

MANAGEMENT'S REPORT

The management of Flint Energy Services Ltd. is responsible for the preparation of all the information included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable consolidated financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

KPMG LLP, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting

policies and procedures to the extent required under Canadian generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements. The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee reviews the financial content of the Annual Report and meets regularly with management, internal auditor and KPMG LLP to discuss internal controls, accounting and auditing and financial matters. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.



W. J. (Bill) Lingard
President and Chief
Executive Officer



Paul M. Boechler
Chief Financial Officer

March 12, 2009

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Flint Energy Services Ltd. as at December 31, 2008 and 2007 and the consolidated statements of (loss) earnings, comprehensive (loss) earnings, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Edmonton, Canada

March 9, 2009

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

As at December 31

2008

2007

ASSETS

Current assets:

Cash ^(Note 6)	\$ 1,408	\$ 32,318
Accounts receivable ^{(Note 5(a)(iii))}	351,245	236,586
Revenue in excess of billings	169,702	234,285
Inventories ^(Note 7)	71,993	51,273
Prepaid expenses and deposits	11,955	11,462
Future income tax assets ^{(Note 12(a))}	13,225	7,961
Income taxes receivable	13,962	4,631

Property, plant and equipment ^(Note 9)	633,490	578,516
Goodwill ^(Note 10)	433,114	460,590
Intangible assets ^(Note 11)	–	396,250
Other long-term assets	–	47,640
Future income tax assets ^{(Note 12(a))}	2,318	2,552
	19,948	9,330
	\$ 1,088,870	\$ 1,494,878

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 230,789	\$ 186,175
Billings in excess of revenue	7,593	8,945
Income taxes payable	9,677	33,857
Future income tax liabilities ^{(Note 12(a))}	12,108	9,009
Current portion of long-term debt ^(Note 13)	60,267	15,987

Long-term debt ^(Note 13)	320,434	253,973
Future income tax liabilities ^{(Note 12(a))}	250,164	352,548
	36,118	64,054
	606,716	670,575

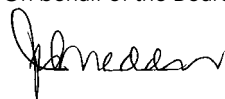
Shareholders' equity:

Accumulated other comprehensive loss ^(Note 16)	(1,073)	(26,325)
(Deficit) retained earnings	(95,164)	264,965
	(96,237)	238,640
Capital stock ^(Note 14)	561,376	576,304
Contributed surplus ^(Note 15)	17,015	9,359
	482,154	824,303
	\$ 1,088,870	\$ 1,494,878

Commitments and contingencies ^(Note 19)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:



John Geddes, Director



W. J. (Bill) Lingard, Director

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS

(in thousands of Canadian dollars, except share data)

Years ended December 31	2008	2007
Revenue	\$ 2,311,207	\$ 1,813,802
Direct costs	1,948,425	1,476,033
	362,782	337,769
General and administrative expenses	166,226	162,686
Amortization on property, plant and equipment	62,705	62,290
Amortization on intangible assets	7,072	9,710
Stock based compensation expense	4,607	4,664
Earnings before other expense (income) and income taxes	122,172	98,419
Other expense (income):		
Impairment charge ^(Note 9, 10, 11)	458,908	–
Interest expense ^(Note 5)	20,985	29,556
Interest income	(1,072)	(742)
(Loss) earnings before income taxes	(356,649)	69,605
Income taxes: ^(Note 12)		
Current	40,494	40,195
Future (reduction)	(39,856)	(20,860)
	638	19,335
Net (loss) earnings	\$ (357,287)	\$ 50,270
(Loss) earnings per share:		
Basic ^(Note 14)	\$ (7.53)	\$ 1.06
Diluted ^(Note 14)	\$ (7.53)	\$ 1.05
Weighted average common shares:		
Basic ^(Note 14)	47,447,227	47,379,822
Diluted ^(Note 14)	47,447,227	47,882,631

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) EARNINGS

(in thousands of Canadian dollars)

Years ended December 31	2008	2007
Net (loss) earnings	\$ (357,287)	\$ 50,270
Other comprehensive (loss) earnings, net of income taxes:		
Unrealized gain (loss) on foreign currency translation of self-sustaining foreign operations	25,252	(13,239)
Other comprehensive earnings (loss)	25,252	(13,239)
Comprehensive (loss) earnings	\$ (332,035)	\$ 37,031

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)	Accumulated Other Comprehensive Loss	Capital Stock	Contributed Surplus	Retained Earnings (Deficit)	Total
Balance, December 31, 2006	\$ (13,086)	\$ 569,096	\$ 6,475	\$ 214,695	\$ 777,180
Net earnings	–	–	–	50,270	50,270
Exercised employee stock options	–	5,428	–	–	5,428
Transfer for stock options exercised	–	1,780	(1,780)	–	–
Stock based compensation expense	–	–	4,664	–	4,664
Unrealized loss on foreign currency translation of self-sustaining foreign operations	(13,239)	–	–	–	(13,239)
Balance, December 31, 2007	(26,325)	576,304	9,359	264,965	824,303
Net loss	–	–	–	(357,287)	(357,287)
Exercised employee stock options	–	4,416	–	–	4,416
Transfer for stock options exercised	–	1,689	(1,689)	–	–
Stock based compensation expense	–	–	4,607	–	4,607
Purchases under normal course issuer bid ^(Note 14)	–	(21,033)	4,738	(2,842)	(19,137)
Unrealized gain on foreign currency translation of self-sustaining foreign operations	25,252	–	–	–	25,252
Balance, December 31, 2008	\$ (1,073)	\$561,376	\$17,015	\$ (95,164)	\$ 482,154

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years ended December 31	2008	2007
Cash provided by (used in):		
Operating activities:		
Net (loss) earnings	\$ (357,287)	\$ 50,270
Items not affecting cash:		
Amortization on property, plant and equipment ^(Note 7)	64,418	62,290
Amortization on intangible assets	7,072	9,710
Amortization on deferred finance charges ^(Note 13)	785	617
Gain on disposal of property, plant and equipment	(815)	(2,825)
Impairment charge ^(Note 9, 10, 11)	458,908	–
Stock based compensation expense	4,607	4,664
Unrealized foreign exchange loss (gain) on long-term debt ^(Note 5)	1,814	(1,393)
Future income taxes (reduction)	(39,856)	(20,860)
Other items not affecting cash	4,185	139
	143,831	102,612
Changes in non-cash balances relating to operations ^(Note 20)	(55,125)	(10,123)
Net cash provided by operating activities	88,706	92,489
Investing activities:		
Business combination ^(Note 3)	(1,767)	(13,133)
Purchase of property, plant and equipment	(51,025)	(80,536)
Proceeds from disposal of property, plant and equipment	15,046	14,208
Net cash used in investing activities	(37,746)	(79,461)
Financing activities:		
(Decrease) increase in revolving operating loan	(66,000)	16,776
Proceeds from long-term debt	19,687	106,848
Repayments of long-term debt	(26,121)	(114,162)
Repayment of obligations under capital lease	(3,846)	(4,703)
Deferred financing costs	(278)	(297)
Proceeds from issue of capital stock on exercise of options ^{(Note 14(a)(i))}	4,416	5,428
Share repurchase via normal course issuer bid ^{(Note 14(a)(ii))}	(19,137)	–
Net cash (used in) provided by financing activities	(91,279)	9,890
Effect of foreign exchange rate changes on cash balances	9,409	(2,120)
(Decrease) increase in cash	(30,910)	20,798
Cash, beginning of year	32,318	11,520
Cash, end of year	\$ 1,408	\$ 32,318
Supplemental cash flow information:		
Net cash (paid) received during the period for:		
Interest paid	\$ (25,410)	\$ (28,910)
Interest received	1,072	762
Income taxes paid	\$ (74,005)	\$ (44,412)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands of Canadian dollars except share data, per share amounts and stock option exercise prices or unless otherwise stated)

GENERAL

Flint Energy Services Ltd. (the Company or Flint) is incorporated in Canada under the Business Corporations Act (Alberta). The Company provides a full range of integrated products and services for the oil and gas industry including: midstream production services; infrastructure construction; oilfield transportation; tubular management services and plant maintenance and other. The Company provides these services from more than 60 centers in the oil and natural gas producing regions of western North America from Inuvik in the Northwest Territories to Mission, Texas. The Company's common stock is traded on the Toronto Stock Exchange under the symbol "FES".

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(a) Basis of Presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of Flint Energy Services Ltd. and all subsidiary companies. All subsidiary companies are wholly-owned and all material intercompany balances and transactions have been eliminated in consolidation. The Company proportionately consolidates its interests in joint ventures, whereby the Company's proportionate share of revenues, expenses, assets and liabilities is included in the accounts.

