



FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Flint Energy Services Ltd. ("Flint" or the "Company") should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2008 and accompanying notes. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars.

Flint Energy Services Ltd. is a market leader providing an expanding range of integrated products and services for the energy industry including: production services; field construction; oilfield transportation; process equipment design and manufacturing; tubular management services; and plant management and maintenance services. Flint provides this unique breadth of products and services through over 60 strategic locations in the oil and gas producing areas of western North America, from Inuvik in the Northwest Territories to Mission, Texas. Flint is a preferred provider of infrastructure construction management, module fabrication, and maintenance services for upgrading and production facilities in Alberta's oil sands sector. The Company's common stock is traded on the Toronto Stock Exchange under the symbol "FES".

### **Advisory Regarding Forward-Looking Statements**

*This report dated as at November 9, 2009 contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's projected operating results for 2009 and beyond, and anticipated capital expenditure trends and drilling activity in the oil and gas industry. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of known and unknown risks, uncertainties and other factors affecting the Company's business and the oil and gas industry generally. These factors include, but are not limited to, fluctuations in oil and gas prices, fluctuations in the level of oil and gas industry capital expenditures and expenditures on production and remedial work and other factors that affect demand for the Company's services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively in Canada and the United States, political and economic conditions, the Company's ability to attract and retain key personnel, and other risks and uncertainties described under the heading "Risk Factors" and elsewhere in the Company's Annual Information Form for the year ended December 31, 2008 and other documents filed with Canadian provincial securities authorities and are available to the public at [www.sedar.com](http://www.sedar.com). The Company believes that the expectations reflected in these forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be relied upon. These statements speak only as of the date of this report. The Company does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the Company or on the Company's behalf, except as may be required under applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this statement.*

### **Description of Non-GAAP Measures**

Throughout this MD&A, management uses terms and ratios not found in the Handbook of the Canadian Institute of Chartered Accountants, which do not have a standardized meaning under Canadian Generally Accepted Accounting Principles (GAAP), therefore the following definitions are provided:

"EBITDA" is equal to earnings (loss) before interest, taxes, depreciation, amortization, impairment of intangible assets and goodwill, and stock based compensation related to equity settled awards. 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. Management uses EBITDA to establish performance benchmarks for incentive compensation for employees and to evaluate the performance of its operating segments.

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*"Adjusted net earnings"* is equal to net earnings (loss) excluding after-tax impairment charges related to goodwill, intangible assets, and property, plant, and equipment. The Company uses adjusted net earnings as a measure of profitability excluding extraordinary items to evaluate the Company's performance. Adjusted net earnings per share is equal to net earnings (loss) per share excluding impairment charges.

*"Gross margin"* is calculated by subtracting direct costs from revenue. The Company believes gross margin is a measure of project profitability and is commonly used to evaluate the Company's performance.

*"Gross margin percentage"* is calculated by taking gross margin and dividing by revenue, expressed as a percentage.

*"Days Sales Outstanding" ("DSO")* is calculated by taking the accounts receivable, revenue in excess of billings, and inventories, and subtracting billings in excess of revenue for the period. The result is then converted into days using the revenue count-back method. Management uses DSO to evaluate the effectiveness of billing and collection of revenues.

*"Funds provided by operations before changes in non-cash working capital"* is equal to net earnings (loss) adjusting for items not affecting cash. The Company presents funds provided by operations before changes in non-cash working capital to measure funds generated from operations.

*"Cash flow to interest bearing debt"* is equal to cash flow divided by interest bearing debt, expressed as a percentage. 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.

*"Debt to total capitalization"* is equal to debt divided by total capitalization, expressed as a percentage. Debt is equal to long-term debt including the current portion. Total capitalization is equal to long-term debt including the current portion plus shareholders' equity.

These non-GAAP financial measures and ratios may not be comparable to similar measures and statistics presented by other issuers. The ratios are presented because they are commonly referred to by lenders and other interested parties in evaluating the Company's financial position. Certain comparative figures have been reclassified to conform to current period presentation.

## **Recent Events**

### ***Credit Agreement Renewal***

On July 1, 2009 the Company entered into an amended and restated credit agreement with its lenders which extended the revolving portion of the credit facility to June 30, 2012; the previous credit agreement was originally due to expire November 27, 2009.

Under the terms of the agreement the maximum credit available under the Canadian and United States revolving operating loan is \$137 million Canadian and \$15 million U.S. which was reduced from \$210 million Canadian and \$18 million U.S., respectively. The maximum credit available under the term loans was maintained at \$170 million Canadian and \$73 million U.S. The Company's ability to request expansion of the borrowing capacity under the agreement was maintained at \$250 million for the revolving operating loans and \$325 million for the term loans.

Interest on the revolving operating loans is at bank prime rate plus 0.50% to 1.75% for Canadian dollar loans, U.S. Base rate loans and U.S. Prime rate loans, at LIBOR or Bankers Acceptance rate plus 2.00% to 3.25% for Bankers Acceptances and LIBOR loans, and at 1.75% to 2.75% for Letters of Credit depending upon certain financial ratios. There have been no material changes to the Company's banking covenants.

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### Normal Course Issuer Bid

On February 26, 2009, the Company announced a Normal Course Issuer Bid to purchase up to a maximum of 2,308,725 common shares, representing 5.0% 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. For the nine months ended September 30, 2009, the Company purchased 688,300 common shares at an average cost of \$7.94 per share (inclusive of brokerage fees) for a total expenditure of \$5.5 million. All repurchased shares were cancelled as of September 30, 2009.

## Summary of Consolidated Financial Results

The following table summarizes key financial data to be read in conjunction with the unaudited interim financial statements of the Company as at and for the three and nine months ended September 30, 2009, as well as the annual audited consolidated financial statements of the Company as at December 31, 2008. The financial statements are prepared in accordance with Canadian GAAP.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	\$ 459.7	\$ 585.8	\$ 1,414.1	\$ 1,633.1
EBITDA	35.5	54.4	105.8	139.2
Net earnings	9.7	(163.2)	32.0	(132.9)
per common share – basic	0.21	(3.41)	0.70	(2.78)
per common share – diluted	0.21	(3.41)	0.70	(2.78)
Funds provided by operations before changes in non-cash working capital	30.1	38.3	68.9	100.5

  

	September 30, 2009	December 31, 2008
Working capital	\$ 343.3	\$ 313.1
Total assets	940.9	1,088.9
Shareholders' equity	501.5	482.2

### Highlights

#### Revenue

Revenue for the three months ended September 30, 2009 was \$459.7 million, a decrease of \$126.1 million (21.5%), compared to \$585.8 million for the same period of 2008. Decreased revenues from the Production Services segment, particularly in the United States, and the Oilfield Services segment contributed to the overall reduction. Canadian operations generated \$386.8 million in revenues, down \$66.0 million (14.6%) during the quarter, while the United States revenues were \$72.9 million, down \$60.1 million (45.2%) as a result of reduced natural gas field work. United States operations accounted for 15.9% of revenues for the quarter as compared to 22.7% in the prior comparable quarter. Revenue for the nine months ended September 30, 2009 decreased \$219.0 million (13.4%) to \$1,414.1 million.

#### EBITDA

EBITDA was \$35.5 million for the quarter, compared to \$54.4 million in the comparative quarter. EBITDA as a percentage of revenue declined to 7.7% from 9.3%. The decrease in EBITDA, as a percentage of revenue, was a result of a decline in drilling activity and related field work and an increase in competitive pressures, particularly in the United States, eroding gross margins. General and administrative expenses for the three months ended September 30, 2009 were \$29.1 million compared to \$42.0 million in 2008, a decrease of \$12.9 million and as a percentage of

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revenue, improved by 0.9% to 6.3%. The Company has implemented many cost control measures, including salary reductions. Additional costs are being incurred in information technology to support increasing system requirements as portions of Oilfield Services and Canadian and United States Production Services are being converted to its Enterprise Resource Planning ("ERP") system, JD Edwards, and partially related to the Company's International Financial Reporting Standards ("IFRS") convergence project.

### Net Earnings

Net earnings for the three months ended September 30, 2009 was \$9.7 million or \$0.21 per common share up from a loss of \$163.2 million or (\$3.41) per common share in the comparative quarter. For the nine months ended September 30, 2009 net earnings were \$32.0 million or \$0.70 per common share, up from a loss of \$132.9 million or (\$2.78) per common share. The third quarter of 2008 included an impairment charge of goodwill and intangible assets of \$179.9 million, net of taxes of \$10.5 million.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Net earnings	\$ 9.7	\$ (163.2)	\$ 32.0	\$ (132.9)
Impairment charge	-	179.9	-	179.9
Adjusted net earnings	9.7	16.7	32.0	47.0
Adjusted net earnings per share				
per common share - basic	0.21	0.35	0.70	0.98
per common share - diluted	0.21	0.35	0.70	0.98
Earnings per share				
per common share - basic	0.21	(3.41)	0.70	(2.78)
per common share - diluted	0.21	(3.41)	0.70	(2.78)

### Quarterly Information

	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	\$ 459.7	\$ 424.2	\$ 530.2	\$ 678.2	\$ 585.8	\$ 531.7	\$ 515.6	\$ 465.0
Adjusted net earnings	9.7	3.8	18.5	22.1	16.7	11.8	18.4	9.6
per common share - basic	0.21	0.08	0.40	0.47	0.35	0.25	0.38	0.20
per common share - diluted	0.21	0.08	0.40	0.47	0.35	0.25	0.38	0.21
Net earnings (loss)	9.7	3.8	18.5	(224.5)	(163.2)	11.8	18.4	9.6
per common share - basic	0.21	0.08	0.40	(4.78)	(3.41)	0.25	0.38	0.20
per common share - diluted	0.21	0.08	0.40	(4.78)	(3.41)	0.25	0.38	0.21

A number of factors contribute to variations in the Company's results between periods. These include, but are not limited to, weather, customer capital spending, as well as drilling programs which are affected by oil and natural gas commodity prices, and seasonal behaviours in customer spending caused by activities such as plant shutdown work.

