

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*

March 17, 2008



Paul M. Boechler
Chief Financial Officer

AUDITORS' REPORT

We have audited the consolidated balance sheets of Flint Energy Services Ltd. as at December 31, 2007 and 2006 and the consolidated statements of earnings and retained earnings, comprehensive earnings 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Edmonton, Alberta

March 17, 2008

CONSOLIDATED BALANCE SHEETS

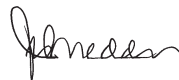
<i>Years ended December 31 (in thousands of Canadian dollars)</i>	2007	2006
ASSETS		
Current assets:		
Cash (Note 3)	\$ 32,318	\$ 11,520
Accounts receivable	236,586	291,230
Revenue in excess of billings	234,285	183,718
Inventories (Note 6)	51,273	46,332
Prepays and other current assets (Note 7)	11,462	12,257
Future income tax assets (Note 11(a))	7,961	4,870
Income taxes receivable	4,631	2,246
	578,516	552,173
Property, plant and equipment (Note 8)	460,590	449,861
Goodwill (Note 20)	396,250	406,563
Intangible assets (Note 9)	47,640	57,210
Other long-term assets	2,552	2,938
Future income tax assets (Note 11(a))	9,330	427
	\$ 1,494,878	\$ 1,469,172
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 186,175	\$ 187,768
Billings in excess of revenue	8,945	9,690
Income taxes payable	33,857	30,347
Future income tax liabilities (Note 11(a))	9,009	11,233
Current portion of long-term debt (Note 10)	15,987	11,997
	253,973	251,035
Long-term debt (Note 10)	352,548	364,999
Future income tax liabilities (Note 11(a))	64,054	75,158
Other long-term liabilities	—	800
	416,602	440,957
Shareholders' equity:		
Capital stock (Note 12)	576,304	569,096
Contributed surplus (Note 13)	9,359	6,475
Accumulated other comprehensive loss (Note 14)	(26,325)	(13,086)
Retained earnings	264,965	214,695
	824,303	777,180
Commitments and contingencies (Note 16)	\$ 1,494,878	\$ 1,469,172

See accompanying notes to the consolidated financial statements.

Approved by the Board:



William Lingard, Director



John Geddes, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

<i>Years ended December 31 (in thousands of Canadian dollars, except per share data)</i>	2007	2006
Revenue	\$ 1,813,802	\$ 1,455,661
Direct costs	1,476,033	1,168,156
	337,769	287,505
General and administrative expenses	162,686	125,119
Amortization on property, plant and equipment	62,290	33,898
Amortization on intangible assets	9,710	2,383
Stock based compensation expense	4,664	3,562
Interest expense	29,556	18,055
Interest income	(742)	(1,848)
Earnings before income taxes	69,605	106,336
Income taxes (Note 11 (b))		
Current	40,195	51,992
Future (recovery)	(20,860)	(289)
	19,335	51,703
Net earnings	50,270	54,633
Retained earnings, beginning of year	214,695	160,062
Retained earnings, end of year	\$ 264,965	\$ 214,695
Earnings per share:		
Basic (Note 12)	\$ 1.06	\$ 1.44
Diluted (Note 12)	\$ 1.05	\$ 1.41
Weighted average common shares:		
Basic (Note 12)	47,379,822	37,957,819
Diluted (Note 12)	47,882,631	38,811,383

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

<i>Years ended December 31 (in thousands of Canadian dollars)</i>	2007	2006
Net earnings	\$ 50,270	\$ 54,633
Other comprehensive (loss) earnings, net of income taxes:		
Unrealized (loss) gain on translation of self-sustaining foreign operations	(13,239)	1,000
Other comprehensive (loss) earnings	(13,239)	1,000
Comprehensive earnings	\$ 37,031	\$ 55,633

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>Years ended December 31 (in thousands of Canadian dollars)</i>	2007	2006
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 50,270	\$ 54,633
Items not affecting cash:		
Amortization of property, plant and equipment	62,290	33,898
Amortization of intangible assets	9,710	2,383
Amortization of deferred finance charges (Note 10)	617	335
Gain on disposal of property, plant and equipment	(2,825)	(496)
Stock based compensation expense	4,664	3,562
Foreign exchange translation	(1,254)	–
Future income taxes	(20,860)	(289)
	102,612	94,026
Change in non-cash balances relating to operations (Note 19)	(12,243)	(69,841)
Net cash provided by operating activities	90,369	24,185
Investing activities:		
Business combination (Note 4)	(11,933)	(240,653)
Advances to subsidiary prior to acquisition	–	(118,580)
Purchase of property, plant and equipment	(80,536)	(60,349)
Proceeds from disposal of property, plant and equipment	14,208	7,387
Net cash used investing activities	(78,261)	(412,195)
Financing activities:		
Proceeds from long-term debt	123,624	399,737
Repayments of long-term debt	(120,065)	(258,137)
Deferred finance costs	(297)	(1,351)
Proceeds from issue of capital stock on exercise of options (Note 12)	5,428	6,657
Proceeds from primary share offering (Note 12)	–	253,662
Issue costs related to primary share offering (Note 12)	–	(11,512)
Net cash provided by financing activities	8,690	389,056
Increase in cash	20,798	1,046
Cash, beginning of year	11,520	10,474
Cash and bank balances, end of year	\$ 32,318	\$ 11,520
Supplemental cash flow information:		
Net cash (paid) received during the year:		
Interest paid	\$ (28,910)	\$ (12,409)
Interest received	762	1,831
Income taxes	\$ (44,412)	\$ (37,199)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

General

Flint Energy Services Ltd. (the “Company” or “Flint”) was 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 and tubular management services. The Company provides these services from 62 strategic centers in the oil and 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. The Company proportionately consolidates its interests in joint ventures.