(b) Measurement Uncertainty

The timely preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgement regarding reported amounts of assets, liabilities, revenues, expenses, and disclosures in these consolidated financial statements and accompanying notes. Significant estimates used in the preparation of these consolidated financial statements include the assessment of the percentage completion on time-and-materials, unit-price, cost-plus-fixed fee, fixed price or lump sum contracts (including estimated total costs and provisions for estimated losses) and the recognition of claims and change orders on contracts, assumptions used in periodic impairment testing of goodwill and intangible assets, assumptions used to value financial instruments, estimates and assumptions used in the determination of the allowance for doubtful accounts, and useful lives of property, plant and equipment. Accordingly, actual results may differ materially from these estimates and assumptions.

The accuracy of the Company's revenue and profit recognition in a given period is dependant, in part, on the accuracy of our estimates of the cost to complete each time-and-materials, unit-price, cost-plus-fixed fee, fixed price or lump sum contract. Our cost estimates use a detailed approach, using inputs such as labour and equipment hours, detailed drawings and material lists. These estimates are reviewed and updated monthly. The Company believes its experience allows it to produce materially reliable estimates. However, major changes in cost estimates can have a significant effect on revenue and profit recognition. The Company believes its experience allows it to produce materially reliable estimates. However, the Company's projects can be highly complex. Profit margin estimates for a project may either increase or decrease to some extent from the amount that was originally estimated at the time of the related bid. With many projects of varying levels of complexity and size in process at any given time, changes in estimates can offset each other without materially impacting our profitability. Major changes in cost estimates, particularly in larger, more complex projects, can have a significant effect on profitability.

(c) Cash

Cash is comprised of cash on hand less cheques issued at year end that have not been processed by the Company's financial institution and includes the Company's proportionate share of its joint-venture cash balances which are restricted to the operations of those joint ventures.

(d) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method of accounting. The purchase price for an acquisition is allocated to the related net assets based on their estimated fair values. The excess of the purchase price over the fair value of the net assets acquired is attributed to goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(e) Inventories

Raw materials and supplies inventory is recorded at the lower of cost and net realizable value on a first-in, first-out basis. Inventories of finished goods and work-in-progress are recorded at the lower of average cost and net realizable value. Net realizable value represents the estimated selling price for inventories in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(f) Property, Plant and Equipment

Property, plant and equipment are recorded at original cost less accumulated amortization. Equipment under capital lease is recorded at the present value of the minimum lease payments at the inception of the lease. Amortization is calculated based upon cost using the straight-line method over the estimated useful lives of the various assets as described below. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term and the estimated useful life of the asset. Amortization is not calculated on assets under construction until the asset is available for use. Repairs and maintenance, which do not enhance the service potential or extend the useful life of the property, plant, and equipment, are charged against direct costs when incurred. The estimated useful life and amortization method for each category of property, plant and equipment are reviewed annually.

The estimated useful lives of the various assets are as follows:

Buildings and improvements	20 years
Vehicles and automotive equipment	3-10 years
Construction and other equipment	3-15 years
Office furniture and equipment	3-5 years
Buildings and equipment under construction	–

(g) Goodwill

Goodwill represents the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment annually on November 30th of each year, or more frequently if events or changes in circumstances indicate it may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(h) Intangible Assets

Intangible assets acquired individually or as part of a group of assets are initially recognized at cost and measured subsequently at cost less accumulated amortization. The cost of a group of intangible assets acquired in a transaction,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. The estimated useful life and amortization method are reviewed annually.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives as follows:

Customer relationships	84 months
Non-competition agreements	24-51 months
Licenses, permits and other	36 months

(i) Revenue and Cost Recognition

The Company's principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

(i) The Company's Production Services and Facility Infrastructure operating segments perform the majority of their projects under the following types of contracts: time-and-materials; cost-plus-fixed-fee; unit-price; and fixed price or lump sum. For these contract types, revenue is recognized using the percentage-of-completion method, measured by the ratio of costs incurred and units produced to date relative to total estimated costs and units to be produced. The resulting percent complete methodology is applied to the approved contract value to determine the revenue recognized. The estimated total cost of the contract and percent complete is determined based upon estimates made by management. The costs of items that do not relate to performance of contracted work, particularly in the early stages of the contract, are excluded from costs incurred to date.

Contract costs include all direct materials, equipment, and labour costs and those indirect costs related to contract performance, such as indirect labour, supplies, and tools. General and administrative costs are charged to expense as incurred. Changes in project performance, project conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income that are recognized in the period in which such adjustments are determined. Provisions for estimated losses on all uncompleted contracts are made in the period in which such losses are identified.

Costs related to change orders and claims are recognized when they are incurred. Revenues related to change orders are included in total estimated contract revenue when they are approved. Once a project is underway, the Company may experience changes in conditions, client requirements, specifications, designs, materials, and work schedules. In these circumstances, a change order is generally negotiated with the customer to modify the terms of the original contract to approve both the scope and price of the change.

When a change order is unapproved in both scope and price or becomes a point of dispute between the Company and a customer, the Company will then consider it as a claim. Claims are included in total estimated contract revenue only to the extent that contract costs related to the claim have been incurred and when it is probable that the claim will result in a bona fide addition to contract value and revenues can be reliably estimated. This can lead to a situation where costs are recognized in one period and revenue is recognized when customer agreement is obtained or claim resolution occurs, which can be in subsequent periods.

Within the Facility Infrastructure operating segment, the length of the contracts varies from one year to several years, whereas within the Production Services operating segment, the length of the contracts is typically less than one year. The Company's long-term contracts typically allow its customers to unilaterally reduce, delay or eliminate the scope of the work as contracted without cause. As a result, these long-term contracts represent higher risk due to uncertainty of total contract value and estimated costs to complete potentially impacting revenue recognition in future periods.

Revenue in excess of billings represents costs incurred and revenues earned in excess of amounts billed on uncompleted contracts. Billings in excess of revenue represents amounts invoiced in excess of revenue recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(ii) The Company's Oilfield Transportation, Tubular Management and Manufacturing, and Plant Maintenance and Other segments recognize revenue as follows:

- (i) Revenue from transportation services is provided based upon orders and contracts with the customer that include fixed or determinable prices based upon daily, hourly or job rates and are recognized when the service is performed;
- (ii) Revenue from inspections, threading, refurbishment and bucking of drill and line pipe is recognized as the services are provided;
- (iii) Revenue from manufacturing and product sales is recognized when the product is shipped to the customer; and
- (iv) Revenue from maintenance services is recognized when the service is completed in accordance with the terms of the maintenance contract, unless the contract is long-term or where service activity within a year is expected to vary significantly year to year in which case revenue is recognized as the services are recognized.

The Company recognizes revenue from the foregoing activities once persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, fees are fixed and determinable and collectability is reasonably assured.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. The Company accrues interest and penalties for uncertain tax positions in the period in which these uncertainties are identified. A valuation allowance is recorded against any future tax assets if it is more likely than not that the asset will not be realized.

(k) Stock Based Compensation Plan

The Company accounts for all stock based compensation payments that are settled by the issuance of equity in accordance with a fair value-based method of accounting. Stock based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, or as applicable, over the period to the date an employee is eligible to retire, whichever is shorter, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus associated with the exercised options, are credited to share capital.

(l) Translation of Foreign Currency

Foreign currency transactions are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At each reporting period-end, monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at rates of exchange prevailing at that date. Foreign exchange gains and losses are included in the determination of earnings.

The Company's investments in its self-sustaining United States subsidiaries are translated using the current rate method. Under this method, all assets and liabilities are translated at exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Unrealized translation gains and losses relating to the Company's self-sustaining operations are included in accumulated other comprehensive loss.

(m) (Loss) Earnings per Share

Basic (loss) earnings per share is calculated by dividing net (loss) earnings by the weighted average number of common shares outstanding during each reporting period. Shares issued during the year and shares reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share is computed similar to basic (loss) earnings per share except that the weighted average number of shares outstanding is increased to include

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additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding in-the-money stock options were exercised and that the proceeds from such exercises, including any unamortized stock based compensation costs, were used to acquire shares of common stock at the average market price during the reporting period.

(n) Accounting for the Impairment of Long-Lived Assets

The Company reviews long-lived assets which include property, plant, and equipment and identifiable intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of assets to the sum of future undiscounted cash flows expected to be generated from the use and eventual disposition by the group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the group of assets exceeds the fair value of the assets and is charged to the statement of (loss) earnings. Assets to be sold or by sale are reported at the lower of carrying amount or fair value less costs to sell and are included in current assets. Such assets are not amortized while they are classified as held-for-sale.