Certain business lines within the Company relate to the maintenance and operation of oilfield facilities, which generally produce consistent revenues, while other business lines relate to large projects, potentially resulting in fluctuating revenue streams over time. While a significant amount of the business activity related to the maintenance and operation of oilfield facilities is under long-term contract, the work is still primarily call-out related and is provided on an as-needed basis and therefore, does not generate a consistent revenue stream between periods. The Oilfield Services operating segments' primary business drivers are related to the drilling cycle in the Western Canadian Sedimentary Basin, while the specialized heavy haul operation, included as part of the Oilfield Services operating segment, will have more specific business drivers related to the movement of large pieces of equipment and module components of construction projects.

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With the Company's United States operations, the consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of its United States operations to Canadian dollars. During the nine months ended September 30, 2009, 18.1% of the Company's business activity was in the United States.

### **Results of Operations**

On January 7, 2009, the Company announced a restructuring of its business segments as part of the process to streamline operations. The Company began reporting in the new structure consisting of four segments in 2009. The comparative results have been restated to conform to the new basis of presentation. The new segments are: Production Services, Facility Infrastructure, Oilfield Services, and Maintenance Services.

Production Services, which now includes the previous Tubular Management and Manufacturing segment, remains focused on midstream oil and gas field production services. These services encompass: fabrication, construction and maintenance of production facilities, mid-inch pipelines, production equipment, and mid-sized construction management with the inspection repair and refurbishing of production tubing, drill pipe, sucker rods, casing, small diameter pipelines and polyethylene pipe and liners.

Facility Infrastructure, which includes oil sands construction activities, remains unchanged and provides construction management, modular fabrication, and field construction services on major construction projects primarily in Edmonton and Fort McMurray, Alberta.

Oilfield Services now combines the Fluid Haul Services business unit previously reported in Production Services, and the previous Oilfield Transportation segment. This new segment will provide: drill rig and service rig moving; module, equipment and specialty hauling; fluid handling, pressure and vacuum services, industrial and chemical cleaning; and coiled tubing and flush-by services.

Maintenance Services remains unchanged, and consists of four joint venture companies: FT Services, Mackenzie Valley Construction, SRP North Ventures and Mackenzie Aboriginal Corporation.

The Company evaluates performance of operating segments based on earnings before interest, taxes, depreciation, amortization, impairment of intangible assets and goodwill, and stock based compensation for equity settled awards, which follows the organization, management and reporting structure of the Company.

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

<i>(in thousands of Canadian dollars)</i>	Production Services	Facility Infrastructure	Oilfield Services	Maintenance Services	Total
<i>Three months ended September 30, 2009</i>					
Revenue	\$ 182,496	\$ 156,388	\$ 45,338	\$ 75,471	\$ 459,693
EBITDA	7,860	21,254	3,384	2,985	35,483
EBITDA %	4.3%	13.6%	7.5%	4.0%	7.7%
Amortization on property, plant and equipment, and intangible assets	6,052	2,968	4,995	1,696	15,711
Capital expenditures	3,379	2,910	875	2,512	9,676
<i>Three months ended September 30, 2008 (restated)</i>					
Revenue	\$ 268,969	\$ 167,099	\$ 73,757	\$ 75,929	\$ 585,754
EBITDA	25,792	16,144	8,167	4,330	54,433
EBITDA %	9.6%	9.7%	11.1%	5.7%	9.3%
Amortization on property, plant and equipment, and intangible assets	7,740	3,354	7,126	355	18,575
Capital expenditures	10,666	3,211	5,412	1,339	20,628
<i>(in thousands of Canadian dollars)</i>					
	Production Services	Facility Infrastructure	Oilfield Services	Maintenance Services	Total
<i>Nine months ended September 30, 2009</i>					
Revenue	\$ 624,056	\$ 430,968	\$ 155,821	\$ 203,236	\$ 1,414,081
EBITDA	32,471	48,228	11,852	13,248	105,799
EBITDA %	5.2%	11.2%	7.6%	6.5%	7.5%
Amortization on property, plant and equipment, and intangible assets	18,254	7,018	15,040	4,054	44,366
Capital expenditures	9,141	6,370	4,458	5,282	25,251
<i>Nine months ended September 30, 2008 (restated)</i>					
Revenue	\$ 817,749	\$ 388,588	\$ 210,756	\$ 215,959	\$ 1,633,051
EBITDA	73,180	34,511	17,263	14,257	139,211
EBITDA %	8.9%	8.9%	8.2%	6.6%	8.5%
Amortization on property, plant and equipment, and intangible assets	24,727	8,447	19,072	937	53,183
Capital expenditures	16,744	5,099	9,748	4,703	36,294
<i>(in thousands of Canadian dollars)</i>					
	Production Services	Facility Infrastructure	Oilfield Services	Maintenance Services	Total
<i>As at September 30, 2009</i>					
Total assets	\$ 356,250	\$ 282,513	\$ 208,108	\$ 93,998	\$ 940,869
<i>As at December 31, 2008 (restated)</i>					
Total assets	\$ 514,290	\$ 275,217	\$ 251,743	\$ 47,620	\$ 1,088,870

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

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(in thousands of Canadian dollars, for the three months ended September 30)	2009		2008			
<b>Revenue by operating segment</b>						
Production Services	\$	182,496	40%	\$	268,969	46%
Facility Infrastructure		156,388	34%		167,099	28%
Oilfield Services		45,338	10%		73,757	13%
Maintenance Services		75,471	16%		75,929	13%
Total	\$	459,693	100%	\$	585,754	100%
<b>EBITDA by operating segment</b>						
Production Services	\$	7,860	22%	\$	25,792	47%
Facility Infrastructure		21,254	60%		16,144	30%
Oilfield Services		3,384	10%		8,167	15%
Maintenance Services		2,985	8%		4,330	8%
Total	\$	35,483	100%	\$	54,433	100%

### Production Services

The Production Services segment provides pipeline work, day-to-day field facility installation and maintenance services, as well as electrical, instrumentation, mechanical, safety, plant shutdown, turnaround services and tubular management and manufacturing.

Selected financial information for each geographic location in this segment is as follows:

(in thousands of Canadian dollars, for the three months ended September 30)	2009		2008		
<b>Revenue by geographic location</b>					
Canada	\$	111,153	\$	139,169	
United States		71,344		129,800	
Total	\$	182,497	\$	268,969	
<b>EBITDA by geographic location</b>					
Canada	\$	5,405	\$	10,589	
United States		2,455		15,203	
Total	\$	7,860	\$	25,792	

### Revenue

Revenue from the Production Services segment decreased 32.1% to \$182.5 million for the three months ended September 30, 2009 from \$269.0 million in 2008. For the nine months ended September 30, 2009, revenue decreased 23.7% to \$624.1 million, from \$817.7 million in 2008. In Canada, revenues decreased \$28.0 million (20.1%) from the prior year's quarter to \$111.2 million, as a result of lower pipeline construction and field service activities. In the United States, revenues decreased 45.0% to \$71.3 million, from \$129.8 million in the comparative quarter as a result of reduced activity levels in all markets. The decrease in revenue was partially offset by a weaker Canadian dollar versus American dollar resulting in higher revenues upon translation into Canadian dollars in 2009 compared to 2008.

### EBITDA

Production Services' EBITDA decreased to \$7.9 million (69.5%) for the three months ended September 30, 2009 compared to \$25.8 million in 2008. In Canada, EBITDA decreased to \$5.4 million from \$10.6 million for the comparative quarter, and EBITDA margin as a percentage of revenue decreased to 4.9% from 7.6% for the quarter.

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In the United States, EBITDA decreased to \$2.5 million from \$15.2 million for the comparative quarter. Competitive pressures and cost cutting by customers continue to put downward pressure on gross margins, and reduced activity levels affected the Company's ability to cover fixed costs in the quarter.

Production Services' assets decreased to \$356.3 million for the nine months ended September 30, 2009 compared to \$514.3 million in 2008. The majority of this difference is due to reduced accounts receivable and revenue in excess levels in this segment. This reduction was a result of reduced economic activity and improved billing and cash collection processes, which has resulted in improved DSOs.

### **Facility Infrastructure**

The Facility Infrastructure 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.

