ 15,439	$ 2,886	$ 2,549	$ 2,587
Operating Expenses					
Labour	$ 9,560	$ 5,423	$ 1,694	$ 1,153	$ 1,290
Fuel	1,302	890	86	161	165
Repairs and maintenance	1,159	643	113	136	267
Sub-contractors	2,075	1,334	507	16	218
Other	5,370	2,565	1,464	808	533
Total operating expenses from continuing operations	$ 19,466	$ 10,855	$ 3,864	$ 2,274	$ 2,473
Gross Margin from continuing operations	$ 3,995	$ 4,584	$ (978)	$ 275	$ 114
Revenues and operating expenses are net of intercompany transactions					

($ thousands)	For the nine months ended September 30, 2008				
	Consolidated	Drilling	Downhole Services	Production Services	Rentals
Revenue from continuing operations	$ 28,676	$ 15,720	$ 5,463	$ 3,550	$ 3,943
Operating Expenses					
Labour	$ 12,583	$ 6,817	$ 2,521	$ 1,701	$ 1,544
Fuel	2,607	1,592	264	347	404
Repairs and maintenance	2,106	1,212	315	272	307
Sub-contractors	893	255	105	19	514
Other	5,716	2,008	2,152	890	666
Total operating expenses from continuing operations	$ 23,905	$ 11,884	$ 5,357	$ 3,229	$ 3,435
Gross Margin from continuing operations	$ 4,771	$ 3,836	$ 106	$ 321	$ 508

Quarter ended September 30, 2009

Contract Drilling

The drilling division generated revenues of $3.4 million in the three months ended September 30, 2009 compared to $3.3 million in 2008. Gross margin was $297,000 in 2009 compared to a negative $14,000 in 2008. The consistency in revenue is due to the divisions fixed price contracts. These fixed price contracts are appealing to customers as they create increased certainty in well completion costs for the customer. The increase in gross margin is the result of BlackWatch's continued focus on diversifying its revenue stream to higher margin services. The industry average rig utilization in the third quarter of 2009 was 21% compared to 46% in 2008. BlackWatch achieved an average utilization rate of 9% (23% - 2008) in this quarter on its eleven available rigs, which reflects the overall shallow nature of our fleet.

Labour costs for rig crews decreased from 57% of revenues in 2008 to 27% in 2009. This decrease is the result of the Company's increased reliance on sub contractors to complete the fixed price contracts. Fuel decreased from 15% to 3% of revenue, reflecting the general decrease in fuel prices throughout the third quarter of 2009 compared to 2008, reduced indirect travel and the completion of certain fixed price contracts. Sub-contractors and other expenses increased in the three months ended September 30, 2009 compared with the same period in 2008 due to an increased use of sub contractors to complete various stages of the fixed price contracts.

Downhole Services

The downhole services division generated revenues of $1.1 million in the three months ended September 30, 2009 compared to $1.9 million in 2008. The reduction in revenue is primarily due to lower industry activity levels in our service areas. BlackWatch also made the decision to decommission several units and downsize operational staffing levels. The effects of these measures are that BlackWatch has been able to reduce fixed costs within the downhole services division. In addition the weaker revenue has been partially offset by the Company's introduction of pipe recovery and borehole acoustic monitoring services, which resulted in revenue of $619,000 (2008 – nil) in the three months ended September 30, 2009. Fuel and repairs and maintenance costs as a percentage of revenues have remained consistent between periods. Labour costs as a percentage of revenue have decreased to 41% in the three months ended September 30, 2009 compared to 45% in 2008. The downhole services division requires a high degree of specialization, requiring the retention of highly skilled and costly individuals throughout the year, which makes a significant portion of labour costs non-variable. Other operating expenses as a percentage of revenues have also remained consistent at 43% in 2009 compared to 42% for the three months ended September 30, 2008. Sub-contractor costs have increased in 2009 compared to 2008 due to the need to deploy specialized equipment related to the completion of borehole acoustic jobs.

Production Services

Production services revenue decreased to $703,000 ($1.6 million – 2008) in the three months ended September 30, 2009. This decrease in revenue is the result of decreased industry activity in the operating areas of the division. Labour costs have increased to 53% (2008 – 39%) of revenues. These costs have increased as a percentage of revenues because certain administrative costs are substantially fixed within the division. All other costs in the three months ended September 30, 2009 are consistent compared to the same period in 2008.

Rentals

The rentals division revenue decreased to $879,000 ($1.5 million – 2008) in the three months ended September 30, 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 42% (2008 – 33%) of revenues. These costs have increased as a percentage of revenues because certain administrative costs are fixed within the division. Fuel decreased from 9% to 6% of revenues for the quarter ended September 30, 2009 compared to the same period in 2008, reflecting the general decrease in fuel prices throughout the third quarter of 2009 compared to 2008. Sub-contractor costs have decreased from 11% to 9% of revenues reflecting a reduction in the divisions' reliance on outside services. Other costs have increased to 21% (18% - 2008) as a percentage of revenue in the period. This increase is the result of certain fixed costs such as facilities costs and insurance. All other operating costs within the rentals division have remained generally consistent in 2009 compared to 2008.

Nine months ended September 30, 2009

Contract Drilling

The drilling division generated revenues of $15.4 million in the nine months ended September 30, 2009 compared to $15.7 million in 2008. Gross margin was $4.6 million in 2009 compared to $3.8 million in 2008. The decrease in revenue is the result of lower equipment utilization offset by new revenues generated from the addition of the Company's telescopic double pad rig, which worked steadily throughout the first six months of 2009 and fixed price contracts that were completed in the period. The industry average rig utilization in the nine months ended September 30, 2009 was 23% compared to 40% in 2008. BlackWatch achieved an average utilization rate of 21% (29% - 2008) in this period, based on eleven available drilling rigs.

Labour costs for rig crews decreased from 43% of revenues in 2008 to 35% in 2009. This decrease is the result of the Company's successful completion of fixed price contracts. These fixed price contracts have an increased reliance on third party contractor's rather then internal labour. In addition for the months of January to April 2009 direct wages were 10% higher then the same month in 2008 due to a recommended increase in wages by the Canadian Association of Oilwell Drilling Contractors (the "CAODC") that took effect October 1, 2008. Effective May 1, 2009 rig crew wages were reduced, consistent with an amended recommendation by the CAODC. The effect of this amended recommendation was to reduce direct wages for rig crews by approx 1% in 2009 compared to 2008 and by 9% compared to the recommended October 2008 increase. These items have resulted in a reduction of labour costs as a percentage of revenue. Fuel decreased from 10% to 6% of revenue, reflecting the general decrease in fuel prices, the addition of the Company's telescopic double pad rig which has better fuel efficiency and increased reliance on third party contractors who pay there own fuel costs. Repairs and maintenance decreased from 8% to 4% for the nine months ended September 30, 2009 compared to the same period in 2008, reflecting lower activities and the benefit of major maintenance activities in the spring of 2008. Sub-contractors and other expenses have increased in the nine months ended September 30, 2009 compared with the same period in 2008. The increase in these amounts is attributable to sub contractors associated with fixed price contracts.