(o) Leases

Leases entered into by the Company as lessee are classified as either capital or operating leases. Leases where all of the benefits and risks of ownership of property rest with the Company are accounted for as capital leases. Equipment under a capital lease is amortized on the same basis as capital assets and the corresponding liability to the lessor is included on the balance sheet as a finance lease obligation. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(p) Financial Instruments

(i) Classification and Measurement

All financial instruments, including derivatives, must initially be recognized at fair value on the balance sheet. The Company classifies financial instruments into one of five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; and other financial liabilities. Subsequent measurement and changes in fair value depend on the financial instrument's initial classification. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive earnings until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings.

The Company has the following financial assets and liabilities, for which it has selected the following classifications:

	Classification	Measurement
Financial assets:		
Cash	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Revenue in excess of billings	Loans and receivables	Amortized cost
Other long-term assets	Loans and receivables	Amortized cost
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Capital lease obligations	Other financial liabilities	Amortized cost
Derivatives	Held-for-trading	Fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands of Canadian dollars except share data, per share amounts and stock option exercise prices or unless otherwise stated)

(ii) Comprehensive (Loss) Earnings

Comprehensive (loss) earnings comprises the Company's net (loss) earnings and other comprehensive (loss) earnings. Comprehensive (loss) earnings represents changes in shareholders' equity during a period arising from non-owner sources. For the Company, other comprehensive (loss) earnings includes foreign currency exchange gains and losses arising from the translation of the financial statements of the Company's self-sustaining foreign operations. When there is a reduction in the Company's net investment in a self-sustaining foreign operation, a proportionate amount of the accumulated other comprehensive loss account is included in the determination of consolidated net earnings. The continuity of the accumulated other comprehensive loss is presented in Note 16.

(iii) Transaction Costs

Transaction costs are incremental costs that are directly related to the acquisition or issuance of financial assets or liabilities and are accounted for as part of the respective asset or liability's carrying value at inception. The Company incurs transaction costs primarily through the issuance of long-term debt and classifies these costs in the carrying value of long-term debt on the consolidated balance sheet. The costs capitalized within long-term debt are amortized over the expected life of the related debt using the effective interest method.

(iv) Derivative Instruments and Hedging Activities

Derivative instruments are utilized by the Company to manage market risk against the volatility in foreign exchange rates and interest rate exposures. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. All derivative instruments are recorded on the balance sheet at fair value. Derivative instruments are classified as held-for-trading financial instruments with gains and losses on these instruments recorded in interest expense on the consolidated statement of earnings in the period they occur. Fair values of the derivatives are based on quoted market prices where available.

The Company does not apply hedge accounting.

(v) Embedded Derivatives

Embedded derivatives are derivatives embedded in a host contract. They are recorded separately from the host contract when economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivatives are the same as those of a freestanding derivative and the combined contract is not classified as held-for-trading or designated at fair value. The Company has reviewed all significant contractual arrangements and determined there are no material embedded derivatives that must be separated from the host contract and fair valued.

2. RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS

(a) Adopted During 2008

The Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, Inventories; Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation on January 1, 2008.

(i) Section 3031, Inventories

In June 2007, the CICA issued Section 3031, "Inventories", which requires inventory to be measured at the lower of cost and net realizable value; the allocation of overhead based on normal capacity; the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use and the reversal of previous write-downs to net realizable value when economic circumstances have changed to support higher inventory values. Disclosure requirements have also been enhanced requiring inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversal of write-downs to be disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As a result, the Company allocates fixed and variable production overheads to the cost of conversion of inventories based on normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Previously, some fixed and variable production overheads were allocated to general and administrative expenses. The Company has applied this new accounting standard prospectively and has disclosed the details about its inventory (Note 7). The adoption of this standard did not have a material impact on the consolidated financial statements.

(ii) Section 1535, Capital Disclosures

In December 2006, the CICA issued Section 1535, "Capital Disclosures". This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital, quantitative data about what the entity regards as capital, and whether the entity has complied with any capital requirements, and if it has not, the consequences of non-compliance. The Company has applied this new accounting standard prospectively and has disclosed details about its capital management (Note 4). The adoption of this new standard did not have an effect on the Company's financial position, results of its operations or its cash flows.

(iii) Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation

In March, 2007, the CICA issued Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation", which together comprise a complete set of disclosure and presentation requirements. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate (i) the significance of financial instruments for their financial position and performance and (ii) the nature and extent of risks arising from financial instruments to which they are exposed during the period and as at the balance sheet date and how they manage those risks. Section 3863 establishes standards for the presentation of financial instruments and non-financial derivatives. It addresses the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. As a result of adopting these new sections, the Company has expanded its financial risks and financial instruments disclosures (Note 5). The adoption of this new standard did not have an effect on the Company's financial position, results of its operations or its cash flows.

(iv) Emerging Issues Committee ("EIC") 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC requires the Company to take into account the Company's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in the interim and annual financial statements for periods ending on or after the date of issuance of the Abstract. The Company has early adopted this Abstract, and has concluded that this standard has no material impact on its consolidated financial statements.

(b) Future Accounting Pronouncements

(i) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development." The new pronouncements establish standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the previous Section 3062. This section is effective for the Company for interim and annual financial statements beginning on January 1, 2009. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

(ii) Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (GAAP), as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be completed by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

As of December 31, 2008, the Company completed a high-level assessment of the major differences between Canadian GAAP and IFRS that are relevant to the Company along with preliminary position papers on accounting policy choices, and commenced evaluations of the potential impacts on its financial reporting. However, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements. As this assessment is finalized, the Company intends to disclose such impacts in its future consolidated financial statements.

(iii) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations," which replaces the existing standard. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date and that non-controlling interests will be measured at fair value at the date of acquisition. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

(iv) Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, "Non-Controlling Interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. The section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

(v) Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements," which replaces the existing standards. This section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. The section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

3. BUSINESS COMBINATIONS**(a) Acquisitions in Fiscal 2008**

The Company did not acquire any businesses in fiscal 2008.

(b) Acquisitions in Fiscal 2007

On April 1, 2007, the Company acquired the business and assets of Pro Safe Safety and Rescue Ltd. (Pro Safe) for cash consideration of \$1,900. Pro Safe was a privately-held safety services company with operations based in Alberta, Canada.

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The acquisition has been accounted for by the purchase method, and results of operations have been included in these consolidated financial statements from the date of acquisition. The aggregate consideration given and fair values of net assets acquired in the acquisition of Pro Safe described above are as follows:

The combined purchase price:	
Cash	\$ 1,900
Acquisition costs	22
	<hr/>
	\$ 1,922

The combined net assets acquired at assigned values:	
Property, plant and equipment	\$ 1,713
Non-competition agreements	145
Future tax liability	(47)
Goodwill	111
	<hr/>
	\$ 1,922

The goodwill has been allocated to the Production Services reporting segment. The Company has finalized its valuation of the net assets acquired, including goodwill and other intangible assets; there were no material changes between the preliminary and final purchase price allocations.

(c) Other Matters Related to Business Acquisitions Made in Prior Years

Denmar Energy Services Ltd.

On July 4, 2006 the Company acquired the business of Denmar Energy Services Ltd. (Denmar).

- The Company finalized its valuation of the Denmar net assets acquired and modified the purchase price allocations on June 30, 2007, resulting in a net decrease of property, plant and equipment and an increase in goodwill by \$703.
- Under the terms of the acquisition agreement, the Company (i) issued notes payable totaling \$2,000 bearing interest at prime plus 2% and were repaid in two equal installments of \$1,000, with the first installment being paid on July 4, 2007 and the second installment on July 4, 2008 and (ii) agreed to employee retention bonuses for which the Company paid \$200 and \$767 in fiscal 2007 and 2008 respectively. These amounts had no impact on the purchase price allocation as these amounts had been accrued by the Company as at December 31, 2006 and had been included in the preliminary purchase price allocation. As at December 31, 2008, no balances related to the Denmar acquisition remained outstanding.

Transco Energy Services Ltd.

On December 1, 2006, the Company acquired 100% of the issued and outstanding shares of Transco Energy Services Ltd. (Transco). In fiscal 2007, the Company:

- Finalized its valuation of the Transco net assets acquired and modified the purchase price allocations resulting in a net increase in property, plant and equipment and future income taxes of \$9,519 and \$2,366 respectively and a decrease in goodwill by \$7,153. Additional acquisition costs of \$69 were also incurred in 2007 which increased goodwill by the same amount; and
- Upon finalization of working capital and net debt adjustments under the terms of the acquisition agreement, the Company paid an additional \$10,011 to the previous shareholders of Transco. This amount had no impact on the purchase price allocation as these amounts had been accrued by the Company as at December 31, 2006 and had been included in the preliminary purchase price allocation.

4. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- (a) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and
- (b) to manage capital in a manner which balances the interests of equity and debt-holders.

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The Company defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and deficit.

The Company manages its capital structure, which includes short-term and long-term debt and shareholders' equity, and makes adjustments for changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company monitors the following ratios: debt to total capitalization and cash flow to interest-bearing debt. Debt to total capitalization and cash flow to interest-bearing debt ratios are non-GAAP measures which do not have a standardized meaning prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other issuers.