#### **Revenue**

Facility Infrastructure revenue decreased 6.4% to \$156.4 million for the three months ended September 30, 2009 from \$167.1 million in the third quarter of 2008, and for the nine months ended September 30, 2009 revenue increased 10.9% to \$431.0 million from \$388.6 million in 2008. The increase in revenue was primarily due to continued work in the quarter on the Shell Albion Sands, Suncor Energy Firebag and Statoil projects.

#### **EBITDA**

Facility Infrastructure's EBITDA increased by 32.3% to \$21.3 million for the three months ended September 30, 2009 from \$16.1 million for the comparative quarter. For the nine months ended September 30, 2009 EBITDA increased by 39.8% to \$48.2 million from \$34.5 million. EBITDA as a percentage of revenue increased to 13.6% from 9.7% in the comparative quarter, and increased to 11.2% from 8.9% year to date versus the prior period. Productivity and efficiency improvements coupled with reduced contingencies contributed to the increase in EBITDA margins.

### **Oilfield Services**

The Oilfield Services segment includes activities focused on energy related hauling such as drilling rig moving, pressure and vacuum services, specialized hauling, service rig moving and light hauling.

#### **Revenue**

During the three months ended September 30, 2009, revenue was \$45.3 million, a decrease of 38.6% from \$73.8 million in the comparative quarter. For the nine months ended September 30, 2009 revenue decreased to \$155.8 million, a decrease of 26.1% from \$210.8 million in the prior year. A decrease in hauling and rig moving activities in Western Canada resulted in the reduction in revenue.

#### **EBITDA**

Oilfield Services' EBITDA for the three months ended September 30, 2009 decreased to \$3.4 million, a decrease of 58.6% from \$8.2 million in the comparative quarter. For the nine months ended September 30, 2009 EBITDA was \$11.9 million compared to \$17.3 million, as a result of lower revenues and increased competitive pressures compared to the prior period. EBITDA as a percentage of revenue decreased to 7.5% from 11.1% in the comparative quarter, and decreased to 7.6% from 8.2% year to date compared to the prior year. The reduction in EBITDA was a direct result of low hauling activity levels and an increased competitive environment.

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### Maintenance Services

The Maintenance Services segment provides delivery of asset management services for all routine plant maintenance and turnaround services for oil sands production facilities in Alberta, as well as oil refineries and related chemical, energy, electrical and processing plants. This work is performed through a 50% owned joint venture company, FT Services. Also included in this business segment is the proportional share of three other joint venture companies: Mackenzie Valley Construction, with a base operation in Inuvik, Northwest Territories; SRP North Ventures, with a base operation in Norman Wells, Northwest Territories; and Mackenzie Aboriginal Corporation. These joint venture companies provide a variety of services including maintenance and logistical services.

### Revenue

Revenue for the three months ended September 30, 2009 remained flat at \$75.5 million from \$75.9 million for the comparative quarter, and for the nine months ended September 30, 2009 revenues were \$203.2 million down from \$216.0 million for the comparative period. Work on a major turnaround performed for Suncor Energy in the second quarter of 2008 generated increased revenue in that period. Maintenance agreement work performed by FT Services for Suncor Energy and for Canadian Natural Resources Limited continued in the third quarter of 2009.

### EBITDA

Maintenance Services' EBITDA decreased to \$3.0 million for the three months ended September 30, 2009 from \$4.3 million, while EBITDA for the nine months ended September 30, 2009 was \$13.2 million, down from \$14.3 million for the comparative period last year. EBITDA as a percentage of revenue decreased in the third quarter to 4.0%, down from 5.7% as a result of increased non-reimbursable contract costs related to Mackenzie Valley Construction. For the nine months ended September 30, 2009, EBITDA as a percentage of revenue was 6.5%, compared to 6.6% in the prior period.

### Consolidated Financial Position

The following table summarizes key consolidated financial position data:

<i>As at</i>	September 30, 2009	December 31, 2008	Increase (Decrease)	% Change
Current assets	\$ 516.5	\$ 633.5	\$ (117.0)	(18.5%)
Current liabilities	173.3	320.4	(147.1)	(45.9%)
Net working capital	343.2	313.1	30.1	9.6%
Current	14.6	60.3	(45.7)	(75.8%)
Non-current	230.7	250.1	(19.4)	(7.8%)
Long-term debt	245.3	310.4	(65.1)	(21.0%)
Total assets	940.9	1,088.9	(148.0)	(13.6%)
Total liabilities	439.3	606.7	(167.4)	(27.6%)
Days sales outstanding (DSO)	71	79	(8)	(10.4%)

### Highlights

As at September 30, 2009, the Company's working capital was \$343.2 million compared to \$313.1 million at December 31, 2008. The increase of \$30.1 million or 9.6% was primarily attributed to a reduction in accounts payable, partially offset by reductions in accounts receivable and revenue in excess, in addition to generating

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sufficient cash flow to repay in full the revolving operating loan in full in the second quarter, compared to \$40.9 million outstanding as at December 31, 2008.

During the quarter, the Company continued to improve the effectiveness and timeliness of billings and collections, which resulted in significant financial position improvements. Revenue in excess of billings for the nine months ended September 30, 2009 was \$88.2 million, a decrease of \$81.5 million or 48.0% from \$169.7 million at the end of 2008. Accounts receivable was reduced by \$105.2 million or 30.0% to \$246.0 from \$351.2 million at the end of 2008. The aging of accounts receivable as at September 30, 2009 improved, with 11.7% of trade receivables outstanding greater than 60 days, down from 14.4% at the end of fiscal 2008.

Days Sales Outstanding ("DSO") at September 30, 2009 was 71 days, an improvement of 8 days compared to 79 days at December 31, 2008. DSO fluctuates throughout the year due to the timing of client milestone billings and pre-payments from our clients. However, improving cash generating ability is a priority, given uncertainties in the current economic climate.

## Liquidity and Capital Resources

At September 30, 2009, the Company had \$108.8 million in cash and cash equivalents. The Company's principal sources of capital are cash flows from operations and borrowing under its senior credit facility. The Company's principal uses of cash are for the financing of working capital and capital expenditures.

Selected cash flow and capitalization data is as follows:

<i>As at and for the three months ended</i>	September 30, 2009	December 31, 2008	September 30, 2008
Funds provided by operations before changes in non-cash working capital	\$ 30.1	\$ 43.3	\$ 38.3
Cash provided by operations	57.7	76.0	57.7
Cash flow to interest bearing debt (annualized)	45.7%	46.3%	28.2%
Long-term debt (including current portion)	245.4	310.4	408.2
Debt to total capitalization	32.8%	39.2%	37.0%

### Cash Flow and Liquidity

Cash provided by operating activities for the three months ended September 30, 2009 and September 30, 2008 was \$57.7 million for both quarters. The cash provided by operating activities was the result of fluctuations in non-cash balances related to operations during the quarter.

Cash flows used in investing activities for the three months ended September 30, 2009 decreased to \$6.8 million compared to \$16.6 million for the prior period. The decrease of \$9.8 million (58.9%) from the comparative period was due to the reduction of net capital expenditures. During the three months ended September 30, 2009, the Company incurred capital expenditures of \$9.7 million, compared to \$19.1 million in the comparative period. The current quarter expenditures included \$5.0 million of capital costs related to converting portions of Oilfield Services and Canadian and United States Production Services onto the Company's ERP, JD Edwards. Proceeds on disposal of property, plant, and equipment were \$2.9 million for the three months ended September 30, 2009, compared to \$2.5 million in the comparative period. Excluding ERP costs, the reduction of capital expenditures over the prior nine month period was part of the Company's efforts to improve the utilization of capital equipment. Under-utilized equipment was identified for sale or internally transferred.

Cash flows used in financing activities for the three months ended September 30, 2009 were \$6.6 million compared to cash flows used in financing activities of \$9.4 million for September 30, 2008. The Company had net repayments of

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Three and Nine Months Ended September 30, 2009

(in millions of Canadian dollars except share data and per share amounts, unless otherwise stated)

debt of \$6.6 million in the three months ended September 30, 2009, compared to net proceeds of \$4.4 million for the three months ended September 30, 2008. Included in the financing activities for September 30, 2008 was \$14.0 million of expenditures relating to shares repurchased under the Normal Course Issuer Bid.

The Company uses cash flow to interest bearing debt and debt to total capitalization as key indicators of the Company's leverage, and to monitor the strength of its balance sheet. Cash flow to interest bearing debt improved to 45.7%, up from 28.2% at September 30, 2008. Significant reductions in the Company's long-term debt balance over the prior period resulted in the improvement in this ratio. Debt to total capitalization ratio decreased to 32.8% at the end of the quarter from 39.2% at December 31, 2008.

The Company closely monitors its cash generating ability and continues to focus efforts upon improving billing and collection processes, in addition to reducing long-term debt.

### Capital Requirements and Capitalization

At September 30, 2009, the Company had obligations to repay \$61.5 million within one year, which includes \$46.4 million of operating lease payments for vehicles, office equipment, premises and construction equipment. The Company has total operating lease obligations of \$129.2 million compared to \$161.8 million at June 30, 2009. The Company anticipates capital expenditures in 2009 to be below that in fiscal 2008 due to the anticipated lower activity levels in certain segments. Capital expenditures are necessary to replace construction equipment, and heavy trucks and vehicles as they near the end of their useful lives, and when it becomes less economical to continue operating the units due to increasing maintenance costs. Although these capital expenditures may be necessary to achieve operating efficiencies, the Company has no obligation to incur them.