Downhole Services

The downhole services division generated revenues of $2.9 million in the nine months ended September 30, 2009 compared to $5.5 million in 2008. The reduction in revenue is primarily due to lower industry activity levels in our service areas. BlackWatch also made the decision to decommission several units and downsize operational staffing levels. The effects of these measures are that BlackWatch has been able to reduce fixed costs within the downhole services division. In addition the weaker revenue has been partially offset by the Company's introduction of pipe recovery and borehole acoustic monitoring services, which resulted in revenue of $898,000 (2008 – nil) in the nine months ended September 30, 2009. 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 costs as a percentage of revenue have increased to 59% in the nine months ended September 30, 2009 compared to 46% in 2008. The downhole services division requires a high degree of specialization, requiring the retention of highly skilled and costly individuals throughout the year, which makes a significant portion of labour costs non-variable. Other operating expenses as a percentage of revenues have also increased to 50% in 2009 compared to 40% in 2008. This increase is the result of decreased revenue and the fixed component of costs such as shop and vehicle leases. Sub-contractor costs have increased in 2009 compared to 2008 due to the need to deploy specialized equipment related to the completion of borehole acoustic jobs.

Production Services

Production services revenue decreased to $2.5 million ($3.6 million – 2008) in the nine months ended September 30, 2009. This decrease in revenue is the result of decreased industry activity in the operating areas of the division. Labour costs have decreased to 45% (2008 – 48%) of revenues through the reduction of non-billable hours. Other costs have increased to 32% of revenues (2008 – 25%). This increase is due to increased shop costs due to the addition of a new facility. Repairs and maintenance decreased from $272,000 to $136,000 for the nine months ended September 30, 2009 compared to the same period in 2008. Management has continued improving cost controls and expenditure approvals for repairs and maintenance programs. Fuel decreased from 10% to 6% of revenues for the nine months ended September 30, 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, which has a decreased vehicle usage.

Rentals

The rentals division revenue decreased to $2.6 million ($3.9 million – 2008) in the nine months ended September 30, 2009. This decrease in revenue is the result of decreased industry activity in the division's operating areas. Labour costs have increased to 50% (2008 – 39%) of revenues. This increase occurred because of the reduction in revenue and the significant fixed component of salary costs within the division. Fuel decreased from 10% to 6% of revenues for the nine months ended September 30, 2009 compared to the same period in 2008, reflecting the general decrease in fuel prices throughout the first nine months of 2009 compared to 2008. Sub-contractor costs have decreased from 13% to 8% 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

	Three months ended September 30,		Nine months ended September 30,	
($ thousands, except where otherwise indicated)	2009	2008	2009	2008
Selling, general and administrative	$ 705	$ 1,096	$ 2,234	$ 3,026
Percentage of revenue from continuing operations	12%	13%	10%	11%

In the three and nine months ended September 30, 2009 the Company's selling, general and administrative expenses ("SG&A") decreased by 36% and 26%, respectively, compared to 2008. The decrease in SG&A was achieved through the elimination of discretionary expenditures, the reduction of outsourced services, legal expenses associated with strategic initiatives, lower corporate administrative costs, and a reduction in labour related costs. Effective May 15, 2009 salaries and wages were rolled back between 5% and 7%, for all employees and certain employee benefits were eliminated. These cost reductions were slightly offset by increases in 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.

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

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	2009	2008	2009	2008
Interest on debt	$ 86	$ 1,202	$ 2,476	$ 3,565
Other interest and bank charges	79	420	915	1,550
Total interest expense	$ 165	$ 1,622	$ 3,391	$ 5,115

Quarter ended September 30, 2009

Interest on debt for the three months ended September 30, 2009 decreased compared with the same period in 2008 because of lower debt levels and slightly higher interest rates throughout the period.

The Company has incurred interest on its $9 million senior credit facility of $86,000 (2008 - $351,000) in the three months ended September 30, 2009. The interest rate for this period was from 7.75% (2008 – 7.375%).

Other interest and bank charges have decreased in the three months ended September 30, 2009 compared to 2008, due to the reduction of fees associated with the extension of the senior credit facility and the subordinated debt facility.

Nine months ended September 30, 2009

Interest for the nine months ended September 30, 2009 compared to 2008 decreased because of significantly lower debt levels within the period offset by slightly higher interest rates. The average blended interest rate on the outstanding debt decreased to 11.4% (2008 – 11.1%).

The Company has incurred interest on its senior credit facility of $821,000 (2008 - $1.2 million) in the nine months ended September 30, 2009. The interest rate for this period ranged from 6.125% - 8.5% (2008 – 7.375% - 8.625%). The Company's interest rate increased from prime plus 2.625% to prime plus 5.5% under the terms of the amended credit facility that was entered into on January 22, 2009. The prime lending rate decreased from 3.50% to 2.25% in the nine months ended September 30, 2009.

In the nine months ended September 30, 2009 interest of $1.7 million (2008 - $2.4 million) was incurred on the subordinated loan. The interest rate on the subordinated debt for the period was 15% (2008 12% - 15%). Interest for the period was settled through the issuance of common shares as part of the conversion of the entire subordinated debt balance on June 29, 2009.

In the nine months ended September 30, 2009 the Company paid a contractual exit fee of $250,000 on the senior credit facility, which was expensed in the second quarter of 2009. On June 30, 2009 the Company obtained an extension of its credit facility until December 31, 2009. As part of this extension the borrowing limit was reduced to $9 million and an extension fee of $90,000 was paid.

The subordinated lender converted the principal and accrued interest balance of $24.2 million into common shares of the Company on June 29, 2009 at a price of $0.65 per share and received 37.2 million common shares

Other bank charges and interest have decreased in the nine months ended September 30, 2009, because of the reduction of fees associated with the extension of the senior credit facility and the subordinated debt facility and accretion expenses incurred for the conversion feature on the subordinated debt in 2008.

Depreciation and Amortization

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	2009	2008	2009	2008
Depreciation of capital assets	$ 605	$ 1,814	$ 2,790	$ 5,984
Depreciation from discountinued operations	-	715	359	2,410
Depreciation and amortization from continuing operations	$ 605	$ 1,099	$ 2,431	$ 3,574

Depreciation and amortization from continuing operations has decreased by 45% and 31% in the three months and nine months ended September 30, 2009 compared to 2008 because of lower net book values at September 30, 2009. This reduction reflects depreciation charges in excess of additions, impairment write-downs at December 31, 2008 and decreased equipment utilization within the drilling division, partially offset by the addition of the costs associated with the telescopic double pad rig.

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 September 30, 2009. The excess of the net book value over related tax pools of property, plant and equipment indicates a future tax liability of approximately $1.5 million, which is more then offset by a future income tax asset of $11.9 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 earning future taxable income to utilize the non-capital loss carry forwards and share issue cost deductions.