Debt to total capitalization is calculated as short-term and long-term debt (total debt) divided by total capitalization. Total capitalization is defined as the sum of total debt and all components of equity (share capital, contributed surplus, accumulated other comprehensive loss, and retained earnings), which is consistent with the definition in the Credit Agreement.

Cash flow to interest-bearing debt, expressed as a percentage, is equal to cash flow divided by interest-bearing debt. Cash flow is equal to funds provided by operations before changes in non-cash working capital. Interest-bearing debt is equal to long-term debt including the current portion, which is consistent with the definition in the Credit Agreement.

The Company's objective is to maintain:

- (a) a debt to total capitalization ratio that would not exceed 50%, and
- (b) a minimum cash flow to interest-bearing debt ratio of 16% for the year.

The objectives and policy for managing capital are established on an annual basis and are monitored on a quarterly basis and remain unchanged from the prior comparative period. The Company believes these ratios are currently in the targeted range and provide access to capital at a reasonable cost.

The total debt to capitalization ratio and cash flow to interest-bearing debt ratio are comparable, year-over-year, and are within the Company's targeted range.

(in millions of Canadian dollars)

Years ended December 31	2008	2007
Components of Debt and Coverage Ratios		
Funds provided by operations before changes in non-cash working capital ⁽¹⁾	\$ 143.8	\$ 102.6
Long-term debt (including current portion)	310.4	368.5
Total shareholders' equity	482.2	824.3
Ratios		
Debt to total capitalization	39.2%	30.9%
Cash flow to interest-bearing debt	46.3%	27.8%

⁽¹⁾ The Company is subject to restrictive covenants related to its credit facilities that are measured on a quarterly basis. These covenants include, but are not limited to, a working capital ratio, debt to EBITDA ratio, fixed charge coverage ratio, and debt to total capitalization ratio. Failure to meet the terms of one or more of these covenants may constitute a default, potentially resulting in an acceleration of the repayment of the Company's debt obligations by the Company's lenders. The Company was in compliance with all covenants under this agreement as at December 31, 2008 and December 31, 2007.

The Company is also subject to and has complied with externally imposed capital requirements under its revolving credit facility and long-term debt agreements, which contain certain restrictive covenants including, but not limited to, incurring additional debt, transferring or selling assets, making investments including acquisitions or to pay dividends or redeem shares of capital stock.

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5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Risk Management

The Company is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in interest rates and foreign currency exchange rates, as well as credit and liquidity risks. The nature of the financial risks and the Company's strategy for managing these risks have not changed significantly from the prior period.

Market risk is the risk of loss that results from changes in market factors such as foreign currency exchange rates and interest rates. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and composition of the Company's financial assets and liabilities held, non-trading physical assets and contract portfolios.

To manage the exposure to changes in market risk, the Company uses various risk management techniques including the use of derivative instruments. The Company does not hold or use any derivative instruments for trading or speculation purposes. The following summarizes the types of market price risks to which the Company is exposed, and the risk management instruments to mitigate them. The sensitivities provided below are hypothetical and should not be considered to be predictive of future performance or indicative of earnings on these contracts. The Company does not hold any material derivative financial instruments as at December 31, 2008 or the comparative period.

(i) Interest Rate Risk

The Company is exposed to interest rate risk as changes in market interest rates affect the fair values of fixed-interest rate liabilities and the cash flows of both floating-interest rate liabilities and future borrowings. Capital leases and finance contracts all bear interest at fixed rates. Drawings on the demand credit facilities bear interest at floating rates. The Company regularly reviews the mix of floating and fixed rate debt for consistency with its financing objectives. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. The Company minimizes its interest rate risk by balancing its portfolio of fixed and floating rate debt, by using interest rate swaps to fix the interest rate on a portion of the debt for longer periods, and by managing the term to maturity of its debt portfolio. Amounts received or paid related to derivative financial instruments are included in interest expense, including gains and losses recognized in interest expense.

At December 31, 2008, the increase or decrease in net equity and net loss and other comprehensive income before income taxes for each 1% change in interest rates on floating rate debt would amount to \$850 (2007 – \$1,349).

(ii) Foreign Currency Exchange Risk

Foreign exchange risk refers to the risk that the value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency exchange risk as changes in the foreign currency exchange affect the future cash flows of certain financial instruments. The Company has foreign currency exchange risk that arises from its long-term debt of which a portion is in the form of U.S. dollar-denominated credit facilities. The Company minimizes its exposure to foreign exchange risk by using derivative financial instruments to fix the exchange rate on some of its expected requirements for U.S. dollars. Amounts received or paid related to derivative financial instruments used to manage foreign exchange exposure, including gains and losses are recognized in interest expense.

The Company's self-sustaining foreign operations expose the Company to fluctuations in foreign currency exchange rates, predominantly U.S. dollars. These fluctuations are recorded as foreign currency translation adjustments in other comprehensive income. A portion of the Company's accounts receivable and accounts payable and accrued liabilities is denominated in U.S. dollars; however, due to their short-term nature, there is no significant market risk arising from fluctuations in foreign exchange rates.

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As at December 31, 2008, holding all other variables constant, a \$0.01 strengthening (weakening) of the Canadian dollar against the U.S. dollar would decrease (increase) net equity and net loss by approximately \$85 (2007– \$276) and would result in a decrease (increase) of \$514 (2007– \$829) to other comprehensive earnings.

(iii) Credit Risk

Credit risk is the financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company manages the credit risk associated with its cash by holding its funds with reputable financial institutions. In addition, the Company is exposed to credit risk through its accounts receivable and revenue in excess of billings. Credit risk for trade and other accounts receivables, and unbilled revenue are managed through established credit monitoring activities. Credit risk arises principally from the Company's accounts receivable and revenue in excess of billings owing from customers operating primarily in the oil and natural gas industry in Canada and the United States. The Company manages this risk through the establishment of credit policies and limits, which are applied in the selection of counterparties, and through ongoing management review of all receivable balances past due with the objective of identifying matters that could potentially delay the collection of funds at an early stage. The Company carries adequate provisions for expected losses arising from credit risk associated with all financial assets. The maximum amount of credit risk exposure is limited to the carrying amount of financial assets in the financial statements.

At December 31, 2008, one customer accounts for 10.5% (2007 – one customer with 15.6%) and two customers account for 32.6% (2007 – one customer with 12.3%) of the Company's accounts receivable and revenue in excess of billings respectively. There are no other single customers with a balance greater than 10% of the total of accounts receivable and revenue in excess of billings.

The aging of trade receivables at the reporting date is:

Years ended December 31	2008	2007
Current	\$ 209,550	\$ 124,333
30 – 60 days	74,466	35,429
61 – 90 days	19,886	20,417
91 – 120 days	6,926	19,885
Greater than 120 days	20,910	26,725
Total trade receivables	331,738	226,789
Allowance for doubtful accounts	(7,093)	(5,898)
Holdbacks receivable	18,069	3,001
Other receivables	8,531	12,694
	\$ 351,245	\$ 236,586

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At December 31, 2008, the Company has recorded an allowance for doubtful accounts of \$7,093 (2007– \$5,898). Estimates of the allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each reporting date taking into consideration the following factors: the length of time the receivable has been outstanding, specific knowledge of each customer's financial condition and historical experience. The change in the allowance for doubtful accounts specific to trade receivables during the period is as follows:

Year ended December 31	2008
Allowance, beginning or period	\$ 5,898
Additional allowance	6,497
Receivables written-off, net of recoveries	(5,471)
Foreign exchange translation adjustments	169
Allowance, end of period	\$ 7,093

Credit risk on cross-currency and interest rate swap agreements arises from the possibility that counterparties to the agreements may default on their respective obligations under the agreements. This credit risk only arises in instances where these agreements have positive fair value for the Company.

(iv) Liquidity Risk

The Company is exposed to liquidity risk from the potential inability to generate or obtain sufficient cash and cash equivalents in a timely and cost-effective manner to discharge its financial liabilities as they come due. The Company manages liquidity risk through management of its capital structure and financial leverage, as outlined in Note 4 to the consolidated financial statements. It also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company reviews forecasted cash flows from operating activities, along with the available lines of credit, to determine whether sufficient cash exists to cover the Company's forecasted normal operating and budgeted capital expenditures. Any debt issued by the Company is managed in accordance with specified liquidity and maturity profiles. At December 31, 2008 the Company had un-drawn and committed bank borrowing facilities of \$151,176 Canadian, and \$18,000 U.S.

Maximum available credit under the Canadian and United States revolving operating loans is \$210,000 Canadian and \$18,000 U.S., respectively and \$170,000 Canadian and \$73,000 U.S. under the term loans. The Company has the ability to request the expansion of the borrowing capacity under the revolving operating loans to \$250,000 Canadian and expand borrowing capacity to a maximum of \$325,000 Canadian under the term loans with the approval of the lenders.