### Debt Repayment Obligations

The following table presents the Company's future payment obligations:

Maturity	< 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Long-term debt	\$ 15.1	\$ 165.9	\$ 65.4	\$ -	246.4
Operating leases	46.4	60.5	22.3	-	129.2
Total contractual obligations	\$ 61.5	\$ 226.4	\$ 87.7	\$ -	375.6

### Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at September 30, 2009, 45,500,214 common shares were outstanding as compared to 46,188,514 as at December 31, 2008. No preferred shares were outstanding during or at the end of either of these periods. Certain employees, officers and directors of the Company have been granted options to purchase common shares under the Company's incentive stock option plan. There were 3,001,043 options outstanding as at September 30, 2009.

For the nine months ended September 30, 2009, 688,300 common shares were purchased pursuant to the Company's Normal Course Issuer Bid at an average cost of \$7.94 per share (inclusive of brokerage fees) for a total expenditure of \$5.5 million.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

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### **Changes in Accounting Policies**

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 on January 1, 2009.

#### ***Section 3064, Goodwill and Intangible Assets***

Effective January 1, 2009, the Company retrospectively adopted CICA Handbook 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 of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the previous Section 3062. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard IAS 38, Intangible Assets. The adoption of this standard did not have a significant impact on its consolidated financial statements.

#### ***Section 3855, Financial Instruments – Recognition and Measurement***

Effective July 1, 2009, the Company adopted CICA amendments Handbook Section 3855, "Financial Instruments – Recognition and Measurement", which add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. The adoption of these amendments did not have a significant impact on the Company's consolidated financial statements.

### **Future Accounting Pronouncements**

The following are recent accounting pronouncements issued but not yet adopted by the Company:

#### ***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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Three and Nine Months Ended September 30, 2009

(in millions of Canadian dollars except share data and per share amounts, unless otherwise stated)

The Company commenced its IFRS conversion project during the second quarter of 2008. The project consists of three phases:

Phase	Description	Status
Phase 1 – Assessment	<p>The technical evaluation of significant differences between Canadian GAAP and IFRS as is relevant to the Company.</p> <p>In January 2009, the International Accounting Standards Board ("IASB") released its work plan and projected timetable for new standards and amendments on various topics including consolidations, financial instruments, income taxes, liabilities, revenue recognition and IFRS 1.</p>	<p>The Company completed a high level assessment of the major differences between Canadian GAAP and IFRS during the third and fourth quarters of fiscal 2008.</p> <p>This phase resulted in the development of a detailed plan under which the design activities are being implemented. The development plan includes an implementation timetable which identifies the key activities that will occur over the next two years leading up to the changeover.</p> <p>The IASB has activities that are currently underway which may change the current interpretation of and effects on the standards as it relates to the Company. As a result, the Company will continue to monitor and assess these changes as they arise during the design phase.</p>
Phase 2 – Design	<p>The identification, evaluation, and selection of accounting policies necessary for the Company to change over to IFRS.</p> <p>In addition, this phase includes an assessment and selection of the operational elements necessary to change over to IFRS such as training, information technology, internal controls over financial reporting, and other business activities that may be influenced by GAAP measures such as debt covenants, hedging, sales practices, and compensation arrangements.</p>	<p>The Company is currently in the process of evaluating and selecting accounting policies necessary for the Company to changeover to IFRS, however, at this current stage, the Company cannot reasonably determine the impact that adopting IFRS will have on its financial position and future results.</p> <p>The evaluation of required changes to information technology, internal controls over financial reporting, and business activities are at an advanced stage and it is anticipated that the evaluation process and concurrently the development of appropriate solutions will be complete by the fourth quarter of 2009.</p> <p>Comprehensive training targeted at staff within the Company's areas most affected by the conversion to IFRS is proceeding well and is on schedule. Training sessions are regular and on going through December 2009.</p>
Phase 3 - Implementation	<p>The integration of financial and operational processes necessary to changeover to IFRS.</p>	<p>Certain aspects of this phase have been established and the company will continue to monitor ongoing changes to IFRS and adjust its implementation plans accordingly.</p>

The IFRS steering committee, made up of senior management representing accounting, information technology, treasury, human resources, and operations, provides senior management guidance and leadership to the conversion project. Management updates the Audit Committee at least quarterly on the status of the project.

### Section 1582, Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", replaced 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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

*(in millions of Canadian dollars except share data and per share amounts, unless otherwise stated)*

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### **Section 1601, Consolidated Financial Statements**

In January 2009, the CICA issued Handbook Section 1601, "Consolidated Financial Statements", replaced the existing standard. 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 for its consolidated financial statements.

### **Section 1602, 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 for its consolidated financial statements.

### **Section 1506, Accounting Changes**

In June 2009, the CICA amended Handbook Section 1506, "Accounting Changes", to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendment applies to interim and annual financial statements relating to fiscal years beginning on or after July 1, 2009. The Company is currently evaluating the impact of the amendments to the standard.

### **Section 3855, Financial Instruments – Recognition and Measurement**

In June 2009, the CICA amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement" to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting purposes. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after May 1, 2009 for the amendments relating to the effective interest method, and January 1, 2011 for the amendment relating to embedded prepayment options. The Company is currently evaluating the impact of the amendments.

### **Section 3862, Financial Instruments – Disclosure**

In June 2009, the CICA amended Handbook Section 3862, "Financial Instruments - Disclosures", to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company is currently evaluating the impact of the amendment to the standard.

### **Section 3251, Equity**

In August 2009, the CICA amended presentation requirements of Handbook Section 3251, "Equity" as a result of issuing Section 1602, "Non-controlling Interests". The amendments apply only to entities that have adopted Section 1602 which 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 the amendments to the standard.

### **Section 1652, Comprehensive Revaluation of Assets and Liabilities**

In August 2009, the CICA amended Handbook Section 1625, "Comprehensive Revaluation of Assets and Liabilities" as a result of issuing Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests" in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

*(in millions of Canadian dollars except share data and per share amounts, unless otherwise stated)*

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Earlier adoption is permitted as of the beginning of a fiscal year, provided that Section 1582 is also adopted. The Company is currently evaluating the impact of the amendments to the standard.

### **Use of Accounting Estimates**

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Company's financial condition and results. The following represents the estimates that management considers most critical to the application of the Company's significant accounting policies.

#### ***Revenue and Cost Recognition***

The Company's Production Services and Facility Infrastructure operating segments perform all 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 cost 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 expenses 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 vary from one year to several years, whereas within the Production Services operating segment, the length of the contracts are 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 represent costs incurred and revenues earned in excess of amounts billed on uncompleted contracts. Billings in excess of revenue represent amounts invoiced in excess of revenue recognized.

Oilfield Services, Maintenance Services and Production Services (specifically Tubular Management and Manufacturing) operating segments recognize revenue as follows:

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

*(in millions of Canadian dollars except share data and per share amounts, unless otherwise stated)*

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- (i) Revenue from oilfield 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 are 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.

### ***Amortization of Property, Plant and Equipment***

The Company's Production Services and Oilfield Services operating segments require a significant investment in construction and hauling equipment. In accordance with the Company's accounting policy related to the amortization of property, plant, and equipment, the cost of construction and hauling equipment is amortized over its estimated useful life.

Judgment is involved in determining the useful life of the equipment, the estimated residual value and the appropriate method of amortization. Factors considered in estimating the useful life of an item of construction or hauling equipment include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the effectiveness of the Company's maintenance program and historical information of similar items retired. The same factors are considered in estimating the residual value of an item of construction or hauling equipment. The accuracy in estimating the residual value of an item of construction or hauling equipment becomes increasingly more difficult the further the estimated useful life extends into the future.

The Company's investment in construction and hauling equipment results in amortization expense being a significant operating cost to the Company, and any misjudgment in estimating the useful life or the residual value of the equipment could result in a misstatement of consolidated amortization expense.

### ***Allowance for Doubtful Accounts Receivable***

The Company performs ongoing credit evaluations of its customers and grants credit based upon the customer's past payment history and financial condition, taking into consideration anticipated changes in industry and economic conditions. Customer payments are regularly monitored and 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 Company's experience with respect to the incurrence of bad debt losses have been within expectations and have generally been limited to a select number of specific customer situations. Given the cyclical nature of the North American oil and natural gas services industry and the risk associated with finding and producing hydrocarbons, a customer's ability to fulfill its obligations can change without notice.

## **Business Risks**

The Company's results are affected by a number of external factors, including commodity prices, which drive producer capital spending levels and the demand for Flint's project related services, foreign currency, interest rates, operational, credit and safety risks.