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 purchases of $64.1 million and $64.1 million in the three and nine months ended September 30, 2009. The Company purchased six drilling rigs in Mexico for $63.3 million detailed in the *Overview – International* section. In addition the Company purchased a picker in the rentals division for $400,000 and mud pumps within the drilling division for $215,000. The senior credit facility restricts capital expenditures to no more than $500,000 in aggregate for the period of January 1, 2009 to December 31, 2009 without the prior written consent of the Lender. All purchases in excess of this amount have been approved by the Company's senior lender.

The Company's capital expenditures for the three and nine months ended September 30, 2009 were funded from operating cash flows and the issuance of equity.

RELATED PARTY TRANSACTIONS

During the three and nine months ended September 30, 2009, the Company incurred expenses of $107,000 and $351,000 respectively (2008 - $109,000 and $238,000) 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 amount of $205,000 and $331,000 (2008 - $50,000 and $109,000) in the three and nine months ended September 30, 2009 with a legal firm in which one of the Company's directors is a partner. Of these fees $233,000 (December 31, 2008 - $34,000) is included in accounts payable as at September 30, 2009. The Company has also incurred $nil and $1,655,000 (2008 - $841,000 and $1,514,000) in interest charges on the subordinated debt in the three months and nine months ended September 30, 2009 and an extension fee in the first quarter of $100,000. These transactions were completed at exchange values which approximate fair values.

The Company completed the conversion of its existing subordinated debt which was held by an entity substantially owned by a director, into 37,161,749 common shares in the second quarter. As part of the private placement the Company issued 59 million shares for proceeds of $8.8 million to directors and officers of BlackWatch.

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2009 the Company had nil drawn on its available $9 million senior credit facility. $315,000 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 November 6, 2009 the Company had drawn approximately $3 million on the senior credit facility. The proceeds of the common share offering detailed in *Summary Financial Information* were used to fund the Mexican rig acquisition, reduce bank debt and for general corporate matters. BlackWatch will require approximately $3 million to be drawn on the operating line to fund the acquisition of the directional drilling company detailed in the *Summary Financial Information.*

On June 30 2009 the Company amended its $22.5 million senior credit facility and fully converted its $22.5 million subordinated facility into common shares. See further details within the *Interest Expense on Debt* section.

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

($ thousands)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Income from continuing operations	$ (1,334)	$ (3,128)	$ (4,292)	$ (6,706)
Add: Depreciation and amortization	605	1,099	2,431	3,574
Add: Interest	165	1,622	3,391	5,115
Add: Stock based compensation	51	65	138	268
Add: Income tax recovery	(30)	-	(29)	(65)
Add: Other Income	-	(4)	-	(20)
Add: Loss (gain) on sale of equipment	(8)	(117)	85	(421)
Add: Realized foreign exchange loss	(2)	-	37	-
Adjusted EBITDA from continuing operations	$ (553)	$ (463)	$ 1,761	$ 1,745

If actual operating cash flows are significantly less than anticipated or BlackWatch makes any significant additional capital expenditures or corporate acquisitions, incremental equity or debt financing will be required. Additional borrowing capacity under the operating line will be required to fund incremental working capital requirements in the winter drilling season.

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

SHAREHOLDERS' EQUITY

As of November 6, 2009 the Company had issued 228,532,369 common shares and 5,749,500 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 October 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					
Contractual obligations	**Total**	**2009**	**2010**	**2011**	**2012**	**2013 - 2017**
Debt	$ -	$ -	$ -	$ -	$ -	$ -
Capital lease obligations	315	72	174	69	-	-
Operating leases	3,629	360	1,064	800	406	999
Purchase obligations	-	-	-	-	-	-
Other long term obligations	-	-	-	-	-	-
Total contruactual obligations	$ 3,944	$ 432	$ 1,238	$ 869	$ 406	$ 999

SUMMARY OF QUARTERLY RESULTS

($ thousands, except per Share unit amounts)	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue from continuing operations	$ 6,085	$ 3,569	$ 13,807	$ 11,326	$ 8,359	$ 3,578	16,741	$ 6,720
Gross margin from continuing operations	$ 152	$ (167)	$ 4,010	$ 2,425	$ 628	$ (1,175)	$ 5,323	$ 825
Selling, general and administrative expenses	$ 705	$ 716	$ 813	$ 1,091	$ 1,096	$ 972	$ 958	$ 974
Net income (loss) from continuing operations	$ (1,334)	$ (3,234)	$ 276	$ (7,524)	$ (3,131)	$ (4,687)	$ 1,318	$ (12,808)
Per Share unit - basic	$ (0.01)	$ (0.08)	$ 0.01	$ (0.21)	$ (0.09)	$ (0.14)	$ 0.04	$ (0.41)
Per Share unit - diluted	$ (0.01)	$ (0.08)	$ 0.01	$ (0.21)	$ (0.09)	$ (0.14)	$ 0.04	$ (0.41)
Funds from continuing operations	(617)	$ (1,342)	$ 2,521	$ 660	$ (860)	$ (2,431)	$ 3,751	$ (367)
Per Share unit - basic	(0.00)	$ (0.03)	$ 0.07	$ 0.02	$ (0.02)	$ (0.07)	$ 0.11	$ (0.01)
Per Share unit - diluted	(0.00)	$ (0.03)	$ 0.07	$ 0.02	$ (0.02)	$ (0.07)	$ 0.11	$ (0.01)
Weighted average Common Shares - basic	153,672	39,594	38,392	36,011	35,053	34,110	32,174	31,320
Weighted average Common Shares - diluted	153,672	39,594	38,392	36,011	35,063	34,120	32,188	31,333
Common Shares, end of period	228,532	139,915	38,454	38,269	36,692	35,118	34,154	32,174

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. Demand for the Company's services have decreased in 2009 compared to 2008 and has resulted in a reduction of revenues quarter over quarter. The reduction in revenue in the second quarter of 2009 was offset by the addition of one telescopic double pad rig that worked steadily throughout the quarter, which increased equipment utilization rates within the drilling division in the second quarter of 2009.

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 September 30, 2009.

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of accounts receivable, deposits, accounts payable, deferred revenue 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 July 1, 2009, and ended on September 30, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

IFRS Conversion Plan:

The Canadian Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards (IFRS) by publicly accountable enterprises will be required in 2011. The Company will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

Position papers are being prepared on issue-specific accounting differences between Canadian GAAP and IFRS and the impact on financial reporting computer systems. These position papers will be reviewed with the Company's auditor in future quarters. As a number of the IFRS standards are changing, the position papers will be updated to reflect any changes resulting from the final standards. The Company has initiated changes to its financial reporting computer systems. The Company is also evaluating the impact of IFRS on financial covenants and internal control over financial reporting. Education sessions have been, and will continue to be, provided for employees and senior management to increase knowledge and awareness of IFRS and its impacts.