(b) Principles of Consolidation

These consolidated financial statements include the financial statements of Flint Energy Services Ltd. and its wholly-owned subsidiaries. The results of operations of subsidiaries acquired during the period are included in these consolidated financial statements from their effective dates of acquisition. All intercompany transactions and balances have been eliminated upon consolidation.

(c) 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 judgment regarding reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Significant estimates used in the preparation of these consolidated financial statements include estimated bad debts on accounts receivable, estimated percentage completion on revenue recognition, estimated useful lives of property, plant and equipment, the fair value of identified intangible assets acquired in business combinations and future cash flows used to estimate the fair value of reporting units for goodwill impairment testing. Accordingly, actual results may differ from these estimates and assumptions.

(d) 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’s cash balances which are restricted to the operations of those joint ventures.

(e) 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

(amounts stated in thousands Canadian dollars, except share data)

(f) Inventories

Raw materials 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.

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at original cost less accumulated amortization. Amortization is calculated 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. Capitalized costs associated with assets under construction are capitalized in the period incurred. No amortization is calculated on assets under construction until the asset is placed into use. The estimated useful life and amortization method are reviewed annually.

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

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

(h) Goodwill

Goodwill is 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 segments 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 in the fourth quarter, or more frequently if events or changes in circumstances indicate the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment 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 segment exceeds its fair value, in which case the implied fair value of the reporting segment'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 segment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

(i) *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, 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.

Intangible assets consist of customer relationships, non-competition agreements, licenses and permits and customer orders. The intangible assets with finite lives are amortized on a straight-line basis over their expected useful lives ranging from one to seven years. The estimated useful life and amortization method are reviewed annually.

(j) *Revenue and Cost Recognition*

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 percentage that incurred costs and units produced to date relative to total expected costs and units to be produced. Contract costs include all direct materials and labour costs and those indirect costs related to contract performance, such as indirect labour, supplies, tools, and repair costs. 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 determined. Claims for additional contract compensation are only reflected in revenue to the extent that realization is probable and can be reliably estimated. The Company's Oilfield Transportation, Tubular Management and Manufacturing and Plant Maintenance and Other segments recognize revenue and related expenses when services are rendered, goods are delivered or ownership transferred and collection of the revenue is reasonably assured. Revenue in excess of billings represents costs incurred and revenues earned in excess of amounts billed on uncompleted contracts. Contract advances are included in billing in excess of revenue.

(k) *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 and income tax basis of assets and liabilities. 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.

(l) *Stock Based Compensation Plan*

The Company has a stock based compensation plan. Stock based compensation awards are measured and recognized based on the fair value and are expensed in the financial statements. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

(m) 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 all income 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.

(n) Earnings Per Share

Basic earnings per share is calculated by dividing net 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 are computed similar to basic earnings per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

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

Long-lived assets and certain identifiable intangibles are reviewed 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 an asset to future undiscounted cash flows expected to be generated by the asset. 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 assets exceeds the fair value of the assets. Assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell.

(p) 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 capital lease is amortized on the same basis as capital assets and the corresponding liability to the lessor is included in 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.

2. Changes in Accounting Policies

a) Current year:

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – Disclosure and Presentation", Section 1530, "Comprehensive Income" and Section 3865 "Hedges". Prior periods have not been restated as a result of implementing the new accounting standards, except as required by the new standards to classify unrealized foreign currency translation gains or losses on net investments in self-sustaining foreign operations in accumulated other comprehensive loss.

The adoption of these standards has had no material impact on the Company's net earnings or cash flows.

Financial Instruments – Recognition and Measurement

CICA Handbook Section 3855 provides guidance on when financial assets, financial liabilities or non-financial derivatives are to be recognized on the balance sheet of the Company and on what basis these assets, liabilities and derivatives should be valued. Under the new standard, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on the financial instrument's initial classification. Held-for trading financial assets are measured at fair value and changes in fair value are 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.