### ***Producer Capital Spending Levels***

The Company's business is directly affected by fluctuations in the levels of exploration, oil sands development and production activity carried on by its customers, which in turn is dictated by numerous factors, including world energy

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

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prices and government policies. Projected commodity prices drive oil and natural gas producer capital expenditures, including drilling, and production and exploration activity, which in turn impacts the Company's activity levels. Producer capital spending levels have a relatively significant impact on the results of the Company's Facility Infrastructure and Oilfield Services operating segments, compared to the Production Services operating segment and Maintenance Services operating segment, as the latter perform services more related to the ongoing operation and maintenance of producers' physical plants and production. As it is difficult for the Company to effectively manage the fluctuations in activity levels resulting from the peaks and troughs in producer spending related to large capital projects, the Company strives to operate its operating segments in such a manner so as to maximize their scalability relative to activity levels. A significant prolonged decline in commodity prices could have a material adverse effect on the Company's results of operations and financial condition.

### **Foreign Currency**

The Company minimizes its exposure to unrealized translation gains and losses on United States denominated monetary items related to the translation of its net United States investment, by financing the investment with United States dollar denominated debt. The Company may enter into derivative contracts to manage the exposure to foreign currency related to contracted purchases. The Company does not manage the exposure to fluctuations in the United States to Canadian exchange rate related to translating the results of its United States operations.

### **Interest Rates**

In order to minimize the Company's exposure to fluctuating interest rates, the Company has structured its senior credit facility such that a significant amount of its long-term debt has fixed interest rates, and by using interest rate swaps to fix the interest rate on a portion of the debt for longer periods.

### **Operational Risk and Insurance**

The Company's operations are subject to risks inherent in the oil and gas industry such as equipment defects, malfunctions, failures and natural disasters. These risks could expose the Company to substantial liability for personal injury, loss of life, business interruptions, property damages or destruction, pollution and other environmental damages. In addition, the Company's operations are subject to risks normally inherent in the transportation industry, including potential liability, which could result from, among other things, personal injury, loss of life or property damages arising from motor vehicle accidents. The Company minimizes its exposure to operational risk through comprehensive vehicle and equipment maintenance programs designed to prevent failure and maximize the useful life of the related assets. In addition, the Company follows a complete quality assurance and control program designed to maximize performance in its work and minimize deficiencies potentially leading to failures and remedial re-work.

The Company maintains insurance against certain risks to which it is exposed. However, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition, could be materially adversely affected.

### **Safety Risk**

Safety risks are managed through the application of safety policies and procedures conducive to promoting safe work practices to a standard either complying with or exceeding government regulations and industry requirements. The Company maintains a behaviour-based safety program, which uses positive reinforcement to change unsafe behaviours of its employees and contractors.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

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### **Labour Supply Risk**

The Company requires a large number of trades personnel to conduct its operations. Recruiting and training these individuals is critical to the Company's ability to continue to meet customer requirements and generate increasing levels of revenue. As there is a very high demand for many of these skilled positions, the Company devotes significant resources and planning to the recruiting, retaining and training of people in order to secure the required level of staffing and skills necessary to support anticipated levels of work.

### **Credit Risk and Reliance on Major Customers**

The risk of losses from customer non-payment is minimized through the Company's credit granting policies and other procedures designed to limit the exposure to credit risk. As a result of such practices, the Company's bad debt expense has historically been minimal. Substantial portions of the Company's accounts receivable are with customers involved in the oil and gas industry whose revenues may be impacted by fluctuations in commodity prices. Management currently considers the risk of a significant loss to be remote. The Company's top ten customers are all well-known, publicly traded companies. The top ten customers of the Company accounted for approximately 49.1% of the Company's revenue for the year ended December 31, 2008, and the largest customer accounted for approximately 13.3% of this revenue. There can be no assurance that the Company's current customers will continue their relationships with the Company. The loss of one or more major customers, or any significant decrease in services provided to a customer, prices paid, or any other changes to the terms of service with customers, could have a material adverse effect on the profitability of the Company.

### **Fuel Prices**

Fuel is one of the Company's major costs and as such, higher fuel prices could materially affect the Company's results. The Company manages this exposure to rising fuel costs through fuel surcharges to customers.

### **Legislation and Regulation**

Income tax, environmental and other applicable legislation may be changed in a manner which adversely affects the Company.

Transportation regulations governing the Oilfield Services segment require licensing from or registration with, provincial and territorial authorities in order to carry goods extra-provincially or to transport goods within any province or territory. Changes in regulations applicable to the Company could increase operating costs and have a material adverse effect on the Company's operations and financial condition.

The right to continue to hold applicable licenses and permits is generally subject to maintaining satisfactory compliance with regulatory and safety guidelines, policies and regulations. Although the Company is committed to compliance and safety, there is no assurance that the Company will be in full compliance at all times with such policies, guidelines and regulations. Consequently, at some future time, the Company could be required to incur significant costs to maintain or improve its compliance record.

### **Environmental Liability Risks**

Certain operating segments within the Company routinely deal with natural gas, oil and other petroleum products. The Company has programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. There can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. Although the Company is not aware of any contamination which, if remediation or clean up were required, would have a material adverse effect on the Company, there can be no assurance that the Company will not be required at some future date, to incur significant costs to comply with current or future environmental laws.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

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### ***Weather and Seasonality***

Weather conditions can restrict or impede the Company's ability to deliver its services. Municipalities and provincial transportation departments enforce road bans during certain times of the year which restrict the movement of the Company's own equipment and those of the customer, thereby reducing the Company's activity levels during these periods. Additionally, certain oil and gas producing areas are only accessible in the winter months due to ground conditions. Seasonal factors and unexpected weather patterns may lead to declines in activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Company. The Company's operations are geographically dispersed throughout the major oil and gas producing areas in North America and therefore the risk associated with seasonal and inclement weather is somewhat mitigated.

### **Internal Controls over Disclosure and Financial Reporting**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information is being made known to the appropriate individuals. In addition, the CEO and CFO are responsible to design internal controls over financial reporting or cause them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

#### ***Disclosure Controls and Procedures***

An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of September 30, 2009, by and under the supervision of the Company's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the disclosure controls and procedures were effective as at September 30, 2009.

#### ***Internal Controls over Financial Reporting***

The Company's management, including the CEO and the CFO, has evaluated the design of the Company's Internal Control over Financial Reporting ("ICFR") using the framework and criteria established in the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's ICFR as of September 30, 2009 were effective. Internal design effectiveness and operational effectiveness testing has led the Company to conclude that the previously identified material weakness with the information systems has been remediated.

Management has concluded that the consolidated financial statements fairly represent the Company's consolidated financial position and consolidated results of operations as of and for the three and nine months ended September 30, 2009.

#### ***Changes in Internal Controls over Financial Reporting***

The Company continues to standardize processes and controls as it implements its Enterprise Resource Planning System (JD Edwards). Several new controls have been designed, implemented and tested for operational effectiveness in the third quarter of 2009. In addition the Oilfield Services and Production Services (specifically Tubular Management and Manufacturing) segments have now transitioned their general ledger, to the Company's ERP application, JD Edwards.

During the quarter, we completed the rationalization of the ICFR controls. There were no other changes in the Company's ICFR in the third quarter of 2009 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Three and Nine Months Ended September 30, 2009

*(in millions of Canadian dollars except share data and per share amounts, unless otherwise stated)*

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### **Limitations on the Effectiveness of Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Management does not expect that the Company's disclosure controls and procedures and ICFR will prevent all error or fraud. A control system, no matter how well designed and implemented, can provide only reasonable, not absolute, assurance for both prevention and detection of errors or fraud. The inherent limitations include: judgments in decision-making can be faulty; breakdowns can occur because of simple errors or mistakes; controls can be circumvented by individual acts or collusion; and management override of controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Outlook**

North American and global economies which contracted in recession for the past twelve months are showing signs that a recovery is underway.

While crude oil prices continued to rally in the third quarter, natural gas pricing closed the quarter averaging only \$3.41 in September, and as a result, drilling activity in both Canada and the United States remained at very depressed levels compared to the third quarter in 2008.

Canadian rig counts averaged 219 active rigs in the third quarter, down from an average of 408 last year, but activity was up from an average of only 90 active rigs in the second quarter of 2009. United States drilling activity averaged 973 active rigs in the third quarter, down from 1,978 active rigs last year, and up from an average of 936 in the second quarter.

Recent rig activity in both Canada and the United States continues to remain down 50% compared to last year, and the outlook for the fourth quarter is for activity to remain well below typical levels for this time of year. Recent futures trading in natural gas suggests we should see improved natural gas pricing in 2010, which if sustained, could lead to somewhat improved activity levels next year.

Oil sands capital spending in 2009 which is projected to be down nearly 50% from the record levels set in 2008, is now expected to improve in 2010 with the sanctioning of new projects, stronger crude oil prices seen in the third quarter and with improving futures trading in crude oil. Suncor Energy, which recently completed its merger with Petro-Canada, is expected to announce its capital spending plans for 2010 in mid-November, including the restart of the Firebag 3 project which was deferred in January of this year due to the depressed crude oil prices seen in the first quarter of this year.

Flint's Production Services and Oilfield Services segments will continue to experience pressure on revenues and margins while drilling activity remains weak in the fourth quarter. On a positive note, Flint's Facility Infrastructure segment will continue to experience improving revenues with peak activity levels on the Shell Albion Sands and Statoil oil sands projects. These projects will begin to ramp down in the first half of 2010 as the projects reach their completion and commissioning phases. The Maintenance Services segment which includes the FT Services joint venture maintenance contract with Suncor Energy, saw FT Services successfully complete a planned outage at one of Suncor's oil sands facilities in the third quarter. Planning is underway for the next major turnaround for Suncor in 2010.