The Company reviews discussion papers, exposure drafts and standards released by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee. The Company will continue to assess the impact of the proposed standards on its financial statements and disclosure as additional information becomes available. Financial impacts cannot be reasonably determined at this time.

Based on initial assessments, the Company has determined that property, plant and equipment and leases will have the greatest potential impact to the Company's accounting: property, plant and equipment and leases.

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.

Inventory

Inventory is initially recorded at cost and is subsequently valued at the lower of cost and net realizable value. Estimates of net realizable value may vary due estimates used to determine expected market prices and quality of inventory.

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 September 30, 2009 as management believes there has been no material deterioration in the net realizable value of these assets since December 31, 2008.

Stock-based Compensation

Compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model, to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility and share prices.

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 crude oil and natural gas prices. The global economic recession has reduced energy demand and natural gas prices. This lower commodity price environment has led a significant number of oil and gas producers to reduce their capital budgets and planned exploration and development activities in western Canada. As a result overall oil and gas service industry utilization rates have substantially decreased in the first nine months of 2009 compared to 2008. Decreasing utilization rates create competitive pricing pressures on all of BlackWatch's services, which negatively affect the Company's margins. This downward pricing pressure is expected to continue for the foreseeable future. BlackWatch anticipates that the reduction in drilling activity in North America will eventually reduce natural gas supply which could improve natural gas prices and support a future recovery in drilling activity.

Despite record low drilling activity levels, BlackWatch has one rig under contract in Canada. This rig worked steadily until late in the second quarter and BlackWatch expects this rig to begin working again under this contract in the fourth quarter of 2009.

BlackWatch has successfully completed an increasing number of 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 wells. This is reflected in the growing number of clients that have selected casing drilling over other drilling methods for shallow drilling.

Late last year the downhole services division participated in a borehole acoustic acquisition project with a third party technology provider and in 2009 has completed several additional projects. These projects are designed to provide the client with seismic information for horizontal, multi-stage fracturing operations. This product line is part of a strategy to reposition are services in order to capitalize on the growing business opportunities in emerging unconventional resources plays.

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; and 2) lower royalty rates for the first year on production from new oil or gas wells. These programs expire in March 2010. In addition the Alberta government established a $30 million fund to encourage clean up of inactive oil and gas wells. In June 2009 the Alberta government extended the royalty credit and lower royalty rate incentive programs for an additional year until March 2011. These changes may have a positive effect on industry activity levels in Alberta and BlackWatch's utilization.

The Company believes that the completed acquisition of six drilling rigs under contract in Mexico and the announced binding letter of intent to purchase a private directional services business, will provide a stable platform for the management team to continue with its strategy to capitalize on the experience and skill set of the new members of management as well as international and domestic investment opportunities available in the current environment. The Company anticipates that the purchase of the private directional services business will close in November. This will then provide the company with a new well construction related service line, which complements the growing drilling business. Through the strategic combination of these services we foresee further growth opportunities in Mexico, as well as new Latin American markets.

BlackWatch recognizes that significant challenges remain while the western Canadian oilfield market is experiencing such low activity levels. BlackWatch believes that ultimately, this market will recover. We have already taken steps to address the current challenges by trimming costs in an aggressive fashion and marketing new differentiated services to help improve the utilization of our existing equipment. However, we have not stopped there and are looking at other steps to grow profitable businesses both domestically and internationally while maintaining financial flexibility.

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 BlackWatch's relationship with the vendor potentially providing additional revenue; the drilling rigs acquired will be subject to a long term drilling services contract with the vendor; 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; sources of funding; timing of implementation of changes in accounting policies, including conversion to IFRS; future oil and gas service activity; the six rigs acquired will provide a stable platform for management to continue with it strategy to capitalize on the experience of management; the Company anticipates that the purchase of the private directional services business will close in November; BlackWatch will require approximately $3 million to be drawn on the operating line to fund the acquisition of the directional drilling company; specific events and trends in the oil and gas industry; treatment under governmental regulatory regimes and tax laws; that the Canadian oilfield market will ultimately recover and BlackWatch is looking at other steps to grow profitable businesses both domestically and internationally while maintaining financial flexibility.

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 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, 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.

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; 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, 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 share, 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 – Management believes this measure is considered a primary indicator of operating performance and is calculated as gross revenue less operating expenses.

- Adjusted EBITDA (Earnings before interest, income taxes, depreciation and amortization and share based compensation) – Management believes that Adjusted EBITDA as derived from information reported in the Consolidated Statement of Operations and Comprehensive Loss and Deficit is a useful supplemental measure as it provides an indication of the Company's ability to generate funds by the Company's core business activities prior to consideration of how those activities are financed, the impact of foreign exchange, how the results are taxed, how funds are invested or how non-cash depreciation and amortization charges affect results.

  The following table provides a reconciliation of net income from continuing operations under GAAP, as disclosed in the Consolidated Statement of Operations and Comprehensive Loss and Deficit, to adjusted EBITDA:

($ thousands)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Adjusted EBITDA	$ (553)	$ (463)	$ 1,761	$ 1,745
Add (deduct):				
Depreciation and amortization	(605)	(1,099)	(2,431)	(3,574)
Interest	(165)	(1,622)	(3,391)	(5,115)
Stock based compensation	(51)	(65)	(138)	(268)
Income tax recovery (expense)	30	-	29	65
Other Income	-	4	-	20
Loss (gain) on sale of equipment	8	117	(85)	421
Realized foreign exchange loss	2	-	(37)	-
Loss from continuing operations	$ (1,334)	$ (3,128)	$ (4,292)	$ (6,706)

- Funds flow from (used in) operations – Management believes that in addition to cash from (used in) continuing operations, funds flow from (used in) continuing operations are useful supplemental measures because they provide an indication of the funds available for dividends to shareholders after consideration of the impacts of capital expenditures and long-term unfunded contractual obligations.

The following table provides a reconciliation of cash flow from continuing operations under GAAP, as disclosed in the Consolidated Statements of Cash Flows, to funds from continuing operations:

($ thousands)	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Funds flow from (used in) continuing operations	$ (617)	$ (860)	$ 562	$ 460
Add (deduct):				
Non-cash working capital	3,297	(2,563)	5,579	(777)
Cash flow from (used in) continuing operations	$ 2,680	$ (3,423)	$ 6,141	$ (317)

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 share as calculated in accordance with GAAP.

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Toronto Stock Exchange

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BlackWatch Energy Services Corp.