With the adoption of this new standard, the Company has classified its cash and bank balances as held-for-trading, accounts receivable, revenue in excess of billings and certain other long-term assets classified as loans and receivables, accounts payable and accrued liabilities, long-term debt, capital lease obligations and certain other long-term liabilities as other financial liabilities. The Company's accounts receivable, revenue in excess of billings, accounts payable, and accrued liabilities approximate their fair values on a discounted cash flow basis because of the short-term nature of these instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as a part of the respective asset or liability's carrying value at inception. As such, deferred financing costs related to the issuance of long-term debt were previously presented as a separate asset on the consolidated balance sheet and are now included in the carrying value of long-term debt. This change in accounting policy resulted in a decrease in long-term debt and intangible assets and deferred charges of \$2.1 million at January 1, 2007. The costs capitalized within long-term debt are being amortized using the effective interest method, which is consistent with the amortization method utilized in prior periods. The standard requires derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured 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 and there are no non-financial derivatives that need to be measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

Financial Instruments – Disclosure and Presentation

Revised CICA Handbook Section 3861 replaces Handbook Section 3860, Financial Instruments – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed. There was no material effect on the Company's financial statements when CICA Handbook Section 3861 was adopted on January 1, 2007.

Comprehensive Income

CICA Handbook Section 1530 establishes standards for reporting and presenting comprehensive earnings, which is defined as the change in equity from transactions and other events from non-owner sources. Accordingly, a new statement of comprehensive earnings now forms part of the Company's consolidated financial statements and displays current period net earnings and other comprehensive earnings. Other comprehensive earnings consist of changes in the foreign currency translation adjustment from the Company's self-sustaining foreign operations net of income taxes. The cumulative changes in other comprehensive earnings are included in accumulated other comprehensive loss, which is a new category within shareholders' equity on the consolidated balance sheet. The accumulated foreign currency translation adjustment, formerly presented as a separate category within shareholders' equity called the cumulative translation account, is now included in accumulated other comprehensive loss. The continuity of the accumulated other comprehensive loss is presented in Note 14.

Hedges

CICA Handbook Section 3865 specifies circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

b) Recent Accounting Pronouncements

Financial Instrument Disclosures

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 that revise and enhance current disclosure requirements. Section 3862 requires disclosure of additional detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These Sections are effective in the first quarter of 2008, and the Company is currently evaluating the impact on the Company's disclosure and presentation.

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. This Section is effective in the first quarter of 2008 and the Company is currently evaluating the impact on the Company's disclosure and presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

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 Costs. The new pronouncement establishes 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 standards included in Section 3062. This Section is effective in the first quarter of 2009, and the Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

Inventory

In June 2007, the CICA issued Section 3031, "Inventories", which requires inventory to be measured at the lower of cost and net realizable value and which includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. Further, it requires the reversal of previous write-downs to net realizable value when the economic circumstances have changed to support an increased inventory value. This standard is effective for fiscal years beginning on or after January 1, 2008. The Company is in the process of evaluating the impact of this standard.

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 complete 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. As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and since this Canadian convergence initiative is very much in its infancy as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company.

3. Cash in Joint Ventures

Cash as at December 31, 2007 includes \$1,294 (2006 – \$400), which is the Company's proportionate share of its joint venture's cash balances which is restricted to the operations of those joint ventures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

4. Business Combinations

Acquisitions in Fiscal 2007

Pro Safe

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.

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
	\$	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
	\$	1,922

The Company has finalized its valuation of the net assets acquired, including goodwill and other intangible assets.

Acquisitions in Fiscal 2006

The Company completed three acquisitions in fiscal 2006. The aggregate consideration given and fair values of net assets acquired are as follows:

The combined purchase price:

	Transco	Other	Total
Cash	\$ 230,323	\$ 15,459	\$ 245,782
Common shares	105,091	5,969	111,060
Notes payable	—	2,000	2,000
Other liabilities	10,232	1,000	11,232
Acquisition costs	2,191	663	2,854
	\$ 347,837	\$ 25,091	\$ 372,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

The combined net assets acquired at assigned values:

	Transco	Other	Total
Cash	\$ 7,343	\$ 640	\$ 7,983
Net non-cash working capital	52,677	(7,768)	44,909
Property, plant and equipment	218,925	18,003	236,928
Long term debt	(124,064)	(3,253)	(127,317)
Future income taxes	(46,842)	(3,594)	(50,436)
Customer relationships	50,133	3,084	53,217
Non-competition agreements	1,536	2,697	4,233
Customer orders	—	1,487	1,487
Goodwill	188,129	13,795	201,924
	\$ 347,837	\$ 25,091	\$ 372,928

The goodwill and intangible assets acquired during fiscal 2006 are not deductible for income tax purposes, with the exception of \$9.5 million, which has been added to the cumulative eligible capital and an additional \$1.5 million related to the customer orders intangible asset.

Transco Energy Services Ltd.

On December 1, 2006, the Company acquired 100% of the issued and outstanding shares of Transco Energy Services Ltd. ("Transco"). Transco was a privately held energy services company with operations in British Columbia, Alberta, Saskatchewan and the Northwest Territories in Canada. The Company operated in two business segments; oilfield transportation and tubular management and manufacturing.

The purchase price for the Transco acquisition totaled \$347.8 million. The purchase price was funded through \$230.3 million in cash, and 3,759,274 common shares of the Company with a value of \$105.1 million. Acquisition costs of \$2.2 million were incurred and paid on the transaction. On closing the acquisition, the Company repaid \$108.6 million of Transco's existing bank debt. In addition, at December 31, 2006 the Company accrued a \$10.2 million payment to the previous Transco shareholders and paid this amount in 2007 upon finalization of working capital and net debt adjustments under the terms of the acquisition agreement.