Flint's management continues to focus on cost controls, business development activities and improving the Company's balance sheet.

## **Additional Information**

Additional information related to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com), including a copy of the Company's latest Annual Information Form.

November 9, 2009

## CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

(unaudited)

As at September 30, 2009 December 31, 2008

### ASSETS

#### Current assets:

Cash	\$	108,841	\$	1,408
Accounts receivable		246,033		351,245
Revenue in excess of billings		88,181		169,702
Inventories		50,559		71,993
Prepaid expenses and deposits		7,335		11,955
Future income tax assets		7,382		13,225
Income taxes receivable		8,214		13,962
		516,545		633,490

Property, plant and equipment		397,134		433,114
Other long-term assets		1,324		2,318
Future income tax assets		25,866		19,948
		\$ 940,869		\$ 1,088,870

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current liabilities:

Accounts payable and accrued liabilities	\$	134,604	\$	230,789
Billings in excess of revenue		12,500		7,593
Income taxes payable		9,095		9,677
Future income tax liabilities		2,430		12,108
Current portion of long-term debt (Note 3)		14,622		60,267
		173,251		320,434

Long-term debt (Note 3)		230,735		250,164
Future income tax liabilities		35,339		36,118
		439,325		606,716

#### Shareholders' equity:

Accumulated other comprehensive loss		(10,778)		(1,073)
Deficit		(63,141)		(95,164)
		(73,919)		(96,237)

Capital stock (Note 4)		553,010		561,376
Contributed surplus		22,453		17,015
		501,544		482,154

		\$ 940,869		\$ 1,088,870
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Commitments and Contingencies (Note 6)

See accompanying notes to the unaudited interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

<i>(in thousands of Canadian dollars, except share data)</i> <i>(unaudited)</i>	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	\$ 459,693	\$ 585,754	\$ 1,414,081	\$ 1,633,051
Direct costs	395,439	489,361	1,206,037	1,372,950
	64,254	96,393	208,044	260,101
General and administrative expenses	29,086	41,960	103,311	120,890
Amortization on property, plant and equipment	15,396	16,343	43,300	46,486
Amortization on intangible assets	-	2,232	-	6,697
Impairment of intangible assets and goodwill	-	190,357	-	190,357
Stock based compensation expense	776	1,146	2,537	3,516
Earnings (loss) before other expense (income) and income taxes	18,996	(155,645)	58,896	(107,845)
Other expense (income):				
Interest expense	4,027	7,920	12,990	15,826
Interest income	(46)	(241)	(163)	(799)
Earnings (loss) before income taxes	15,015	(163,324)	46,069	(122,872)
Income taxes:				
Current	808	5,834	23,282	25,077
Future (reduction)	4,485	(5,973)	(9,236)	(15,018)
	5,293	(139)	14,046	10,059
Net earnings (loss)	\$ 9,722	\$ (163,185)	\$ 32,023	\$ (132,931)
Earnings (loss) per share:				
Basic	\$ 0.21	\$ (3.41)	\$ 0.70	\$ (2.78)
Diluted	\$ 0.21	\$ (3.41)	\$ 0.70	\$ (2.78)
Weighted average common shares:				
Basic	45,500,214	47,843,699	45,798,005	47,732,916
Diluted	45,967,436	47,843,699	46,055,357	47,732,916

See accompanying notes to the unaudited interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

<i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i>	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Net earnings (loss)	\$ 9,722	\$ (163,185)	\$ 32,023	\$ (132,931)
Other comprehensive (loss) gain				
Unrealized (loss) gain on foreign currency translation of self-sustaining foreign operations	(6,112)	6,889	(9,705)	8,540
Other comprehensive (loss) earnings	(6,112)	6,889	(9,705)	8,540
Comprehensive earnings (loss)	\$ 3,610	\$ (156,296)	\$ 22,318	\$ (124,391)

See accompanying notes to the unaudited interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in thousands of Canadian dollars)</i> <i>(unaudited)</i>	Accumulated Other Comprehensive (Loss) Gain	Capital Stock	Contributed Surplus	Deficit	Adjustment arising from shares purchased under a normal course issuer bid	Total
Balance, December 31, 2007	\$ (26,325)	\$ 576,304	\$ 9,359	\$ 264,965	\$ -	\$ 824,303
Net earnings	-	-	-	(132,931)	-	(132,931)
Exercised employee stock options	-	4,417	-	-	-	4,417
Transfer for stock options exercised	-	1,689	(1,689)	-	-	-
Stock based compensation expense	-	-	3,516	-	-	3,516
Purchases under normal course issuer bid (Note 4)	-	(7,439)	-	(2,559)	-	(9,998)
Purchases under normal course issuer bid, uncanceled	-	-	-	-	(3,965)	(3,965)
Unrealized gain on foreign currency translation of self-sustaining foreign operations	8,540	-	-	-	-	8,540
Balance, September 30, 2008	\$ (17,785)	\$ 574,971	\$ 11,186	\$ 129,475	\$ (3,965)	\$ 693,882
Balance, December 31, 2008	\$ (1,073)	\$ 561,376	\$ 17,015	\$ (95,164)	\$ -	\$ 482,154
Net earnings	-	-	-	32,023	-	32,023
Stock based compensation expense	-	-	2,537	-	-	2,537
Purchases under normal course issuer bid (Note 4)	-	(8,366)	2,901	-	-	(5,465)
Unrealized loss on foreign currency translation of self-sustaining foreign operations	(9,705)	-	-	-	-	(9,705)
Balance, September 30, 2009	\$ (10,778)	\$ 553,010	\$ 22,453	\$ (63,141)	\$ -	\$ 501,544

See accompanying notes to the unaudited interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net earnings	\$ 9,722	\$ (163,185)	\$ 32,023	\$ (132,931)
Items not affecting cash:				
Amortization on property, plant and equipment, and intangible assets	15,711	18,575	44,366	53,183
Amortization on finance charges	375	216	1,020	564
Gain on disposal of property, plant and equipment	(250)	(428)	(650)	(488)
Impairment of intangible assets and goodwill	-	190,357	-	190,357
Stock based compensation expense	776	1,146	2,537	3,516
Unrealized foreign exchange (gain) loss on long-term debt	(738)	(2,397)	(1,178)	1,339
Future income taxes (reduction)	4,485	(5,973)	(9,236)	(15,018)
	30,081	38,311	68,882	100,522
Changes in non-cash balances relating to operations	27,609	19,409	118,572	(87,806)
<b>Net cash provided by operating activities</b>	<b>57,690</b>	<b>57,720</b>	<b>187,454</b>	<b>12,716</b>
<b>Investing activities:</b>				
Purchase of property, plant and equipment	(9,676)	(19,065)	(25,251)	(36,294)
Proceeds from disposal of property, plant and equipment	2,868	2,499	9,345	8,988
<b>Net cash used in investing activities</b>	<b>(6,808)</b>	<b>(16,566)</b>	<b>(15,906)</b>	<b>(27,306)</b>
<b>Financing activities:</b>				
(Decrease) increase in revolving operating loan	-	-	(40,900)	40,000
Proceeds from long-term debt	4,823	10,403	21,049	16,851
Repayments of long-term debt	(10,669)	(5,877)	(33,176)	(16,053)
Repayment of obligations under capital lease	(790)	(122)	(2,314)	(1,653)
Proceeds from issue of capital stock on exercise of options	-	123	-	4,416
Share repurchase via normal course issuer bid (Note 4)	-	(13,963)	(5,465)	(13,963)
<b>Net cash (used in) provided by financing activities</b>	<b>(6,636)</b>	<b>(9,436)</b>	<b>(60,806)</b>	<b>29,598</b>
Effect of foreign exchange rate changes on cash balances	(1,737)	1,714	(3,309)	1,864
Increase in cash	42,509	33,432	107,433	16,872
Cash, beginning of period	66,332	15,758	1,408	32,318
<b>Cash, end of period</b>	<b>\$ 108,841</b>	<b>\$ 49,190</b>	<b>\$ 108,841</b>	<b>\$ 49,190</b>
<b>Supplemental cash flow information:</b>				
Net cash (paid) received during the period for:				
Interest paid	\$ (4,211)	\$ (7,921)	\$ (13,629)	\$ (15,827)
Interest received	47	241	164	799
Income taxes received (paid)	\$ 7,672	\$ (1,101)	\$ (18,115)	\$ (56,380)

See accompanying notes to the unaudited interim consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Three and Nine Months Ended September 30, 2009

*(unaudited)*

*(in thousands of Canadian dollars except share data unless or otherwise specified)*

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### **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, and plant maintenance and other. The Company provides these services from over 60 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. Basis of Presentation**

These unaudited interim consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada. They do not include all the disclosures as required for annual financial statements under Canadian generally accepted accounting principles. The interim consolidated financial statements include the accounts of Flint Energy Services Ltd. and all subsidiary companies, collectively the "Company". 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 are included in the accounts. The interim consolidated financial statements follow the same significant accounting policies as described and used in the consolidated financial statements included in the Company's most recent annual report for the year ended December 31, 2008, except as described in Note 2(a) below, and should be read in conjunction with that report.