Consolidated Balance Sheets

(Unaudited)

(Stated in thousands of Canadian dollars)	As at September 30, 2009	As at December 31, 2008
Assets		
Current assets		
Cash	$ 6,020	$ -
Accounts receivable	13,246	7,723
Inventory	57	105
Prepaid expenses and deposits	409	470
	19,732	8,298
Inventory	581	1,167
Equipment held for sale (Note 5)	3,945	4,243
Property, plant and equipment (Note 5)	107,458	50,729
Intangible assets (Note 6)	9,173	-
	$ 140,889	$ 64,437
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 15,882	$ 6,303
Deferred revenue	791	-
Debt (Note 7)	-	42,608
Current portion of obligations under capital leases	202	299
	16,875	49,210
Obligations under capital leases	113	189
	16,988	49,399
Commitments (Note 15)		
Shareholders' equity		
Common shares (Note 8)	372,053	256,394
Contributed surplus (Note 8)	1,335	1,197
Conversion option on subordinated debt (Note 8)	-	248
Deficit	(249,487)	(242,801)
	123,901	15,038
	$ 140,889	$ 64,437

See accompanying notes to the unaudited consolidated financial statements

BlackWatch Energy Services Corp.

Consolidated Statements of Operations and Comprehensive Loss and Deficit

(Unaudited)

(Stated in thousands of Canadian dollars, except per share amounts)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue				
Service	$ 5,691	$ 7,278	$ 22,086	$ 26,386
Product	127	456	495	821
Rental	267	622	880	1,469
	6,085	8,356	23,461	28,676
Expenses				
Operating	5,933	7,723	19,466	23,905
Selling, general & administration	705	1,096	2,234	3,026
Depreciation and amortization	605	1,099	2,431	3,574
Realized foreign exchange loss (gain)	(2)	-	37	-
Stock based compensation	51	65	138	268
Interest on debt	86	1,202	2,476	3,565
Other interest, bank charges and financing charges	79	420	915	1,550
	7,457	11,605	27,697	35,888
Loss before other items	**(1,372)**	**(3,249)**	**(4,236)**	**(7,212)**
Other income	-	4	-	20
Gain (loss) on sale of equipment	8	117	(85)	421
Loss from operations before income taxes	**(1,364)**	**(3,128)**	**(4,321)**	**(6,771)**
Income taxes (recovery)				
Current	(30)	-	(29)	(65)
Loss from continuing operations	**(1,334)**	**(3,128)**	**(4,292)**	**(6,706)**
Net loss from discountinued operations (Note 14)	(390)	(1,269)	(2,394)	(3,641)
Comprehensive loss and net loss for the period	(1,724)	(4,397)	(6,686)	(10,347)
Deficit, beginning of period	(247,763)	(225,762)	(242,801)	(219,812)
Deficit, end of period	$ (249,487)	$ (230,159)	$ (249,487)	$ (230,159)
Loss from continuing operations per share - basic and diluted (Note 8)	$ (0.01)	$ (0.09)	$ (0.06)	$ (0.20)
Loss from discontinued operations per share - basic and diluted (Note 8)	$ -	$ (0.04)	$ (0.03)	$ (0.10)
Comprehensive loss and net loss per share - basic and diluted (Note 8)	$ (0.01)	$ (0.13)	$ (0.09)	$ (0.30)

See accompanying notes to the unaudited consolidated financial statements

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

(Stated in thousands of Canadian dollars)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Operating Activities				
Loss for the period from continuing operations	$ (1,334)	$ (3,128)	$ (4,292)	$ (6,706)
Items not requiring an outlay of cash:				
Depreciation and amortization	605	1,099	2,431	3,574
Stock based compensation expense	51	65	138	252
Loss (gain) on sale of equipment	(8)	(117)	85	(421)
Non-cash interest expense	-	851	1,655	2,365
Amortization of financing charges	69	370	545	1,396
	(617)	(860)	562	460
Change in non-cash working capital	3,297	(2,563)	5,579	(777)
Cash flows from (used in) continuing operations	2,680	(3,423)	6,141	(317)
Net loss from discontinued operations	(390)	(1,269)	(2,394)	(3,641)
Items not requiring an outlay of cash:				
Depreciation and amortization	-	715	359	2,410
Impairment of property, plant and equipment	-	-	1,041	-
Loss (gain) on disposal of assets	(6)	120	89	19
Change in non-cash working capital	478	(431)	853	(285)
Cash flows from (used in) discontinued operations	82	(865)	(52)	(1,497)
Financing Activities				
Issue of common shares, net of issue costs	81,535	-	91,157	-
Repayment of capital lease obligations	(42)	(50)	(135)	(132)
Increase (decrease) in debt	(1,970)	3,500	(20,040)	(500)
Cash reclassified against debt	(3,516)	(383)	(123)	(108)
Financing charges	-	(35)	(454)	(127)
Change in non-cash working capital	309	-	266	(100)
Cash flows from continuing financing activities	76,316	3,032	70,671	(967)
Repayment of capital lease obligations	(24)	(41)	(100)	(124)
Cash flows used in financing activities of discontinued operations	(24)	(41)	(100)	(124)
Investing Activities				
Purchase of property, plant and equipment	(64,076)	(4,443)	(64,086)	(7,015)
Purchase of intangible assets	(9,173)	-	(9,173)	-
Proceeds on disposal of property, plant and equipment	18	467	215	2,545
Fee for take-or-pay contract	-	1,375	-	2,750
Change in non-cash working capital	14	2,522	(1,031)	2,600
Cash flows from (used in) continuing investing activities	(73,217)	(79)	(74,075)	880
Purchase of property, plant and equipment	-	-	-	(318)
Proceeds on disposal of property, plant and equipment	183	1,376	3,435	2,343
Change in non-cash working capital	-	-	-	-
Cash flows from investing activities of discontinued operations	183	1,376	3,435	2,025
Change in cash	6,020	-	6,020	-
Cash at beginning of period	-	-	-	-
Cash at end of period	$ 6,020	$ -	$ 6,020	$ -
Supplementary cash flow information				
Cash interest paid	$ 86	$ 351	$ 821	$ 1,200
Cash taxes paid	$ -	$ -	$ -	$ -

See accompanying notes to the 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. On September 30, 2009, the Company completed the acquisition of six drilling rigs currently operating in Mexico from a major international energy services company (the "vendor"). This transaction has provided the Company with a long term drilling services contract with the vendor, pursuant to the vendor's integrated project management contract with Petroleos Mexicanos ("Pemex"), the national oil company of Mexico. The drilling services contract provides that the rigs acquired by the Company will be the last third party drilling rigs to be terminated for use by the vendor in Mexico.

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 necessary to present fairly the consolidated financial position as at September 30, 2009 and the consolidated results of its operations and cash flows for the three and nine month period ended September 30, 2009 and 2008.

The Company's financial statements as at and for the three and nine months ended September 30, 2009 were prepared on the same basis as the year end financial statements, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of operations.