The Company has provided a first charge over all assets under a General Security Agreement as security for the revolving operating loans and the term loans. The Company has also provided a general assignment of book debts, a first charge over all real property assets, pledged all shares of its subsidiaries and an assignment of insurance. The credit facilities require the Company to meet certain covenants. The Company was in compliance with these covenants at December 31, 2008 and December 31, 2007. In certain circumstances, leasing companies have finance contracts which take precedence over the General Security Agreement with the financial institutions. Waivers have been placed as required in these situations.

The Company believes that internally-generated cash flows supplemented by borrowings if necessary, will be sufficient to cover its normal operating and capital expenditures.

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The following are the contractual maturities of financial liabilities:

December 31, 2008	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total
Gross long-term debt repayments	\$ 63,508	\$ 174,968	\$ 91,913	\$ –	\$ 330,389
Amounts representing interest	(2,709)	(10,627)	(5,336)	–	(18,672)
Net long-term debt	60,799	164,341	86,577	–	311,717
Accounts payable and accrued liabilities	230,789	–	–	–	230,789
	\$ 291,588	\$ 164,341	\$ 86,577	\$ –	\$ 542,506

December 31, 2007	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total
Gross long-term debt repayments	\$ 17,865	\$ 145,362	\$ 166,167	\$ 65,640	\$ 395,034
Amounts representing interest	(1,183)	(8,402)	(11,328)	(3,793)	(24,706)
Net long-term debt	16,682	136,960	154,839	61,847	370,328
Accounts payable and accrued liabilities	186,175	–	–	–	186,175
	\$ 202,857	\$ 136,960	\$ 154,839	\$ 61,847	\$ 556,503

(b) Fair Value

The fair values of financial instruments have been estimated on the basis of available market quotations or the use of an appropriate price modeling commonly used by market participants to estimate fair value. Such modeling includes option-pricing models and discounted cash flow analysis using observable market based inputs to estimate fair value. Fair value determined using valuation models requires the use of assumptions concerning the amount and timing of future cash flows and reflects management's best estimates using external readily observable market data such as future prices; interest rate yield curves; foreign exchange rates and discount rates for time value; standard market conventions and techniques such as discounted cash flow analysis and option-pricing models. However, the methods and assumptions followed to disclose fair values are inherently judgmental. Accordingly, fair values do not necessarily reflect amounts that would be received or paid in case of immediate settlement of these instruments. The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts. The methodologies used are as follows:

- Cash, accounts receivables, revenue in excess of billings, accounts payables and accrued liabilities: due to the short-term nature of these balances, the carrying amounts approximate fair value;
- Revolving credit facility, long-term debt and capital lease obligations: the fair values of long-term debt were determined by estimating future cash flows on a borrowing-by-borrowing basis, and discounting these future cash flows using a rate which takes into account the Company's spread for credit risk at year-end for similar terms and types of debt arrangements; and
- Derivative financial instruments: the fair values of foreign exchange derivatives and interest rate swaps were calculated using market prices that the Company would pay or receive to settle the related arrangements. The Company does not have any material derivative financial instruments as at December 31, 2008 or the comparative period.

(i) Long-Term Debt

The fair value of the Company's long-term debt is estimated as follows:

Years ended December 31	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
Long-term debt	\$ 310,431	\$324,746	\$ 368,535	\$ 370,998

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6. CASH IN JOINT VENTURES

Cash as at December 31, 2008 includes \$1,114 (2007– \$1,294), which is the Company's proportionate share of its joint venture's cash balance which is restricted to the operations of those joint ventures.

7. INVENTORIES

Inventories expensed in direct costs during the year ended December 31, 2008 were \$123,238 (2007– \$110,883). Included in the cost of inventory are direct product costs, direct labour and an allocation of variable and fixed manufacturing overhead including amortization. Amortization expense included in direct costs for the year ended December 31, 2008 was \$1,713. Amortization expense included in direct costs for the comparative period is not material. In the year ended December 31, 2008 there were \$1,976 (2007 – \$nil) of write-downs. In the year ended December 31, 2008, or in the same period of 2007, there were no reversals of write-downs that were taken in previous periods.

The carrying amounts of inventories at the reporting date were:

Years ended December 31	2008	2007
Raw materials	\$ 20,662	\$ 14,955
Work-in-progress	20,506	9,181
Finished goods	22,120	17,926
Supplies	8,705	9,211
	\$ 71,993	\$ 51,273

The Company has provided a first charge over all assets under a General Security Agreement as security for the revolving operating loans and the term loans as outlined in Note 13 to the consolidated financial statements.

8. EMPLOYEE FUTURE BENEFITS

The Company has a defined contribution pension plan for salaried employees, into which the Company contributes 5% of the base salary for each employee. The Company funded contributions of \$5,918 for the year ended December 31, 2008 (2007 – \$4,565).

9. PROPERTY, PLANT AND EQUIPMENT

December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 35,468	\$ –	\$ 35,468
Buildings and improvements	115,134	24,058	91,076
Vehicles and automotive equipment	209,646	60,803	148,843
Construction and other equipment	244,828	116,668	128,160
Office furniture and equipment	45,799	26,502	19,297
Buildings and equipment under construction	10,270	–	10,270
	\$ 661,145	\$ 228,031	\$ 433,114

December 31, 2007	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 37,618	\$ –	\$ 37,618
Buildings and improvements	93,745	18,728	75,017
Vehicles and automotive equipment	179,609	44,207	135,402
Construction and other equipment	288,364	107,365	180,999
Office furniture and equipment	38,552	21,538	17,014
Buildings and equipment under construction	14,540	–	14,540
	\$ 652,428	\$ 191,838	\$ 460,590

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During the year ended December 31, 2008, additions to property, plant and equipment included \$2,300 (2007 – \$1,205) of assets that were acquired by means of capital leases. Depreciation of equipment under capital leases of \$1,619 (2007 – \$1,771) is included in amortization on property, plant, and equipment expense.

At December 31, 2008, construction and automotive equipment includes \$28,343 (2007 – \$18,630) of assets under capital lease and \$6,721 (2007 – \$2,092) of accumulated depreciation for a net book value of \$21,622 (2007 – \$16,538).

In conjunction with the Company's long-lived asset impairment analysis, the Company recorded an impairment charge of \$16,376 for the year ended December 31, 2008 related to construction and other equipment in the Facility Infrastructure operating segment. This amount has been included in the impairment charge. The impairment charge was determined by comparing the carrying value of these assets to their fair values. The Company determined fair value of these assets using quoted market values.

10. GOODWILL

At September 30, 2008, the Company concluded that events had occurred and circumstances had changed that required it to perform an interim-period goodwill impairment test for its Oilfield Transportation and Tubular Management and Manufacturing reporting units. Changes identified in overall market conditions, including reductions in the price of oil and the Company's market capitalization indicated that the carrying value of goodwill in these segments exceeded their fair value. During the third quarter of 2008, an impairment charge of \$155,841 was recorded which was allocated to the Oilfield Transportation and Tubular Management and Manufacturing operating segments in the amounts of \$133,338 and \$22,503 respectively.

The Company completed its annual goodwill impairment test effective November 30, 2008. The current economic environment has impacted the Company's ability to forecast future demand and has in turn resulted in the use of higher discount rates, reflecting the risk and uncertainty in the current market. As a result, the Company recorded an additional impairment charge during the fourth quarter which was corroborated by a combination of factors including a significant and sustained decline in the Company's market capitalization, which was significantly below its book value, and deteriorating environment, which has resulted in a decline in expected future demand. The impairment charge for the fourth quarter was \$246,124 bringing the total impairment charge to \$401,965 for the year ended December 31, 2008 which was allocated to the reportable segments as follows:

	Production Services	Facility Infrastructure	Oilfield Transportation	Tubular Management & Manufacturing	Plant Maintenance & Other	Total
Balance, beginning of the year	\$ 177,874	\$ 28,900	\$ 146,212	\$ 43,264	\$ –	\$ 396,250
Foreign exchange translation	5,715	–	–	–	–	5,715
Impairment of goodwill	(183,589)	(28,900)	(146,212)	(43,264)	–	(401,965)
Balance, end of year	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –

The change in goodwill during the years ended December 31, 2008 and 2007 is as follows:

Years ended December 31	2008	2007
Balance, beginning of the year	\$ 396,250	\$ 406,563
Current year acquisitions (Note 3)	–	111
Purchase price adjustments	–	(6,381)
Foreign exchange translation adjustments	5,715	(4,043)
Impairment of goodwill	(401,965)	–
Balance, end of year	\$ –	\$ 396,250

As part of the impairment charge, the Company decreased the related future tax liability by \$20,175 for the difference between tax and book amortization of goodwill in the period.