The preparation of the interim consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results may differ materially from those estimates and assumptions.

There are factors causing quarterly variances which may not be reflective of the Company's future performance. These include, but are not limited to weather, customer capital spending, as well as drilling programs which are affected by oil and natural gas commodity prices, and seasonal behaviours in customer spending caused by activities such as plant shutdown work. As the Company has United States operations, the consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of its United States operations to Canadian dollars. As a result, quarterly operating results should not be relied upon as any indication of results for any future period.

### **2. Summary of Significant Accounting Policies and Practices**

#### **(a) Changes in Accounting Policies**

##### **(i) Goodwill and Intangible Assets**

Effective January 1, 2009, the Company retrospectively adopted CICA Handbook 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. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard IAS 38, Intangible Assets. The adoption of this standard did not have a significant impact on its consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Three and Nine Months Ended September 30, 2009

*(unaudited)*

*(in thousands of Canadian dollars except share data unless or otherwise specified)*

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### (ii) Financial Instruments – Recognition and Measurement

Effective July 1, 2009, the Company adopted CICA amendments Handbook Section 3855, “Financial Instruments – Recognition and Measurement” which add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. The adoption of these amendments did not have a significant impact on its consolidated financial statements.

### (b) Future Accounting Pronouncements

#### (i) 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. The transition from Canadian GAAP to IFRS will be applicable to the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

As of September 30, 2009, the Company has completed a high-level assessment of the major differences between Canadian GAAP and IFRS that is relevant to the Company, along with preliminary position papers on accounting policy choices. The Company continues to evaluate and select accounting policies necessary for the changeover to IFRS but cannot at this time reasonably determine the impact that adopting IFRS will have on its financial position and results of operations.

The Company will continue to monitor any changes in the adoption of IFRS and will update its plan as necessary.

#### (ii) 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 would 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.

#### (iii) 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.

#### (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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Three and Nine Months Ended September 30, 2009

*(unaudited)*

*(in thousands of Canadian dollars except share data unless or otherwise specified)*

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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) Accounting Changes

In June 2009, the CICA amended Handbook Section 1506, "Accounting Changes", to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendment applies to interim and annual financial statements relating to fiscal years beginning on or after July 1, 2009. The Company is currently evaluating the impact of the amendments to the standard.

(vi) Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855, "Financial Instruments - Recognition and Measurement" to clarify the application of the effective interest method after a debt instrument has been impaired. The Section has also been amended to clarify when an embedded prepayment option is separated from its host instrument for accounting purposes. The amendments apply to annual financial statements relating to fiscal years beginning on or after May 1, 2009 for the amendments relating to the effective interest method and January 1, 2011 for the amendment relating to embedded prepayment options. The Company is currently evaluating the impact of the amendments to the standard.

(vii) Financial Instruments – Disclosure

In June 2009, the CICA amended Handbook Section 3862, "Financial Instruments - Disclosures" to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company is currently evaluating the impact of the amendments to the standard.

(viii) Equity

In August 2009, the CICA amended presentation requirements of Handbook Section 3251, "Equity" as a result of issuing Section 1602, "Non-controlling Interests". The amendments apply only to entities that have adopted Section 1602 which 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 the amendments to the standard.

(ix) Comprehensive Revaluation of Assets and Liabilities

In August 2009, the CICA amended Handbook Section 1625 "Comprehensive Revaluation of Assets and Liabilities" as a result of issuing Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests" in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, provided that Section 1582 is also adopted. The Company is currently evaluating the impact of the amendments to the standard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009

(unaudited)

(in thousands of Canadian dollars except share data unless or otherwise specified)

### 3. Long Term Debt

As at	September 30, 2009	December 31, 2008
<b>Revolving Loans</b>		
Revolving operating loan, interest at Canadian bank prime rate plus 0.50% to 1.75% depending upon certain financial ratios, payable monthly in arrears, with the balance due June 30, 2012. Advances under the revolving operating loan may be repaid from time to time at the option of the Company.	\$ -	\$ 40,900
	-	40,900
<b>Term Loans</b>		
Interest at 7.57%, payable monthly in arrears, no principal payments, with the balance due April 30, 2011.	44,000	44,000
Stamping fee at 2.65% of BA Equivalent Note, payable at Note issuance including the discount, with the principal due on each Note term, all not to exceed April 30, 2011.	5,000	5,000
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.	26,768	30,450
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.	17,469	21,125
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.	13,438	16,250
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 \$1,779 starting in 2011, with the balance due November 30, 2013.	35,000	35,000
Stamping fee at 2.00% of BA Equivalent Note, payable at Note issuance including the discount, with the principal due on each Note term in respect to the quarterly installments of \$763 starting 2011, all not to exceed November 30, 2013.	15,000	15,000
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 starting in 2011, with the balance due November 30, 2013.	42,828	48,720
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 starting in 2011, with the balance due November 30, 2013.	8,564	9,744
	228,067	245,289
<b>Other Long Term Debt</b>	18,270	25,528
	246,337	311,717
Less: Deferred finance costs (amortization of \$1,020 (2008 - \$785) is included in interest expense)	(980)	(1,286)
	245,357	310,431
Less: current portion	14,622	60,267
	\$ 230,735	\$ 250,164

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009

(unaudited)

(in thousands of Canadian dollars except share data unless or otherwise specified)

Principal repayments are due as follows:

	Capital leases	Other long-term debt	Total
2010	\$ 2,245	\$ 12,876	\$ 15,121
2011	1,429	117,374	118,803
2012	118	46,942	47,060
2013	23	20,620	20,643
2014	14	44,696	44,710
Thereafter	-	-	-
	\$ 3,829	\$ 242,508	\$ 246,337

On July 1, 2009 the Company entered into an amended and restated credit agreement with its lenders which was extended to June 30, 2012; the previous credit agreement was originally due to expire November 27, 2009.

Under the terms of the agreement, the maximum credit available under the Canadian and United States revolving operating loan was reduced to \$137 million Canadian and \$15 million U.S. from \$210 million Canadian and \$18 million U.S. respectively. The maximum available under the term loans was maintained at \$170 million Canadian and \$73 million U.S. The Company's ability to request expansion of the borrowing capacity under the agreement was maintained at \$250 million for the revolving operating loans and \$325 million for the term loans.

Interest on the revolving operating loans is at bank prime rate plus 0.50% to 1.75% for Canadian dollar loans, U.S. Base rate loans and U.S. Prime rate loans, at LIBOR or Bankers Acceptance rate plus 2.00% to 3.25% for Bankers Acceptances and LIBOR loans, and 1.75% to 2.75% for Letters of Credit depending upon certain financial ratios. There have been no changes to the Company's banking covenants.

#### 4. Capital Stock

Authorized:

Unlimited common shares

Unlimited preferred shares

Issued:	Common shares	Amount
Balance, December 31, 2008	46,188,514	\$ 561,376
Share repurchase via normal course issuer bid	(688,300)	(8,366)
Balance, September 30, 2009	45,500,214	\$ 553,010

##### (a) Normal Course Issuer Bid

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 terminated on February 28, 2009.

On February 26, 2009 the Company received regulatory approval to make an additional Normal Course Issuer Bid to purchase up to 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009

(unaudited)

(in thousands of Canadian dollars except share data unless or otherwise specified)

During the nine months ended September 30, 2009, 688,300 common shares were repurchased pursuant to the Company's Normal Course Issuer Bids for a total expenditure of \$5,465 or \$7.94 per share. All repurchased shares have been cancelled as of September 30, 2009, resulting in the average carrying value of \$8,366 being allocated as a reduction to share capital and \$2,901 representing the consideration below stated value being charged to contributed surplus.

### (b) Directors' Deferred Share Unit Plan

On March 18, 2008 the Company established a Directors' Deferred Share Unit Plan ("DSU") which became effective on May 19, 2009. Under the terms of the DSU, the portion of a director's annual remuneration to be paid through units in the DSU is set at the beginning of the Company's fiscal year (or, in the initial year of the plan) or on the date a director joins the Board in that fiscal year. The units vest on a per day basis such that the grant is fully vested on the last day of each fiscal year. Upon the resignation, termination, retirement or death, of a director (the "Termination Date") the vested units are settled, at the Company's option, either by the issuance of one common share per unit or by cash payment based on one common share of the Company per unit. The value of a unit in the DSU is equal to the volume weighted average trading price per common share of the Company on the Toronto Stock Exchange for the five consecutive trading days prior to the redemption date. The payment relating to the units accumulated under this plan have been included in accounts payable and accrued liabilities on the consolidated balance sheet based on the intrinsic value of the award. The change in the value of the units resulting from changes in the market price of the Company's common shares is recognized in the consolidated statement of earnings each period.

In the three and nine months ended September 30, 2009, the Company recorded \$402 and \$956, respectively (three and nine months ended September 30, 2008 - \$nil) in director fee compensation relating to the DSU. This compensation cost has been included in general and administrative expenses in the consolidated statement of earnings.