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 January 1, 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 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 Accounting 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. New accounting policies

The significant accounting policies are the same as those set out in the Company's most recent annual audited consolidated financial statements, other than as follows:

a) Foreign currency transactions

Monetary items, including financial instruments, denominated in foreign currency are translated into Canadian dollars at the exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in earnings.

b) Foreign currency translation

The Company's international operation is considered an integrated foreign operation and is translated using the temporal rate method, under which all revenues and expenses are translated at the average exchange rate for the period while monetary assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates and, depreciation and amortization expense related to non-monetary assets are translated using the same historical rate as the underlying assets which they relate to. Gains or losses resulting from these translation adjustments are included in net income for the period.

c) Cash and cash equivalents

Cash and cash equivalents consists of cash and other short-term investments.

d) Intangibles assets

Intangible assets recognized on acquisition are measured at fair value as at the date of acquisition. Following initial recognition, intangible assets are subsequently measured at the carrying amount less any amortization and any impairment losses. Intangible assets are tested at least annual for recoverability, or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable

Intangible assets are amortized over their estimated useful life using the straight-line method as follows:

Asset Class	Rate
Long-term drilling service contract	3 years

e) Revenue

The Company recognizes revenue from fixed price drilling service contracts using the percentage of completion method, using costs incurred as the basis for measurement of performance.

Cash deposits received for future service contracts are recorded as deferred revenue and recognized as the services are performed.

4. Asset Acquisition

Effective September 30, 2009 the Company acquired six drilling rigs operating in Mexico along with a long-term drilling service contract from a major international energy services company. Total consideration paid was $72.4 million including acquisition costs of $141,000. As the acquisition closed on September 30, 2009, the results of operations of the acquired assets are not reflected in the consolidated financial statements of the Company.

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

The aggregate consideration paid before applicable value added taxes has been allocated under the purchase method as follows:

Net assets acquired:	
Drilling rigs (*Note 5*)	63,325
Intangible assets (*Note 6*)	9,173
	72,498
Financed as follows:	
Cash	69,677
Holdback payable	2,680
Acquisition costs	141
	72,498

The intangible assets acquired have no deductible value for tax purposes.

The purchase allocation has not yet been finalized and has been allocated based upon a preliminary evaluation of the fair value of the assets acquired and liabilities assumed. The purchase allocation will remain preliminary until the Company completes a final evaluation of the fair value of the assets acquired and liabilities assumed.

5. Property, plant and equipment

As at September 30, 2009

	Cost	Accumulated Depreciation	Net Book Value
Drilling rigs	$ 102,861	$ (8,312)	$ 94,549
Field service equipment	17,582	(9,916)	7,666
Shop tools and equipment	1,229	(629)	600
Computer equipment	780	(493)	287
Transport vehicles	4,702	(3,448)	1,254
Furniture and fixtures	280	(123)	157
Buildings	656	(121)	535
Rental equipment	6,545	(4,162)	2,383
Leaseholds	40	(13)	27
	134,675	**(27,217)**	**107,458**
Equipment held for sale - long term	12,315	(8,370)	3,945
	$ 146,990	**$ (35,587)**	**$ 111,403**

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

As at December 31, 2008

	Cost	Accumulated Depreciation	Net Book Value
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
	79,944	**(29,395)**	**50,549**
Land	180	-	180
	80,124	**(29,395)**	**50,729**
Equipment held for sale	7,244	(3,001)	4,243
	$ 87,368	**$ (32,396)**	**$ 54,972**

On September 30, 2009, the Company completed the acquisition of six drilling rigs currently operating in Mexico. The cost of these rigs has been assigned a value of $63.3 million of which no accumulated depreciation has been recognized to date.

At September 30, 2009, $1.4 million (December 31, 2008, $1.4 million) of equipment is subject to capital leases for which $578,000 of accumulated depreciation was recognized (December 31, 2008, $465,000). These assets under capital leases are included in the appropriate property, plant and equipment assets classes and depreciated based on the specified rate for that asset class.

In the second quarter of 2009, the Company liquidated the assets related to the transportation division for proceeds of $3.2 million.

BlackWatch is attempting to sell certain assets in the downhole services division. These assets had a net book value of $3.9 million as at September 30, 2009 and have been classified as held for sale in non-current assets. These assets are no longer subject to depreciation.

6. Intangible Assets

As at September 30, 2009

	Cost	Accumulated Depreciation	Net Book Value
Long-term drilling service contract	$ 9,173	$ -	$ 9,173
	$ 9,173	$ -	$ 9,173

7. Debt

	As at September 30, 2009	As at December 31, 2008
Senior credit facility (i)	$ -	$ 20,108
Subordinated debt (ii)	-	22,500
Debt	$ -	$ 42,608

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

(i) Senior credit facility

The maximum amount available under the credit facility is $9 million as of September 30, 2009, and the facility has a maturity date of December 31, 2009. Interest is payable on the balance at prime plus 5.5% (7.75% at September 30, 2009).

The Company's senior credit facility requires it to maintain: 1) a ratio of consolidated current assets to consolidated current liabilities excluding current portion of debt of not less than 1.25 to 1; and, 2) Cumulative adjusted consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), less interest, taxes and lease payments equal or greater than zero.

(ii) Subordinated debt

On June 29, 2009 the subordinated lender converted the entire outstanding balance of $24.2 million, including accrued interest of $1.7 million, into 37,161,749 common shares of BlackWatch at $0.65 per share (*Notes 8 and 12*).

8. 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
Balance, December 31, 2008	**38,268,768**	**$**	**256,394**
Common shares issued in the period [1]	190,263,601		120,505
Common share issue costs	-		(5,094)
Reclass of conversion feature on subordinated debt [2]	-		248
Balance, September 30, 2009	**228,532,369**	**$**	**372,053**

[1]On June 29, 2009, the Company issued 64,299,319 common shares at $0.15 per share for total proceeds of approximately $9.6 million. On July 10, 2009 the Company issued an additional 2,367,348 common shares at $0.15 per share, for proceeds of $355,102. The net sale proceeds were applied to BlackWatch's senior secured debt. Total gross proceeds from these two private placements were $10.0 million and net proceeds after costs were approximately $9,976,000. Additionally, on June 29, 2009 the Company's subordinated lender converted its existing subordinated debt of $24.2 million into 37,161,749 common shares at $0.65 per share.

On September 18, 2009, the Company issued 86,250,000 common shares at $1.00 per share for total proceeds of $86.3 million and net proceeds after costs of approximately $81.2 million.

The Company issued 185,185 common shares as payment for a $100,000 extension fee on its subordinated debt on January 30, 2009.

[2]On June 29, 2009 the subordinated lender converted the outstanding balance of the debt into common shares of BlackWatch, and as a result the outstanding conversion feature was transferred to the balance of common shares.