On December 1, 2007, the Company finalized its valuation of the Transco net assets acquired and modified the purchase price allocation resulting in a net increase of capital assets 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 incurred in 2007.

Other Acquisitions in 2006

Denmar

On July 4, 2006, the Company acquired the business of Denmar Energy Services Ltd. ("Denmar"). Denmar was a privately held company with operations based in Bonnyville, Alberta and provided small diameter pipeline, facilities construction, maintenance, fabrication, servicing to natural gas installations and general mechanical and contract operator services in the active in-situ and conventional heavy oil areas of eastern Alberta.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

The final purchase price for the Denmark acquisition totaled \$23.2 million. The purchase price was funded through \$13.6 million in cash, 206,896 common shares of the Company with a value of \$6.0 million, notes payable of \$2.0 million and \$1.0 million in other liabilities. The notes payable issued in relation to the Denmark acquisition bear interest at prime plus two percent and are repayable in two equal annual installments. The first annual installment and accrued interest were incurred and paid on July 4, 2007 and the second and final installment and accrued interest is payable on the second anniversary of the note. The other liabilities relate to employee retention bonuses payable over two years following the date of acquisition.

On June 30, 2007, the Company finalized its valuation of Denmark net assets acquired, including goodwill and other intangible assets resulting in a net increase in goodwill of \$703.

3-W Contractors

On July 1, 2006, the Company acquired the assets of 3-W Contractors for cash consideration of \$1.3 million (USD \$1.2 million). 3-W Contractors was a privately held company with operations based in Texas, United States.

Mackenzie Valley Construction Ltd.

On October 31, 2005, the Company acquired 49% of the outstanding common stock of Mackenzie Valley Construction Ltd., a construction and oil and gas production and maintenance services company in Inuvik, Northwest Territories, Canada. These financial statements include the results of operations of this investment since the date of acquisition. This investment is being accounted for as a joint venture.

In 2006, the Company paid an additional \$0.5 million to the previous owners of Mackenzie Valley Construction Ltd., based on the finalization of the purchase price. In addition, the previous owners paid \$0.9 million into Mackenzie Valley Construction Ltd. The finalization of the purchase price resulted in an increase in goodwill of \$0.4 million in fiscal 2006.

Goodwill resulting from the Mackenzie Valley Construction Ltd. acquisition is not deductible for income tax purposes.

5. Investment in Joint Ventures

The Company participates in three 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., 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. Flint Transfield had no operation or activities in 2006.
- (b) 49% interest in Mackenzie Valley Construction Ltd., a joint venture with Gwich'in Development Corporation. The joint venture provides construction, oil and gas production and maintenance services in Northwest Territories area.
- (c) 33 1/3% interest in S.R.P. North Ventures Ltd. This joint venture provides a variety of logistical oilfield services in the Norman Wells, Northwest Territories area.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

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.

<i>Years ended December 31</i>	2007	2006
Balance sheets		
Current assets	\$ 15,768	\$ 1,236
Long-term assets	9,386	4,573
Current liabilities	13,113	473
Long-term liabilities	6,466	819
Statements of earnings		
Revenue	55,897	4,169
Direct costs and expenses	53,429	4,842
Net earnings (loss)	2,468	(673)
Statements of cash flows		
Cash (used in) provided by operating activities	(244)	497
Cash used in investing activities	(5,550)	(198)
Cash provided by (used in) financing activities	4,270	(516)

6. Inventories

<i>Years ended December 31</i>	2007	2006
Raw materials	\$ 20,634	\$ 22,327
Work in progress	9,181	7,693
Finished goods	21,458	16,312
	\$ 51,273	\$ 46,332

7. Prepaids and Other Current Assets

<i>Years ended December 31</i>	2007	2006
Prepaid insurance and registration	5,878	6,492
Prepaid expenses	4,713	3,395
Deposits on equipment	34	1,754
Other deposits	837	616
	\$ 11,462	\$ 12,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

8. Property, Plant and Equipment

<i>December 31, 2007</i>	Cost	Accumulated Amortization	Net Book Value
Land	\$ 37,618	\$ –	\$ 37,618
Buildings and improvements	93,744	18,728	75,016
Construction and other equipment	467,973	151,573	316,400
Office furniture and equipment	38,552	21,538	17,014
Buildings and improvements under construction	12,309	–	12,309
Construction and automotive equipment under construction	2,233	–	2,233
	\$ 652,429	\$ 191,839	\$ 460,590

<i>December 31, 2006</i>	Cost	Accumulated Amortization	Net Book Value
Land	\$ 26,442	\$ –	\$ 26,442
Buildings and improvements	66,663	14,870	51,793
Construction and other equipment	448,818	113,472	335,346
Office furniture and equipment	33,607	17,769	15,838
Buildings and improvements under construction	17,922	–	7,922
Construction and automotive equipment under construction	2,520	–	2,520
	\$ 595,972	\$ 146,111	\$ 449,861

Included in Construction and other equipment is \$18,630 (2006 – \$24,363) of assets under capital lease and \$2,092 (2006 – \$2,073) of accumulated depreciation for a net book value of \$16,538 (2006 – \$22,290).