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11. INTANGIBLE ASSETS

In conjunction with the Company's interim and annual assessment of goodwill and long-lived assets for impairment, the Company reviewed the carrying value of intangible assets. As a result of these assessments, the Company concluded that the fair value of intangible assets was less than the carrying values and the intangible assets were impaired. As a result, the Company recorded impairment charges of \$34,516 and \$6,051 during the third and fourth quarters respectively. The fair value of the intangible assets was determined using an income approach.

The carrying value of intangible assets as at December 31, 2008 and 2007 is as follows:

December 31, 2008	Cost	Accumulated Depreciation	Impairment	Net Book Value
Customer relationships	\$52,015	\$ 13,926	\$ (38,089)	\$ -
Non-competition agreements	4,378	2,321	(2,057)	-
Licenses, permits, and other	1,361	940	(421)	-
Total	\$57,754	\$ 17,187	\$ (40,567)	\$ -

December 31, 2007	Cost	Accumulated Depreciation	Impairment	Net Book Value
Customer relationships	\$ 52,015	\$ 8,665	\$ -	\$ 43,350
Non-competition agreements	4,378	1,346	-	3,032
Licenses, permits, and other	2,312	1,054	-	1,258
Total	\$ 58,705	\$ 11,065	\$ -	\$ 47,640

As a result of the impairment charge, the Company also decreased the related future tax liability for the difference between tax and book amortization of the intangible assets by \$12,403 in the period.

The change of intangible assets during the years ended December 31, 2008 and 2007 is as follows:

Years ended December 31	2008	2007
Balance, beginning of the year	\$ 47,640	\$ 57,210
Current year acquisitions (Note 3)	-	145
Amortization on intangible assets	(7,072)	(9,710)
Foreign exchange translation adjustments	(1)	(5)
Impairment of intangible assets	(40,567)	-
Balance, end of year	\$ -	\$ 47,640

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12. INCOME TAXES

(a) Components of Future Income Taxes

The tax effects that give rise to significant portions of the future income tax assets and liabilities are presented below:

Years ended December 31	2008	2007
Future income tax assets:		
Current:		
Contract retentions payable and accrued liabilities	\$ 1,974	\$ 2,056
Bad debt reserve	580	–
Billings in excess of revenue	965	703
Investment in partnership	3,703	2,827
Non-capital loss carried forward	6,003	2,375
Total current future income tax assets	13,225	7,961
Non-current:		
Tax value in excess of carrying value of property, plant and equipment	570	215
Intangible assets	4,080	1,910
Non-capital loss carried forward	15,298	7,205
Total non-current future income tax assets	19,948	9,330
Future income tax liabilities:		
Current:		
Contract retention receivable	1,036	828
Deferred partnership income	11,072	8,020
Other	–	161
Total current future income tax liabilities	12,108	9,009
Non-current:		
Carrying value of property, plant and equipment in excess of tax value	36,021	45,817
Intangible assets	–	17,561
Investment in partnership	–	579
Other assets	97	97
Total non-current future income tax liabilities	36,118	64,054
Net future income tax liabilities	\$ 15,053	\$ 55,772

In assessing whether the future tax assets are realizable, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon projections for future taxable income, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the future tax assets considered realizable, however, could be reduced in the near-term if estimates of future taxable income during the carry-forward period are reduced.

At December 31, 2008, loss carry-forwards of \$71,585 are available to reduce taxable income of certain Canadian subsidiaries. These losses expire as follows:

2015	\$ 1,482
2026	1,337
2027	24,999
2028	43,767
Loss carry-forwards	\$ 71,585

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(b) Income Tax Rate Reconciliation

Actual income tax expense differs from the "expected" income tax expense that would have been computed by applying the statutory income tax rates. The reasons for the differences are as follows:

Years ended December 31	2008	2007
Federal and provincial statutory income tax rates	29.5%	32.1%
Expected income tax expense	\$ (105,211)	\$ 22,343
Changes in income tax expense resulting from:		
Jurisdictional income tax rate differences	1,852	2,574
Changes in tax rates impacting future income tax balances	4,873	(7,631)
Quebec retroactive tax reassessments (Note 12(c))	(3,225)	–
Non-deductible interest from Quebec tax reassessments	–	593
Impairment charges	99,754	–
Non-deductible items	1,750	2,006
Other assets	845	(550)
Actual income tax expense	\$ 638	\$ 19,335

(c) Quebec Tax Settlement

In 2002, the Company commenced using a Quebec Trust as part of its corporate structure. In 2006, the Quebec National Assembly passed into law Bill 15 to amend the Quebec Taxation Act and other legislative provisions. Bill 15 included retroactive changes to the Act that had the impact of creating Quebec taxable income for the Company for the 2002, 2003, 2004 and 2005 taxation years. Notices of reassessment, dated June 28, 2006 for these years, amounted to \$15,455 of income taxes and \$3,349 of interest for a total reassessment of \$18,804.

On September 25, 2006, the Company filed notices of objection in relation to the notices of reassessment received from the Government of Quebec. The Company had recorded \$15,455 in income tax expense and \$4,212 in interest expense for the year ended December 31, 2006 and an additional \$1,291 of interest expense for the year ended December 31, 2007 on these assessments.

During the year ended December 31, 2008, the Company reached a negotiated settlement with the taxation authorities with respect to this matter, in which the Company agreed to pay approximately \$12,230 in income taxes owing. Under the terms of the settlement the taxation authorities agreed to waive the interest and penalties on the income taxes owing.

As a result of this, the Company has recorded a total recovery of \$8,728, which consists of a recovery of \$3,225 in income taxes expense and a recovery of \$5,503 in interest expense, in the current period.

	Tax	Interest	Total
Notices of reassessment and interest accrued in 2006	\$ 15,455	\$ 4,212	\$ 19,667
Additional interest accrued in 2007	–	1,291	1,291
Total Quebec tax debt	15,455	5,503	20,958
Quebec tax settlement payment	(12,230)	–	(12,230)
	\$ 3,225	\$ 5,503	\$ 8,728

The Company has no amounts accrued as of December 31, 2008 for uncertain tax positions.

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13. LONG-TERM DEBT

Years ended December 31	2008	2007
Revolving Loans		
Revolving operating loan, interest at Canadian bank prime rate plus 0.00% to 0.50% depending upon certain financial ratios, payable monthly in arrears, with the balance due November 30, 2009. Advances under the revolving operating loan may be repaid from time to time at the option of the Company.	\$ 40,900	\$ 110,085
	\$ 40,900	\$ 110,085
Term Loans		
Interest at 7.57%, payable monthly in arrears, no principal payments, with the balance due April 30, 2011.	49,000	49,000
U.S. dollar term loans (U.S.\$25,000), interest at 7.77%, payable monthly in arrears, no principal payments, with the balance due April 30, 2011.	30,450	24,783
Interest at 7.57%, payable monthly in arrears, principal payable in quarterly installments of \$1,219 starting in 2008, with the balance due April 30, 2011.	21,125	26,000
Interest at 8.38% to 8.63% depending upon certain financial ratios, payable monthly in arrears, principal payable in quarterly installments of \$938 starting in 2008, with the balance due November 15, 2011.	16,250	20,000
Interest at Canadian Deposit Offering Rate (CDOR) plus 2.00%, payable monthly in arrears, no principal payments, with the balance due December 1, 2011.	20,000	20,000
Interest at 6.17%, payable monthly in arrears, principal payable in quarterly installments of \$2,542 starting in 2011, with the balance due November 30, 2013.	50,000	50,000
U.S. dollar term loans (U.S.\$40,000), interest at 6.83%, payable quarterly in arrears, principal payable in quarterly installments of U.S.\$2,033, with the balance due November 30, 2013.	48,720	39,652
U.S. dollar term loans (U.S.\$8,000), interest at 6.79%, payable monthly in arrears, principal payable in quarterly installments of U.S.\$407, with the balance due November 30, 2013.	9,744	7,930
	\$ 245,289	\$ 237,365

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OTHER LONG-TERM DEBT

Years ended December 31	2008	2007
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of \$14,237, interest varying from 0% to 13.98%, with terms varying up to 60 months.	\$ 6,138	\$ 8,402
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$8,523, interest varying from 0.00% to 6.91%, with terms varying up to 60 months.	5,722	6,829
Mortgage payable, interest at 5.95%, principal and interest payable monthly of \$21, with the balance due September 15, 2009.	1,531	1,684
Mortgages payable, interest at Canadian Bank prime rate (3.5% at December 31, 2008) payment terms include interest-only with no principal payments due. Mortgages are due for renewal in 2010.	6,012	–
Unsecured promissory notes, interest at prime plus 1%, payable quarterly, principal repayments of \$2,000 annually, maturing September 2008.	–	1,000
Unsecured promissory notes, interest at prime plus 2.0%, payable annually in arrears, principal repayments of \$1,000 annually, maturing July 4, 2008.	–	1,000
Other debts	6,125	3,963
	\$ 25,528	\$ 22,878
	311,717	370,328
Less: Deferred finance costs (amortization of \$785 (2007 – \$617) is included in interest expense)	(1,286)	(1,793)
	310,431	368,535
Less: current portion	60,267	15,987
	\$ 250,164	\$ 352,548

Interest expense for the year ended December 31, 2008 includes \$25,286 (2007 – \$24,728) of interest on long-term debt.