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

The basic and diluted weighted average numbers of common shares used in the calculation of loss per share for the three and nine months ended September 30, 2009 and 2008 are summarized in the following table:

	For the three months ended September 30,		For the nine months ended September 30,	
	2009	2008	2009	2008
Weighted average common shares - basic	153,672,188	35,053,111	77,308,877	33,765,843
Unit awards convertible to trust units	-	9,519	-	9,519
Weighted average common shares for diluted net earnings	153,672,188	35,062,630	77,308,877	33,775,362

For the calculation of the weighted average number of diluted common shares outstanding for the three and nine months ended September 30, 2009, 2,664,500 (2008 – 2,386,250) stock options, nil (2008 – 9,519) unit awards, and nil (2008 – 3,000,000) warrants 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		138
Balance as at September 30, 2009	$	1,335

In the three and nine months ended September 30, 2009 the Company recorded stock based compensation expense in the amount of $51,000 and $138,000 respectively (2008 - $65,000 and $268,000). The entire amount charged to stock based compensation expense is expected to be settled through the issuance of common shares.

9. Segmented information

On September 30, 2009, the Company completed the acquisition of six drilling rigs currently operating in Mexico from a major international energy services company. The acquisition represents a new geographic segment in Latin America.

On March 18, 2009, the Company ceased all operations related to the transport division and the assets were sold in April 2009. The related results of operations of the transport division have been treated as discontinued operations.

The Company's operating segments operate in one of two geographic regions, being either western Canada or Latin America. The Company has identified reportable segments based on both the type of services performed and the geographic region in which the operations are located. Revenue is generated in the identifiable segments from the following services:

<u>Downhole Services</u>

The downhole services division operates nine electric wireline units. The electric wireline units are used in the well completion process to deliver cased-hole logging tools and perforating guns or to install mechanical plugs in well bores. The division is also engaged in pipe recovery services that are used during downhole fishing operations and borehole acoustic monitoring services. The division specializes in tubing conveyed perforating and offers proprietary propellant services used in the perforation process.

<u>Drilling</u>

The Company acquired six rigs on September 30, 2009 and currently leases these rigs in Mexico. The acquired rigs are three diesel-electric triples and three super single style rigs, with maximum depth capacities ranging from 3,500 metres to 4,500 metres. The super single rigs are newly commissioned, state of the art, flexible and capable of operating in deeper applications. The triples have a mixture of self-moving, top drive and pipe handling systems.

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

The Canadian 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 used in well drilling and completion operations. 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 September 30, 2009

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Intersegment Eliminations	Total
Revenue	$ 1,055	$ 3,448	$ 703	$ 908	$ -	$ (29)	$ 6,085
Segment profit (loss)	$ (460)	$ 150	$ (63)	$ (37)	$ (924)	$ -	$ (1,334)
Depreciation and amortization	166	122	119	169	29	-	605
Interest on debt	-	-	-	-	86	-	86
Capital purchases (i)	$ -	$ 72,768	$ -	$ 410	$ 71	$ -	$ 73,249

Three months ended September 30, 2008

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Intersegment Eliminations	Total
Revenue	$ 1,888	$ 3,359	$ 1,613	$ 1,533	$ -	$ (37)	$ 8,356
Segment profit (loss)	$ (221)	$ (275)	$ 107	$ 80	$ (2,804)	$ (15)	$ (3,128)
Depreciation and amortization	270	261	201	333	34	-	1,099
Interest on debt	-	-	-	-	1,202	-	1,202
Capital purchases (i)	$ 16	$ 4,418	$ 1	$ 8	$ -	$ -	$ 4,443

Nine months ended September 30, 2009

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Intersegment Eliminations	Total
Revenue	$ 2,886	$ 15,439	$ 2,565	$ 2,718	$ -	$ (147)	$ 23,461
Segment profit (loss)	$ (1,492)	$ 3,406	$ (192)	$ (267)	$ (5,792)	$ 45	$ (4,292)
Depreciation and amortization	519	959	367	502	84	-	2,431
Interest on debt	-	-	-	-	2,476	-	2,476
Capital purchases (i)	$ -	$ 72,773	$ -	$ 415	$ 71	$ -	$ 73,259

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

Nine months ended September 30, 2008

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Intersegment Eliminations	Total
Revenue	$ 5,469	$ 15,721	$ 3,560	$ 4,237	$ -	$ (311)	$ 28,676
Segment profit (loss)	$ (411)	$ 2,824	$ (378)	$ (201)	$ (8,510)	$ (30)	$ (6,706)
Depreciation and amortization	928	848	639	1,046	113	-	3,574
Interest on debt	-	-	-	-	3,565	-	3,565
Capital purchases (i)	$ 98	$ 5,816	$ 210	$ 887	$ 4	$ -	$ 7,015

As at September 30, 2009

	Downhole Services	Drilling	Production Services	Rentals	Corporate	Total
Net book value of property, plant and equipment	$ 4,447	96,121	2,884	3,655	351	$ 107,458
Equipment held for sale - long term	$ 3,945	-	-	-	-	$ 3,945
Total assets	$ 10,172	115,577	3,594	4,004	7,542	$ 140,889

As at December 31, 2008

	Downhole Services	Transport	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

The Company operates in two different geographical areas, the breakdown of which is as follows:

Three months ended September 30,			2009			2008
	Canada	Latin America	Total	Canada	Latin America	Total
Revenue	$ 6,085	-	$ 6,085	$ 8,356	-	$ 8,356
Total assets	$ 57,537	83,352	$ 140,889	$ 77,788	-	$ 77,788

Nine months ended September 30,			2009			2008
	Canada	Latin America	Total	Canada	Latin America	Total
Revenue	$ 23,461	-	$ 23,461	$ 28,676	-	$ 28,676
Total assets	$ 57,537	83,352	$ 140,889	$ 77,788	-	$ 77,788

(i) Capital purchases include the purchase of property, plant, and equipment, intangibles, and other assets acquired through business acquisitions in exchange for cash.

10. 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 September 30, 2009 the largest customer accounted for 21% of the Company's accounts receivable balance and the five largest balances comprise 46% (December 31, 2008, 45%) of the overall balance. In the three and nine months ended September 30, 2009, the top five customers of the Company accounted for approximately 76% and 61% respectively (2008 – 60% and 52%) of the reported revenues and its largest customer accounted for 47% and 20% (2008 – 39% and 19%) of reported revenues

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

The aging of trade receivables at the reporting date was:

	As at September 30, 2009	As at December 31, 2008
Not past due, under 30 days	$ 1,243	$ 4,047
Outstanding 31 - 60 days	898	2,223
Outstanding 61 - 120 days	119	1,014
More than 120 days	823	918
Total trade receivables	3,083	8,202
Impairment allowance	839	799
Net trade receivables	2,244	7,403
Other receivables	11,002	320
Total receivables	$ 13,246	$ 7,723

The Company assesses impairment of its financial assets quarterly. During the three and nine month periods ended September 30, 2009, the Company recorded a recovery of $23,000 and an impairment allowance of $102,000 respectively. 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:

Opening impairment allowance - January 1, 2009	$ 799
Impairment of receivables	102
Receivables written off as uncollectible	(39)
Recovery of receivables previously impaired	(23)
Ending impairment allowance - September 30, 2009	$ 839

Other receivables primarily consists of $10.9 million of value added tax ("VAT") receivable (*Note 4*) from the Mexican tax authorities recorded as a result of the acquisition of the 6 drilling rigs in Mexico, all of which the Company expects to recover in full within the next 12 months.