9. Intangible Assets

<i>December 31, 2007</i>	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 53,217	\$ 8,665	\$ 44,552
Non-competition agreements	4,378	1,346	3,032
Customer orders	1,487	1,487	–
Other	1,110	1,054	56
	\$ 60,192	\$ 12,552	\$ 47,640

<i>December 31, 2006</i>	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 53,217	\$ 833	\$ 52,384
Non-competition agreements	4,233	303	3,930
Customer orders	1,487	733	754
Other	1,133	991	142
	\$ 60,070	\$ 2,860	\$ 57,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

10. Long-Term Debt

<i>Years ended December 31,</i>	2007	2006
Revolving operating loan, interest at Canadian bank prime rate plus 0.00% to 0.50% depending upon certain financial ratios, payable monthly in arrears, earliest date principal could be due is November 30, 2009.	\$ 110,085	\$ 98,909
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.	24,783	29,135
Term loans, 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.	26,000	26,000
Term loans, 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.	20,000	20,000
Term loans, 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
Term loans, 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.	39,652	46,616
U.S. dollar term loans (U.S. \$8,000), interest at 6.79%, payable monthly in arrears, principal payable quarterly installments of U.S. \$407, with the balance due November 30, 2013.	7,930	9,323
Capital leases, secured by construction and automotive equipment with an aggregate carrying value of \$16,143, interest varying from 0% to 13.98%, with terms varying up to 60 months.	8,402	12,128
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$9,507, interest varying from 0.00% to 6.65%, with terms varying up to 60 months.	6,829	11,054
Mortgage payable, interest at 5.95%, principal and interest payable monthly of \$21, with the balance due September 15, 2009.	1,684	1,829
Unsecured promissory notes, interest at prime plus 1%, payable quarterly, principal repayments of \$2,000 annually, maturing September 2008.	1,000	3,000
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	2,000
Other debts	3,963	115
	370,328	379,109
Less: Deferred finance costs (Amortization of \$617 (2006 – \$335) is included in interest expense)	1,793	2,113
	368,535	376,996
Less: current portion	15,987	11,997
	\$ 352,548	\$ 364,999

Interest expense for the year ended December 31, 2007 includes \$24,728, which represents interest expense on long-term debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

(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 \$165,000 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, 2007 and 2006.

During 2006, in connection with the acquisition of Transco, the Company entered into an amended credit agreement with its existing syndicate of Canadian and United States financial institutions and two new financial institutions to provide the revolving and term loans described above. Under the terms of the credit agreement, the Canadian financial institutions provide the Canadian dollar denominated funds with the United States financial institutions providing the United States dollar denominated funds.

Other debt balance includes \$3,948 (2006 – \$nil) and represents the Company's proportionate share of long term debt of Flint Transfield joint venture, which bears interest at HSBC Canada prime rate. Mortgages payable are due for renewal 2010. Security for mortgages payable is in the form of residential properties of Flint Transfield Service Limited included in land and buildings with net book value of \$10,421.

(b) *Principal payments are due as follows:*

	Capital leases	Other long term debt	Total
2008	\$ 3,381	\$ 13,302	\$ 16,683
2009	2,523	122,278	124,801
2010	1,908	10,082	11,990
2011	504	134,576	135,080
2012	86	19,841	19,927
Thereafter	–	61,847	61,847
	\$ 8,402	\$ 361,926	\$ 370,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

11. Income Taxes

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

Years ended December 31	2007	2006
Future income tax assets:		
Current:		
Contract retentions payable and accrued liabilities	\$ 2,056	\$ 1,686
Billings in excess of revenue	703	1,352
Investment in partnership	2,827	1,815
Loss carried forward	2,375	17
Total current future income tax assets	7,961	4,870
Non-current:		
Tax value in excess of carrying value of property, plant and equipment	215	–
Intangible assets	1,910	46
Losses carried forward	7,205	381
Total non-current future income tax assets	9,330	427
Future income tax liabilities:		
Current:		
Contract retentions receivable	828	551
Deferred partnership income	8,020	10,682
Other	161	–
Total current future income tax liabilities	9,009	11,233
Non-current:		
Carrying value of property, plant and equipment in excess of tax value	45,817	61,344
Intangible assets	17,561	12,543
Investment in partnership	579	1,135
Other assets	97	136
Total non-current future income tax liabilities	64,054	75,158
Net future income tax liabilities	\$ 55,772	\$ 81,094

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

At December 31, 2007, loss carry forwards of \$32,614 are available to reduce taxable income of certain Canadian subsidiaries. These losses expire as follows:

2015	\$	1,659
2026		1,312
2027		29,643
	\$	32,614

(b) In 2002 the Company commenced using a Quebec Trust as part of its corporate structure. The Quebec National Assembly recently passed into law Bill 15 to amend the Quebec Taxation Act and other legislative provisions. Bill 15 includes retroactive changes to the Act that has 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 amount to \$15.5 million of income taxes and \$3.3 million of interest for a total reassessment of \$18.8 million.