(a) Terms and Security

Maximum available credit under the Canadian and United States revolving operating loans is \$210,000 Canadian and \$18,000 U.S., respectively and \$170,000 Canadian and \$73,000 U.S. under the term loans. The Company has the ability to request the expansion of the borrowing capacity under the revolving operating loans to \$250,000 Canadian and expand borrowing capacity to a maximum of \$325,000 Canadian under the term loans with the approval of its lenders.

The Company has provided a first charge over all assets under a General Security Agreement as security for the revolving operating loans and the term loans. The Company has also provided a general assignment of book debts, a first charge over all real property assets, pledged all shares of its subsidiaries and an assignment of insurance. The credit facilities require the Company to meet certain covenants. The Company was in compliance with these covenants at December 31, 2008 and 2007 which are presented as follows:

Covenants	Requirement	2008	2007
Working Capital Ratio	> 1.35	2.17	1.66
Senior Funded Debt to EBITDA	< 2.75	1.65	2.07
Fixed Charge Coverage	> 1.40	3.65	3.04
Funded Debt to Total Capital	< 0.50	0.39	0.30

Other debt balance includes \$6,012 (2007 – \$3,948), representing the Company's proportionate share of long-term debt of Flint Transfield Services Ltd., which bears interest at HSBC Canada prime rate. Mortgages payable are due for renewal in 2010. Security for mortgages payable is in the form of residential properties of Flint Transfield Services Ltd., including land and buildings with net book value of \$7,780 (2007 – \$10,421).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(b) Principal Payments are Due as Follows:

	Capital Leases	Other Long-Term Debt	Total
2009	\$ 3,069	\$ 57,732	\$ 60,801
2010	2,265	16,352	18,617
2011	788	144,935	145,723
2012	16	22,203	22,219
2013	–	64,357	64,357
Thereafter	–	–	–
	\$ 6,138	\$ 305,579	\$ 311,717

14. CAPITAL STOCK

(a) Issued Capital Stock:

Authorized:
Unlimited common shares
Unlimited preferred shares

Issued:	Note	Common Shares	Amount
Balance, December 31, 2006		47,168,794	\$ 569,096
Shares issued in conjunction with:			
Exercised employee stock options	14(a)(i)	391,656	5,428
Transfer from contributed surplus for stock options exercised	14(a)(i), 15	–	1,780
Balance, December 31, 2007		47,560,450	576,304
Shares issued in conjunction with:			
Exercised employee stock options	14(a)(i)	360,364	4,416
Transfer from contributed surplus for stock options exercised	14(a)(i)	–	1,689
Share repurchase via Normal Course Issuer Bid	14(a)(ii)	(1,732,300)	(21,033)
Balance, December 31, 2008		46,188,514	\$561,376

(i) During the year ended December 31, 2008, the Company issued 360,364 (2007 – 391,656) common shares under the Company's stock option plan at prices ranging from \$10.68 to \$24.25 (2007 – \$10.25 to \$24.25) per share for total proceeds of \$4,416 (2007 – \$5,428). In addition \$1,689 (2007 – \$1,780) was transferred from contributed surplus to share capital with respect to options exercised during 2008 that were part of the grants occurring since January 1, 2002, when the Company adopted the fair value method.

(ii) On February 26, 2008, the Company released details of the Normal Course Issuer Bid (NCIB) to purchase up to 2,379,689 of the Company's common shares, representing 5% of its then issued and outstanding common shares. The Normal Course Issuer Bid commenced on February 29, 2008 and terminates on February 28, 2009.

During the year ended December 31, 2008, 1,732,300 common shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$19,137 or \$11.05 per share. As a result, the average carrying value of \$21,033 was allocated as a reduction to share capital, \$4,738 representing the consideration below stated value was charged to contributed surplus, and \$2,842 representing the consideration in excess of stated value was charged to retained earnings during the period.

Subsequent to December 31, 2008, 14,000 common shares were repurchased and cancelled pursuant to the Company's Normal Course Issuer Bid for a total expenditure of \$94 or \$6.69 per share.

On February 26, 2009 the Company announced another Normal Course Issuer Bid to purchase an additional 2,308,725 common shares, representing 5% of the total issued and outstanding common shares. The Normal Course Issuer Bid commenced on March 3, 2009, and will terminate on March 2, 2010.

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(b) Stock Based Compensation Plan

The Company has an incentive stock option plan for certain employees, officers and directors. Options issued under the plan vest at a rate of one-third on the three subsequent award date anniversaries. All stock options must be exercised over specified periods not to exceed five years from the date granted.

The number of shares reserved for issuance under the stock option plan shall not exceed 12% of the total number of issued and outstanding shares of the Company. At December 31, 2008, 3,192,894 (2007 – 3,331,628) common shares remained reserved for issuance under the stock option plan.

The continuity of the Company's outstanding and exercisable stock options for the years ended December 31, 2008 and 2007 is as follows:

Years ended December 31	2008		2007	
Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,375,626	\$ 22.02	2,146,114	\$ 18.77
Granted	552,750	\$ 16.55	910,500	\$ 27.20
Forfeited	(218,284)	\$ 23.33	(288,932)	\$ 25.29
Expired	–	–	(400)	\$ 11.50
Exercised	(360,364)	\$ 12.25	(391,656)	\$ 13.86
Outstanding at end of year	2,349,729	\$ 22.12	2,375,626	\$ 22.02
Options exercisable at end of year	1,122,054	\$ 21.76	877,209	\$ 16.42

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2008:

Exercise Price Range as at December 31, 2008	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$5.71 – \$5.87	20,250	4.95	\$ 5.83	–	\$ –
\$11.57 – \$11.57	142,668	0.15	\$ 11.57	142,668	\$ 11.57
\$12.50 – \$12.75	172,728	1.20	\$ 12.51	172,728	\$ 12.51
\$16.53 – \$16.53	415,350	4.11	\$ 16.53	–	\$ –
\$18.07 – \$32.56	1,598,732	2.69	\$ 25.75	806,658	\$ 25.54
	2,349,728	2.70	\$ 22.12	1,122,054	\$ 21.76

For the year ended December 31, 2008, the weighted average fair value per option granted was approximately \$4.57 (2007 – \$7.70). The fair value of common share options is estimated at the grant date using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2008	2007
Risk-free rate	3.03%	3.99%
Expected life	3.59 years	3.55 years
Expected volatility	31.43%	32.28%
Expected dividends	\$ –	\$ –

In computing diluted earnings per share, there were no stock options included in the diluted number of common shares for the year ended December 31, 2008 (2007 – 502,809).

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15. CONTRIBUTED SURPLUS

For stock options granted to employees, officers and directors after January 1, 2002, the Company records compensation expense using the fair value method as outlined in Note 14(b). Compensation costs are recognized over the vesting period to stock based compensation expense and an increase to contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital. During the years ended December 31, 2008 and 2007, contributed surplus changed as follows:

Years ended December 31	Note	2008	2007
Balance at beginning of year		\$ 9,359	\$ 6,475
Stock based compensation expense		4,607	4,664
Stock options exercised		(1,689)	(1,780)
Adjustment arising from shares purchased under a Normal Course Issuer Bid	14(a)(ii)	4,738	–
Balance at end of year		\$ 17,015	\$ 9,359

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

Significant changes in accumulated other comprehensive loss account are as follows:

Years ended December 31	2008	2007
Accumulated other comprehensive loss, beginning of year	\$ (26,325)	\$ (13,086)
Unrealized gain (loss) on foreign currency translation of self-sustaining foreign operations	25,252	(13,239)
Accumulated other comprehensive loss, end of year	\$ (1,073)	\$ (26,325)

17. INVESTMENT IN JOINT VENTURES

The Company participates in four joint ventures and the consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses, net earnings and cash flows of the following:

- (a) 50% interest in Flint Transfield Services Ltd. (FT Services), a joint venture with Transfield Services Limited (Canada) a subsidiary of a publicly-traded Australian company. The joint venture provides operations, maintenance and asset management and project management services to the North American energy sector.
- (b) 49% interest in Mackenzie Valley Construction Ltd. (MVC), a joint venture with Gwich'in Development Corporation. The joint venture provides construction, oil and natural gas production and maintenance services in the Northwest Territories area.
- (c) 33 1/3% interest in S.R.P. North Ventures Ltd. (SRP). This joint venture provides a variety of logistical oilfield services in the Norman Wells, Northwest Territories area.
- (d) 50% interest in Fagioli Canada Ltd. (Fagioli), a joint venture with Fagioli S.P.A. This joint venture provides engineered heavy transportation and lifting services through the use of self-propelled module transporters, strand jacks and associated power packs, and tower-lifts throughout Canada and Alaska.