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 $9 million senior credit facility (*Note 7i*). As at September 30, 2009, the Company had not drawn against this credit facility. 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.

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

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	12 to 21 months	2011
Capital lease obligations	315	338	127	94	117	
Accounts payable and accrued liabilities	15,882	15,882	15,882	-	-	-
Total	$ 16,197	$ 16,220	$ 16,009	$ 94	$ 117	$ -

The Company is required to remain in compliance with various covenants in relation to its senior credit facility. 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 communication 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 and Mexican pesos. Both realized foreign exchange gains and losses and the unrealized gains and losses on the translation of assets and liabilities are included in net earnings.

As at September 30, 2009 the Company had $69,000 in working capital (2008 - $1,129,000) denominated in U.S dollars. The Company's sensitivity to foreign currency fluctuations for the nine months ended September 30, 2009 is as follows: all else being equal, a strengthening of 5% of the U.S. dollar against the Canadian dollar would have increased net earnings by $4,000 (2008 – increased by $60,000); a 5% weakening of the U.S. dollar against the Canadian dollar, would have an equal but opposite impact on net earnings.

As at September 30, 2009 the Company had $20,218,000 in working capital (2008 - nil) denominated in Mexican pesos. The Company's sensitivity to foreign currency fluctuations for the nine months ended September 30, 2009 is as follows: all else being equal, a strengthening of 5% of the Mexican peso against the Canadian dollar would have increased net earnings by $80,000 (2008 – nil); a 5% weakening of the Mexican peso dollar against the Canadian dollar, would have an equal but opposite impact on net earnings. Working capital denominated in Mexican pesos relates to the VAT (*Note 4*). As uncertainty over the timing of the collection of the VAT payment exists this may cause volatility in earnings due to fluctuations in the Mexican peso against the Canadian dollar.

(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. 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.

All else being equal, a 1% increase or decrease in interest rates would have changed the net income and other comprehensive income of the Company during the three and nine months ended September 30, 2009 by approximately $26,000 and $122,000 respectively. This analysis assumes that all other variables remain constant. As at September 30, 2009, the Company's bank debt is nil.

(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.

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

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 impairment allowance, 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.

11. 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.

The Company's capital consists of debt, obligations under capital leases and shareholders' equity. The balances of each of these items as at September 30, 2009 and December 31, 2008 were as follows:

		As at September 30, 2009		**As at December 31, 2008**
Debt	$	-	$	42,608
Obligations under capital leases		315		488
Shareholders' equity		123,901		15,038
Total Capital	$	124,216	$	58,134

The Company is subject to two restrictive financial covenants under its senior credit facility (*Note 7i*).

12. Related party transactions

During the three and nine months ended September 30, 2009, the Company incurred expenses of $107,000 and $351,000 respectively (2008 - $109,000 and $238,000) 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 amount of $205,000 and $331,000 (2008 - $50,000 and $109,000) in the three and nine months ended September 30, 2009 with a legal firm in which one of the Company's directors is a partner. Of these fees $233,000 (December 31, 2008 - $34,000) is included in accounts payable as at September 30, 2009.

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

The Company has also incurred $nil and $1,655,000 (2008 - $841,000 and $1,514,000) in interest charges on the subordinated debt in the three months and nine months ended September 30, 2009 and an extension fee in the first quarter of $100,000. These transactions were completed at exchange values which approximate fair values.

The Company completed the conversion of its existing subordinated debt which was held by an entity substantially owned by a director, into 37,161,749 common shares in the second quarter (*Note 7(ii)*). As part of the private placement *(Note 8)* the Company issued 59 million shares for proceeds of $8.8 million to directors and officers of BlackWatch.

13. Seasonality of operations

The western Canadian sedimentary basin 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. Melting snow and rain in spring, affects 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.

14. Discontinued operations

Effective March 18, 2009 the Company ceased all operations relating to the transport division and liquidated the assets related to this business unit. In October, 2008, the Company ceased all operations relating to the coil tubing business unit of the downhole services division. The pipeline construction business unit was sold effective August 31, 2007. The coil tubing, and transportation business units have been classified as discontinued operations.

	For the three months ended September 30, 2009		
	Transport	Coil Tubing	Total
Revenue	$ -	$ 60	$ 60
Operating costs	28	(138)	(110)
Impairment write-down of inventory	-	(346)	(346)
Gain on the sale of equipment	-	6	6
Net income (loss) from discountinued operations	$ 28	$ (418)	$ (390)

	For the three months ended September 30, 2008		
	Transport	Coil Tubing	Total
Revenue	$ 1,769	$ 329	$ 2,098
Operating costs	(1,726)	(807)	(2,533)
Amortization	(457)	(258)	(715)
Loss on the sale of equipment	(19)	(101)	(120)
Other income	-	1	1
Net loss from discountinued operations	$ (433)	$ (836)	$ (1,269)

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

	For the nine months ended September 30, 2009		
	Transport	Coil Tubing	Total
Revenue	$ 1,150	$ 128	$ 1,278
Operating costs	(1,528)	(318)	(1,846)
Impairment write-down of inventory	-	(346)	(346)
Amortization	(359)	-	(359)
Impairment of property, plant and equipment	(1,041)	-	(1,041)
Loss on the sale of equipment	(18)	(71)	(89)
Other income	-	9	9
Net loss from discountinued operations	$ (1,796)	$ (598)	$ (2,394)

	For the nine months ended September 30, 2008		
	Transport	Coil Tubing	Total
Revenue	$ 5,048	$ 1,830	$ 6,878
Operating costs	(4,972)	(3,063)	(8,061)
Amortization	(1,474)	(936)	(2,410)
Loss on the sale of equipment	(19)	-	(49)
Other income	-	1	1
Net loss from discountinued operations	$ (1,417)	$ (2,168)	$ (3,641)

15. Commitments

The Company is committed to future minimum payments of $3.6 million under operating lease contracts for equipment, vehicles, office and shop space. The settlement dates of these obligations range from October 2009 to November 2017.

The required future commitment payments as at September 30, 2009 are as follows:

	Payments due by fiscal year					
	Total	2009	2010	2011	2012	2013-2017
Operating lease obligations	$ 3,629	$ 360	$ 1,064	$ 800	$ 406	$ 999

On September 30, 2009 the Company entered into a letter of intent to purchase a private directional services business for approximately US$16.5 million. The purchase price will consist of a cash payment in the amount of US$3 million, the issuance by BlackWatch of 11.4 million common shares valued at $1.15 per share and the assumption of approximately US$400,000 in net debt. While the closing of this acquisition is expected to occur in November 2009, the Company is not fully committed to the terms of the agreement until the closing date.