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 continues to consider alternatives to reduce the potential exposure for Quebec tax created as a result of this retroactive legislation. The Company has recorded \$15.5 million in income tax expense and \$4.2 million in interest expense for the year ended December 31, 2006 in relation to the reassessments and in 2007 an additional \$1.8 million was accrued on these assessments. The income tax and interest expense on the Quebec tax reassessments has been included in income taxes payable at December 31, 2006. The Company has entered final negotiations with the federal and provincial tax authorities and a portion of the assessed tax and accrued interest expense is expected to be reversed in 2008 upon finalization of the settlement.

Actual income tax expense differs from the "expected" income tax expense that would have been computed by applying the statutory income tax rates as follows:

<i>Years ended December 31</i>	2007	2006
Federal and provincial statutory income tax rates	32.1%	32.5%
Expected income tax expense	\$ 22,343	\$ 34,560
Changes in income tax expense resulting from:		
Jurisdictional tax rate differences	2,574	1,927
Changes in tax rates impacting future income tax balances	(7,631)	(2,270)
Quebec retroactive tax reassessments	–	15,455
Non-deductible interest from Quebec tax reassessments	593	1,369
Non-deductible items	2,006	1,659
Other	(550)	(997)
Actual income tax expense	\$ 19,335	\$ 51,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

12. Capital Stock

On October 11, 2006, the Board of Directors of the Company approved a two-for-one stock split of the outstanding common shares of the Company. The common shares began trading on a split basis on the Toronto Stock Exchange on December 13, 2006, being the second trading day preceding the record date of December 15, 2006. The numbers of authorized but unissued shares of the Company's common stock were not changed as a result of the stock split. Unless otherwise stated, all references to share and per share amounts in these consolidated financial statements have been retroactively restated to give effect to this stock split.

(a) Issued Capital Stock:

Authorized:

Unlimited common shares

Unlimited preferred shares

Issued:	Note	Common Shares	Amount
Balances at December 31, 2005		33,734,852	\$ 203,250
Shares issued in conjunction with:			
Exercised employee stock options	12(a)(i)	594,772	6,657
Transfer from contributed surplus for stock options exercised	12(a)(i), 13	—	2,565
Primary share offering, May 2006, net of issuance costs	12(a)(ii)	4,000,000	112,482
Primary share offering, November 2006, net of issuance costs	12(a)(iii)	4,873,000	133,220
Shares issued on acquisition of Denmark, net of issuance costs	12(a)(iv)	206,896	5,969
Shares issued on acquisition of Transco, net of issuance costs	12(a)(v)	3,759,274	104,953
Balances at December 31, 2006		47,168,794	\$ 569,096
Shares issued in conjunction with:			
Exercised employee stock options	12(a)(i)	391,656	5,428
Transfer from contributed surplus for stock options exercised	12(a)(i), 13	—	1,780
Balances at December 31, 2007		47,560,450	\$ 576,304

- (i) During the year ended December 31, 2007, the Company issued 391,656 (2006 - 594,772) common shares under the Company's stock option plan at prices ranging from \$11.25 to \$24.25 (2006 - \$8.75 to \$12.50) per share for total proceeds of \$5,428 (2006 - \$6,657). In addition, \$1,780 (2006 - \$2,565) was transferred from contributed surplus to share capital with respect to options exercised during 2007 that were part of grants occurring since January 1, 2002, when the Company adopted the fair value method.
- (ii) On May 2, 2006, the Company completed a primary share offering of 4,000,000 common shares for gross aggregate proceeds of \$116,000. The Company incurred share issuance costs totaling \$3,518, net of future taxes of \$1,567, with respect to the May 2, 2006 primary share offering.
- (iii) On November 1, 2006, the Company completed a share offering of 4,430,000 common shares of the Company at a price of \$28.25 per share for gross aggregate proceeds of \$125,148. Additionally, on November 30, 2006, the over-allotment option granted to the underwriters in connection with this share offering was exercised in full, resulting in the sale of an additional 443,000 common shares at a price of \$28.25 per share. In total, 4,873,000 common shares were issued for gross proceeds of \$137,662. The Company incurred share issuance costs totaling \$4,442, net of future taxes of \$1,985, with respect to the November 1, 2006 share offering.
- (iv) On July 4, 2006, the Company issued 206,896 common shares of the Company on the acquisition of Denmark to the previous shareholders of the acquired company.
- (v) On December 1, 2006, the Company issued 3,759,274 common shares of the Company on the acquisition of Transco to the previous shareholders of the acquired company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

(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.