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The following table sets out the Company's proportionate share of the assets, liabilities, revenues, expenses, net income and cash flows of these joint ventures. Included in expenses in the determination of net earnings of joint ventures are income taxes for those entities that are separately liable for the payment of taxes.

Years ended December 31	2008	2007
Balance sheets:		
Current assets	\$ 34,197	\$ 15,768
Long-term assets	13,254	9,386
Current liabilities	26,922	13,113
Long-term liabilities	8,428	6,466
Statements of earnings:		
Revenue	303,556	55,897
Direct costs and expenses	281,208	53,429
Net earnings	12,995	2,468
Statements of cash flows:		
Cash provided by (used in) operating activities	9,541	(244)
Cash used in investing activities	(6,297)	(5,550)
Cash (used in) provided by financing activities	\$ (3,588)	\$ 4,270

18. RELATED PARTY TRANSACTIONS

All transactions are provided in the normal course of business at exchange amounts agreed upon by the related parties. Related party transactions include transactions with parties that are related by equity investment, parties related by common directors and transactions with other private companies owned or controlled by officers or directors.

	2008	2007
Expenses:		
Transportation and supply of materials reported in direct costs	\$ 779	\$ 601
Information system support reported in general and administrative expenses	775	585
Facility leases reported in general and administrative expenses	628	–
	2,182	1,186
Accounts payable at end of year	\$ 45	\$ 67

19. COMMITMENTS AND CONTINGENCIES

Future minimum annual operating lease payments for construction equipment, vehicles, office equipment and premises are as follows:

2009	\$ 62,252
2010	48,804
2011	37,506
2012	23,538
2013	16,701
Thereafter	–
	\$ 188,801

The vehicle leases are at normal commercial terms. Following the end of the minimum lease terms, the Company has the option to rent the vehicles on a month-to-month basis or return them to the lessors. Under the commercial lease terms, the Company has provided the lessors with residual value guarantees. At December 31, 2008, the undiscounted maximum amount of potential future payments under these guarantees aggregate to \$37,054 (2007 – \$43,112). The Company does not expect these amounts to have a material impact on the financial position or the results of the Company in the future.

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A contingent liability has arisen as a result of the Company's interests in Flint Transfield Services Ltd. (FT Services) joint venture. The full amount of FT Services' operating credit facility line, amounting to \$50,000 (2007 – \$50,000), is secured by a letter of credit for a total of \$30,000 (2007 – \$30,000) that is jointly and severally guaranteed by the Company and by Transfield Services Limited (Canada). The extent to which an outflow of funds will be required is dependent on the future operations of the joint venture being more or less favourable than currently expected.

The Company is not contingently liable for the liabilities of other partners in its joint ventures.

At December 31, 2008, the Company was involved in various legal claims related to the normal course of operations. Management believes that it has adequately provided a provision for these legal claims.

20. CHANGES IN NON-CASH BALANCES RELATING TO OPERATIONS

Years ended December 31	2008	2007
Accounts receivable	\$ (100,454)	\$ 47,992
Revenue in excess of billings	67,492	(48,446)
Inventories	(13,388)	(4,941)
Income taxes receivable	(9,331)	(6,280)
Prepays and other current assets	621	795
Other assets	(9,979)	385
Accounts payable and accrued liabilities	36,813	(1,593)
Billings in excess of revenue	(1,848)	(745)
Income taxes payable	(24,548)	3,510
Other liabilities	(503)	(800)
	\$ (55,125)	\$ (10,123)

21. SEGMENTED DISCLOSURE

As at December 31, 2008, the Company operated within five reportable business segments, each of which were distinct business units that offer different products and services within the oil and natural gas industry. These reportable business segments included Production Services; Facility Infrastructure; Oilfield Transportation; Tubular Management and Manufacturing; and Plant Maintenance and Other.

The Production Services operating segment provided pipeline work, day-to-day field facility installation and maintenance services, as well as electrical, instrumentation, mechanical, safety, pressure and vacuum and fluid hauling services.

The Facility Infrastructure operating segment provided major facility project development services to the energy and natural resources sector. This provided a full-cycle approach to all phases of project development from concept and design to fabrication and installation.

The Oilfield Transportation operating segment included specialized hauling of oversized and overweight modules, vessels, equipment and machinery, tank truck services, drilling rig moving and heavy hauling of associated drilling rig equipment, heavy construction equipment, service rig and light hauling services to and from drilling site locations.

The Tubular Management and Manufacturing operating segment included inspection, threading, refurbishment and bucking of drill and line pipe, manufacturing of high density pipe, the assembly of oil and natural gas process piping and equipment design, manufacturing and distribution of oilfield production equipment.

The Plant Maintenance and Other operating segment provided operations, oil and gas production and maintenance, construction, logistical oilfield services, asset management and project management services to the North American energy sector.

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The Company allocates resources based on revenue and evaluates performance of operating segments based on earnings before interest, taxes, depreciation, amortization, impairment charge, and stock based compensation, which follows the organization, management and reporting structure of the Company. The accounting policies for each of these business segments are the same as those described in the summary of significant accounting policies and practices (Note 1).

(a) Operational Segments

Selected financial information for each reportable business segments is as follows:

Year ended	Production	Facility	Oilfield	Tubular	Plant	
December 31, 2008	Services	Infrastructure	Transportation	Management & Manufacturing	Maintenance & Other	Total
Revenue	\$ 1,072,444	\$ 582,047	\$ 157,484	\$ 195,794	\$ 303,438	\$ 2,311,207
EBITDA ⁽¹⁾	112,086	41,936	3,650	19,047	19,837	196,556
Amortization	29,347	11,352	22,203	5,662	1,213	69,777
Capital expenditures	25,962	7,605	10,760	3,387	5,429	53,143
Additions (reductions) to goodwill	(177,874)	(28,900)	(146,212)	(43,264)	–	(396,250)
Goodwill	–	–	–	–	–	–
Total assets	479,415	275,217	201,526	85,092	47,620	1,088,870
Year ended						
December 31, 2007						
Revenue	\$ 1,005,645	\$ 423,298	\$ 136,654	\$ 190,473	\$ 57,732	\$ 1,813,802
EBITDA ⁽¹⁾	104,484	30,696	3,020	32,560	4,323	175,083
Amortization	30,579	9,305	20,609	10,733	775	72,000
Capital expenditures	34,158	7,106	24,431	9,177	5,665	80,536
Additions (reductions) to goodwill	4,686	–	(11,939)	(3,058)	–	(10,313)
Goodwill	177,874	28,900	146,212	43,264	–	396,250
Total assets	663,638	319,624	322,116	156,856	32,644	1,494,878

⁽¹⁾ In addition to providing earnings measures in accordance with GAAP, the Company presents EBITDA as a supplemental earnings measure as it is used by the chief operating decision makers of the Company to measure operating segment profitability. EBITDA is equal to (loss) earnings before interest, taxes, depreciation, amortization, impairment charge and stock based compensation. Management uses EBITDA to establish performance benchmarks for incentive compensation for employees, to evaluate the performance of its operating segments, and in valuing existing operations to determine potential goodwill impairment. EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP, and may not be comparable to similar measures presented by other issuers.

Revenue from the Company's two largest customers accounted for approximately 13.3% and 11.7% of total consolidated revenues for the year ended December 31, 2008 (2007 – 16.4% and 10.2%). Both the Production Services and Facility Infrastructure operating segments performed work for the Company's two largest customers while the Plant Maintenance and Other operating segment performed work for the Company's largest customer. The Facility Infrastructure segment earned the majority of the revenue from both of the Company's largest customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands of Canadian dollars except share data, per share amounts and stock option exercise prices or unless otherwise stated)

(b) Geographic Segments

The Company's operations are carried on in the following geographic locations:

Year ended December 31, 2008	Canada	United States	Total
Revenue	\$ 1,791,712	\$ 519,495	\$ 2,311,207
Property, plant and equipment	365,612	67,502	433,114
Goodwill	–	–	–
Total assets	969,209	119,661	1,088,870

Year ended December 31, 2007			
Revenue	\$ 1,361,045	\$ 452,757	\$ 1,813,802
Property, plant and equipment	409,671	50,919	460,590
Goodwill	373,225	23,025	396,250
Total assets	1,379,444	115,434	1,494,878

22. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform to current period presentation.