The outstanding Director's Deferred Share Units are as follows:

	Deferred Share Unit
Balance, December 31, 2008	-
Granted	122,475
Balance, September 30, 2009	122,475

### (c) Restricted Share Unit Plan

The Company established a Restricted Share Unit Plan ("RSU") for certain officers, managers and employees of the Company effective March 10, 2009. The units under the RSU plan vest three years from the effective grant date and entitle the holder to receive a cash payment from the Company equal to the volume weighted average trading price per common share of the Company on the Toronto Stock Exchange for the five consecutive trading days prior to the vesting date. The payment relating to the units accumulated under this plan have been included in long-term debt on the consolidated balance sheet based on the intrinsic value of the award. The change in the value of the units resulting from changes in the market price of the Company's common shares is recognized in the consolidated statement of earnings each period.

In the three and nine months ended September 30, 2009, the Company recorded \$388 and \$784, respectively (three and nine months ended September 30, 2008 - \$nil) in compensation relating to the RSU. This compensation cost has been included in general and administrative expenses in the consolidated statement of earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009

(unaudited)

(in thousands of Canadian dollars except share data unless or otherwise specified)

The outstanding Restricted Share Units are as follows:

	Restricted Share Unit
Balance, December 31, 2008	-
Granted	358,000
Forfeited	(4,000)
Balance, September 30, 2009	354,000

### 5. Segmented Information

The Company is operating within four 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 Services, and Maintenance Services.

During 2008, the Company operated within five reportable business segments. Effective January 1, 2009 the Company restructured its business segments as part of a process to streamline operations which resulted in a reduction of the Company's business segments from five to four. The comparative results have been restated to conform with the new basis of segment presentation. The restructuring of the previous reportable business segments include:

- Production Services segment, which now includes the previous Tubular Management and Manufacturing segment. This segment remains focused on midstream oil and gas field production services. These services encompass: fabrication, construction and maintenance of production facilities, mid-inch pipelines, production equipment, and mid-sized construction management with the inspection repair and refurbishing of production tubing, drill pipe, sucker rods, casing, small diameter pipelines and polyethylene pipe and liners.
- Facility Infrastructure segment, which includes its oil sands construction activities, remains unchanged and provides construction management, modular fabrication, field construction services on major construction projects primarily in Edmonton and Fort McMurray, Alberta.
- Oilfield Services segment, which now combines the Fluid Haul Services business unit previously reported in Production Services, and the previous Oilfield Transportation segment. This new segment will provide drill rig and service rig moving; module, equipment and specialty hauling; fluid handling, pressure and vacuum services, industrial and chemical cleaning; and coiled tubing and flush-by services.
- Maintenance Services segment remains unchanged, and consists of four joint ventures: FT Services, Mackenzie Valley Construction, SRP North Ventures and Mackenzie Aboriginal Corporation.

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, which follows the organization, management and reporting structure of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009

(unaudited)

(in thousands of Canadian dollars except share data unless or otherwise specified)

### (a) Reportable Segments

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

	Production Services	Facility Infrastructure	Oilfield Services	Maintenance Services	Total
<i>Three months ended September 30, 2009</i>					
Revenue	\$ 182,496	\$ 156,388	\$ 45,338	\$ 75,471	\$ 459,693
EBITDA <sup>1</sup>	7,860	21,254	3,384	2,985	35,483
EBITDA %	4.3%	13.6%	7.5%	4.0%	7.7%
Amortization on property, plant and equipment, and intangible assets	6,052	2,968	4,995	1,696	15,711
Capital expenditures	3,379	2,910	875	2,512	9,676
<i>Three months ended September 30, 2008 (restated)</i>					
Revenue	\$ 268,969	\$ 167,099	\$ 73,757	\$ 75,929	\$ 585,754
EBITDA <sup>1</sup>	25,792	16,144	8,167	4,330	54,433
EBITDA %	9.6%	9.7%	11.1%	5.7%	9.3%
Amortization on property, plant and equipment, and intangible assets	7,740	3,354	7,126	355	18,575
Capital expenditures	10,666	3,211	5,412	1,339	20,628
<i>Nine months ended September 30, 2009</i>					
Revenue	\$ 624,056	\$ 430,968	\$ 155,821	\$ 203,236	\$ 1,414,081
EBITDA <sup>1</sup>	32,471	48,228	11,852	13,248	105,799
EBITDA %	5.2%	11.2%	7.6%	6.5%	7.5%
Amortization on property, plant and equipment, and intangible assets	18,254	7,018	15,040	4,054	44,366
Capital expenditures	9,141	6,370	4,458	5,282	25,251
<i>Nine months ended September 30, 2008 (restated)</i>					
Revenue	\$ 817,749	\$ 388,588	\$ 210,756	\$ 215,959	\$ 1,633,051
EBITDA <sup>1</sup>	73,180	34,511	17,263	14,257	139,211
EBITDA %	8.9%	8.9%	8.2%	6.6%	8.5%
Amortization on property, plant and equipment, and intangible assets	24,727	8,447	19,072	937	53,183
Capital expenditures	16,744	5,099	9,748	4,703	36,294

<sup>1</sup> 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, impairment of intangibles and goodwill, and stock based compensation for equity classified awards. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2009

(unaudited)

(in thousands of Canadian dollars except share data unless or otherwise specified)

	Production Services	Facility Infrastructure	Oilfield Services	Maintenance Services	Total
<i>As at September 30, 2009</i>					
Total assets	\$ 356,250	\$ 282,513	\$ 208,108	\$ 93,998	\$ 940,869
<i>As at December 31, 2008 (restated)</i>					
Total assets	\$ 514,290	\$ 275,217	\$ 251,743	\$ 47,620	\$ 1,088,870

### (b) Geographic Segments

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

Revenue	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Canada	\$ 386,802	\$ 452,785	\$ 1,157,609	\$ 1,254,999
United States	72,891	132,969	256,472	378,052
Total	\$ 459,693	\$ 585,754	\$ 1,414,081	\$ 1,633,051
<hr/>				
		Canada	United States	Total
<i>As at September 30, 2009</i>				
Property, plant and equipment		\$ 346,878	\$ 50,256	\$ 397,134
Total assets		809,271	131,598	940,869
<i>As at December 31, 2008</i>				
Property, plant and equipment		\$ 365,612	\$ 67,502	\$ 433,114
Total assets		969,209	119,661	1,088,870

### (c) Reconciliation of EBITDA

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Net earnings	\$ 9,722	\$ (163,185)	\$ 32,023	\$ (132,931)
Amortization on property, plant and equipment, and intangible assets	15,711	18,575	44,366	53,183
Impairment of intangible assets and goodwill	-	190,357	-	190,357
Stock based compensation expense	776	1,146	2,537	3,516
Interest expense, net of interest income	3,981	7,679	12,827	15,027
Income tax expense (reduction)	5,293	(139)	14,046	10,059
EBITDA	\$ 35,483	\$ 54,433	\$ 105,799	\$ 139,211

## 6. Commitments and Contingencies

At September 30, 2009, 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.

## 7. Comparative Information

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

## Corporate Information

### Directors

**John Geddes**

Chairman of the Board  
Flint Energy Services Ltd.  
Calgary, Alberta

**W. J. (Bill) Lingard**

President and  
Chief Executive Officer  
Flint Energy Services Ltd.  
Calgary, Alberta

**John Bates**

President  
Flint Resources Company,  
LLC  
Tulsa, Oklahoma

**Stuart O'Connor**

President  
Timber Ridge Capital Ltd.  
Calgary, Alberta

**Douglas E. Swanson**

Former CEO  
Oil States International Inc.  
Houston, Texas

**T. D. (Terry) Freeman**

Managing Director  
Northern Plains  
Investment Growth Fund  
Edmonton, Alberta

**C. Douglas Annable**

President  
CD Consulting Inc.  
Calgary, Alberta

**Philip C. Lachambre**

President  
PCML Consulting Inc.  
Edmonton, Alberta

**Ian Reid**

Former President  
Finning (Canada)  
Edmonton, Alberta

**Roger Thomas**

Former  
Executive Vice President  
Nexen Inc.  
Calgary, Alberta

### Officers

**W. J. (Bill) Lingard**

President and  
Chief Executive Officer

**Paul M. Boechler**

Chief Financial Officer  
and Corporate Secretary

**Wayne Shaw**

Senior Vice President,  
Infrastructure Services

**Keith Lambert**

Senior Vice President,  
Production Services

**Bryce Satter**

President, Flint Energy  
Services Inc. (U.S.A.)

**Shawn Carry**

Senior Vice President,  
Oilfield Services

**Bob Henderson**

Vice President,  
Human Resources

**Glen Greenshields**

Corporate Vice President

### Bankers

Bank of Montreal

### Auditors

KPMG LLP

### Legal Counsel

Bennett Jones LLP

### Transfer Agent and Registrar

Computershare Trust  
Company of Canada  
600, 530–8th Ave. S.W.  
Calgary, Alberta  
T2P 3S8  
Tel: 1-888-267-6555  
Email:caregistryinfo@  
computershare.com  
www.computershare.com

### Stock Exchange Listing

Toronto Stock Exchange  
(TSX)  
Common Shares – FES

### Corporate Head Office

700, 300–5th Ave. S.W.  
Calgary, Alberta, Canada  
T2P 3C4  
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