In 2006, the Company amended the incentive stock option plan to increase the number of shares reserved for issuance from 3,209,514 to twelve percent of the total number of issued and outstanding shares of the Company from time to time. At December 31, 2007, 3,331,628 (2006 – 3,514,341) 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, 2007 and 2006 is as follows:

Years ended December 31	2007		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options				
Outstanding at beginning of year	2,146,114	\$ 18.77	1,622,804	\$ 11.70
Granted	910,500	\$ 27.20	1,175,150	\$ 24.84
Forfeited	(288,932)	\$ 25.29	(57,068)	\$ 21.48
Expired	(400)	\$ 11.50	–	–
Exercised	(391,656)	\$ 13.86	(594,772)	\$ 11.19
Outstanding at end of year	2,375,626	\$ 22.02	22,146,114	\$ 18.77
Options exercisable at end of year	877,209	\$ 16.42	686,040	\$ 11.89

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2007:

Exercise Price Ranges as at December 31, 2007	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Life (years)	Weighted Average Exercise	Number Exercisable	Weighted Average Exercise
\$10.69 - \$10.69	154,000	0.18	\$ 10.69	154,000	\$ 10.69
\$11.57 - \$11.57	273,268	1.15	\$ 11.57	273,268	\$ 11.57
\$12.50 - \$12.75	221,892	2.20	\$ 12.51	127,254	\$ 12.51
\$24.25 - \$32.56	940,966	3.22	\$ 24.83	322,687	\$ 24.82
\$24.18 - \$28.60	785,500	4.16	\$ 27.20	–	\$ –
	2,375,626	3.00	\$ 22.02	877,209	\$ 16.42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The fair value of common share options is estimated as at the grant date using the Black-Scholes option-pricing model, with the following weighted-average assumptions:

	2007	2006
Risk-free interest rate	3.99%	3.00%
Expected life	3.55 years	3.68 years
Expected volatility	32.28%	35.00%
Expected dividends	\$ —	\$ —

In computing diluted earnings per share, there were 502,809 stock options included in the diluted number of common shares for the year ended December 31, 2007 (2006 – 853,564).

13. 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 12 (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, 2007 and 2006, contributed surplus has changed as follows:

Years ended December 31	2007	2006
Balance at beginning of year	\$ 6,475	\$ 5,478
Stock-based compensation expense	4,664	3,562
Stock options exercised	(1,780)	(2,565)
Balance at end of year	\$ 9,359	\$ 6,475

14. Accumulated Other Comprehensive Loss

Exchange gains and losses arising from the translation of the financial statements of the Company's self-sustaining foreign operations are deferred and included in the cumulative translation account. When there is a reduction in the Company's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation account is included in the determination of consolidated net earnings. Significant changes in the cumulative translation account are as follows:

Years ended December 31	2007	2006
Accumulated other comprehensive loss, beginning of year	\$ (13,086)	\$ (14,086)
Unrealized (loss) gain on translation of self-sustaining foreign operations	(13,239)	1,000
Accumulated other comprehensive loss, end of year	\$ (26,325)	\$ (13,086)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. 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.

	2007	2006
Revenue:		
Transportation and supply of materials	\$ —	\$ 69
Expenses:		
Transportation and supply of materials reported in direct costs	\$ 601	\$ 675
Information system support reported in general and administrative expenses	585	450
	\$ 1,186	\$ 1,125
Accounts payable at end of year	\$ 67	\$ 109

On December 1, 2006 the Company acquired 100% of the issued and outstanding shares of Transco Energy Services Ltd. ("Transco"). Prior to the acquisition, the Company and Transco had a common shareholder and director. The transaction was recorded at the exchange amount, as there was a substantive change in ownership interests and the Company obtained independent evidence to support the purchase price on the transaction.

16. Commitments and Contingencies

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

2008	\$ 39,924
2009	33,413
2010	24,443
2011	17,819
2012	8,402
Thereafter	—
	\$ 124,001

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, 2007, the undiscounted maximum amount of potential future payments under these guarantees aggregate to approximately \$43,112 (2006 –\$30,160). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

A contingent liability has arisen as a result of the Company's interests in Flint Transfield joint venture. The full amount of Flint Transfield joint venture operating credit facility line, amounting to \$50,000 (2006 – nil), is secured by letter of credit for a total of \$30,000 (2006 – nil) 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 favorable than currently expected.

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

At December 31, 2007, 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.

17. Pension Plan

The Company has a defined contribution pension plan for salaried employees, into which the Company provides a contribution of 5% of participant earnings. The Company funded contributions of \$4,565 for the year ended December 31, 2007 (2006 – \$2,815).

18. Financial Instruments

(a) Risk Management

(i) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable and revenue in excess of billings. The Company's customer base consists primarily of major international oil and gas and energy transmission companies. The Company provides allowances for credit losses in the period in which anticipated losses become known.

At December 31, 2007, two customers accounted for 15.6% and 12.3% of the Company's accounts receivable and revenue in excess of billings (2006 – two customers with 15.1% and 14.8%). There are no other single customers with a balance greater than 10% of the total of accounts receivable and revenue in excess of billings.

(ii) Interest Rates

The Company is exposed to interest rate risk through the utilization of fixed and floating rate facilities to finance operations. The Company attempts to minimize the short-term interest rate risk and effective cost of borrowing by purchasing banker's acceptance notes.

At December 31, 2007, the increase or decrease in earnings before income taxes for each one percent change in interest rates on floating rate debt would amount to \$1,349 (2006 – \$1,339).

(iii) Foreign Currency

The Company is exposed to foreign currency fluctuations in relation to its operations in the United States. Management believes this exposure is not material given that the United States operations are self-sufficient and self-funding since the cash flow from operations is used to settle all debt arising from operations or from the expansion of the United States operations.

(iv) Market Risk

The Company's customers are primarily engaged in the business of exploring for and producing oil and natural gas in Canada and the United States. The financial well being of these companies is affected by the price of these commodities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

(b) Fair Value of Financial Instruments

The fair value of financial instruments, other than long-term debt, approximates their carrying amounts due to the short-term maturity of those instruments.

The estimated fair value of long-term debt has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates that would be available to the Company at year-end. At December 31, 2007 the fair value is determined to be approximately \$370,998 (2006 – \$360,288).

19. Change in Non-Cash Balances Relating to Operations

<i>Years ended December 31</i>	2007	2006
Accounts receivable	\$ 47,992	\$ (11,525)
Revenue in excess of billings	(50,567)	(106,091)
Inventories	(4,941)	2,931
Income taxes receivable	(6,280)	(1,913)
Prepays and other current assets	795	(7,323)
Other assets	385	(877)
Accounts payable and accrued liabilities	(1,593)	27,049
Billings in excess of revenue	(745)	6,556
Income taxes payable	3,510	21,352
Other liabilities	(800)	–
	\$ (12,243)	\$ (69,841)

20. Goodwill

<i>Years ended December 31</i>	2007	2006
Balance, beginning of the year	\$ 406,563	\$ 198,021
Current year acquisitions (Note 4)	111	208,305
Purchase price adjustments	(6,381)	183
Foreign exchange translation adjustments	(4,043)	54
	\$ 396,250	\$ 406,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. Segmented Information

As at December 31, 2007 the Company is operating within five reportable business segments, each of which are distinct business units that offer different products and services within the oil and natural gas industry. These reportable business segments include Production Services, Facility Infrastructure, Oilfield Transportation, Tubular Management and Manufacturing, and Plant Maintenance and Other.

During 2006, the Company operated principally in two business segments; Production Services and Facility Infrastructure. On December 1, 2006, the Company added the Oilfield Transportation and Tubular Management and Manufacturing segments through the acquisition of Transco (Note 4). In addition, the Company announced the establishment of an operation and maintenance joint venture, Flint Transfield Services Limited, in which the Company has a fifty percent ownership interest (Note 5). As a result, an additional operating segment, Plant Maintenance and Other, is disclosed commencing the first quarter of 2007.

During the fourth quarter of 2007, the Plant Maintenance and Other segment was reorganized to include the operations of Mackenzie Valley Construction Ltd, a 49% joint venture and S.R.P. North Ventures Ltd., a 33 1/3% joint venture (Note 4). The Company has reclassified its segment disclosures to include these new business segments and has provided comparative information where applicable.

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

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

The Oilfield Transportation operating segment includes specialized hauling of oversized and over weight 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 includes 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 provides operations, oil and gas production and maintenance, construction, logistical oilfield services, asset management and project management services to the North American energy sector. Flint Transfield Services Limited had no operations or activities in 2006.

The Company allocates resources based on revenue and evaluates performance of operating segments based on earnings before interest, taxes, depreciation, amortization and stock based compensation. 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(amounts stated in thousands Canadian dollars, except share data)

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

	Production Services	Facility Infrastructure	Oilfield Transportation	Tubular Management and Manufacturing	Plant Maintenance and Other	Total
<i>Year ended December 31, 2007</i>						
Revenue	\$ 994,876	\$ 423,533	\$ 155,328	\$ 190,251	\$ 49,814	\$ 1,813,802
EBITDA ¹	101,779	30,696	6,294	32,545	3,769	175,083
Amortization	29,820	9,300	21,641	10,733	506	72,000
Capital expenditures	34,097	7,102	24,562	9,179	5,596	80,536
Additions (decrease) 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	1,576,856	32,644	1,494,878
<i>Year ended December 31, 2006</i>						
Revenue	\$ 910,000	\$ 426,504	\$ 17,029	\$ 98,043	\$ 4,085	\$ 1,455,661
EBITDA ¹	97,732	44,327	3,859	17,018	(550)	162,386
Amortization	23,021	7,542	2,406	2,725	587	36,281
Capital expenditures	40,814	10,678	2,402	6,160	295	60,349
Additions to goodwill	13,173	–	158,151	37,062	–	208,386
Goodwill	173,190	28,900	158,151	46,322	–	406,563
Total assets	864,012	388,573	114,002	94,518	8,067	1,469,172

Revenue from the Company's two largest customers accounted for approximately 16.4% and 10.2% of total consolidated revenues for the year ended December 31, 2007 (13.3% and 12.6% for year ended December 31, 2006). 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 Canadian dollars, except share data)

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

	Canada	United States	Total
<i>Year ended December 31, 2007</i>			
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
<i>Year ended December 31, 2006</i>			
Revenue	\$ 1,089,256	\$ 366,405	\$ 1,455,661
Property, plant and equipment	403,157	46,704	449,861
Goodwill	379,500	27,063	406,563
Total assets	1,284,541	184,631	1,469,172

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 earnings before interest, taxes, depreciation, amortization 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.

22. Comparative Information

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