Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Enterprise Oilfield Group, Inc.

The management of Enterprise Oilfield Group, Inc. prepared these consolidated financial statements and is responsible for their reliability, completeness and integrity. They conform in all material aspects to Canadian generally accepted accounting principles.

Management maintains the necessary accounting and internal control systems to ensure: the timely production of reliable and accurate accounting information, the protection of assets (to a reasonable extent) against loss or unauthorized use, and the promotion of operational efficiency. The Board of Directors oversees management's responsibilities for the financial reporting and internal control systems.

The auditors, who are recommended to the Shareholders by the Audit Committee and appointed by the Shareholders, conducted an audit of these consolidated interim financial statements in accordance with Canadian generally accepted auditing standards. The Audit Committee reviewed these financial statements with the auditors in detail before recommending their approval.

St. Albert, Alberta
March 26, 2010

Signed "Leonard D. Jaroszuk"
Leonard Jaroszuk, President, Chief Executive Officer

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March 24, 2010

Auditors' Report

To the Shareholders of
Enterprise Oilfield Group, Inc.

We have audited the consolidated balance sheets of **Enterprise Oilfield Group, Inc.** as at December 31, 2009 and 2008 and the consolidated statements of loss and deficit, comprehensive loss, accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

ENTERPRISE OILFIELD GROUP, INC.

Consolidated Balance Sheets

As at December 31	2009	2008
Assets		
Current		
Cash and cash equivalents (note 3)	**$ 1,667,547**	$ 607,286
Accounts receivable (note 15)	**4,011,810**	10,916,390
Income taxes recoverable	**-**	140,542
Inventory (note 4)	**706,155**	737,596
Prepaid expenses	**357,442**	393,675
	6,742,954	12,795,489
Property, plant and equipment (note 5)	**10,493,416**	14,805,290
Intangible assets (note 6)	**1,054,875**	1,200,375
Portfolio investment (note 7)	**32,000**	28,000
Future income taxes (note 10)	**2,256,700**	932,600
	$ 20,579,945	$ 29,761,754
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (note 8)	**$ 3,363,530**	$ 6,526,900
Accounts payable and accrued liabilities	**2,277,882**	1,909,814
Current portion of long term debt (note 9)	**2,205,801**	3,249,975
	7,847,213	11,686,689
Long term debt (note 9)	**116,440**	2,206,621
	7,963,653	13,893,310
Shareholders' equity		
Share capital (note 11 (a))	**24,945,961**	24,032,796
Warrants (note 11 (e))	**78,009**	47,796
Contributed surplus (note 12)	**1,364,017**	1,085,717
Deficit	**(13,771,695)**	(9,243,865)
Accumulated other comprehensive loss	**-**	(54,000)
	12,616,292	15,868,444
	$ 20,579,945	$ 29,761,754

Commitments (note 14)

Approved on behalf of the Board:

(Signed) "Leonard D. Jaroszuk" Director

(Signed) "J.P. Stout" Director

ENTERPRISE OILFIELD GROUP, INC.

Consolidated Statements of Loss and Deficit

Years ended December 31	2009	2008
Revenue	**$ 27,699,442**	$ 39,761,681
Direct expenses	**25,564,225**	29,691,300
Gross margin	**2,135,217**	10,070,381
Expenses (other income)		
General and administrative expenses	**4,147,242**	5,304,425
Interest on long term debt	**163,819**	395,669
Amortization	**1,845,808**	2,571,697
Goodwill write-down	**-**	15,107,935
Loss on sale of equipment	**1,748,154**	308,873
Interest and other (income) loss	**43,492**	(30,741)
	7,948,515	23,657,858
Loss before income taxes	**(5,813,298)**	(13,587,477)
Income taxes (recovery) (note 10)		
Current	**632**	(141,991)
Future	**(1,286,100)**	(1,176,245)
	(1,285,468)	(1,318,236)
Loss for the year	**(4,527,830)**	(12,269,241)
Retained earnings (deficit), beginning of year	**(9,243,865)**	3,025,376
Deficit, end of year	**$ (13,771,695)**	$ (9,243,865)
Basic and diluted loss per share	**$ (0.107)**	**$ (0.295)**
Weighted average number of common shares outstanding		
Basic	**42,192,604**	41,637,252
Diluted	**42,192,604**	41,637,252

ENTERPRISE OILFIELD GROUP, INC.

Consolidated Statements of Comprehensive Loss

Years ended December 31		2009		2008
Loss for the year	**$**	**(4,527,830)**	$	(12,269,241)
Other comprehensive income (loss):				
Unrealized gains (losses) portfolio investment, net of future income tax of $2,320 (2008 - $15,485)		**1,680**		(56,515)
Transfer of losses on portfolio investment, net of future income tax to net income of $11,680		**52,320**		-
Total comprehensive loss, end of year	**$**	**(4,473,830)**	$	(12,325,756)

ENTERPRISE OILFIELD GROUP, INC.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

Years ended December 31	2009	2008
Accumulated other comprehensive income (loss), beginning of year	**$ (54,000)**	$ 2,515
Other comprehensive income (loss) for the year:	**54,000**	(56,515)
Accumulated other comprehensive loss, end of year	**$ -**	$ (54,000)

ENTERPRISE OILFIELD GROUP, INC.

Consolidated Statements of Cash Flows

Years ended December 31	2009	2008
Cash provided by (used for) the following:		
Operating activities		
Net loss for the year	**$ (4,527,830)**	$ (12,269,241)
Items not affecting cash:		
Amortization of property, plant and equipment	**1,700,308**	2,241,754
Amortization of intangible assets	**145,500**	329,943
Goodwill write-down	**-**	15,107,935
Loss on sale of equipment	**1,748,154**	308,873
Stock-based compensation	**229,090**	96,175
Future income tax recovery	**(1,286,100)**	(1,176,245)
Unrealized loss on available for sale portfolio investment, before future income tax	**50,000**	-
	(1,940,878)	4,639,194
Changes in non-cash working capital (note 18)	**7,480,864**	(2,786,414)
	5,539,986	1,852,780
Financing activities		
Increase (decrease) in bank indebtedness	**(3,163,370)**	1,575,912
Proceeds from long term debt	**1,177,139**	-
Proceeds from issue of common shares, net of share issue costs	**973,500**	160,500
Share repurchase	**(18,912)**	(68,516)
Repayment of long term debt	**(4,311,494)**	(3,379,187)
	(5,343,137)	(1,711,291)
Investing activities		
Purchase of property, plant and equipment	**(1,032,874)**	(584,444)
Proceeds on sale of equipment	**1,896,286**	540,332
	863,412	(44,112)
Increase in cash and cash equivalents	**1,060,261**	97,377
Cash and cash equivalents, beginning of year	**607,286**	509,909
Cash and cash equivalents, end of year	**$ 1,667,547**	$ 607,286
Supplementary information		
Interest paid	**$ 528,577**	$ 700,012
Income taxes recovered	**140,754**	-

1. Nature of operations

Enterprise Oilfield Group, Inc. (“Enterprise” or the “Company”) was incorporated under the *Alberta Business Corporations Act* on March 23, 2004 and is publicly traded on the TSX Exchange under the symbol “E”, effective August 13, 2007. The Company is a construction services company operating in the energy, utility and transportation infrastructure industry. The Company's focus is primarily underground construction and maintenance and above ground plants and facilities.

2. Significant accounting policies

Basis of consolidation and preparation of consolidated financial statements

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada ("Canadian GAAP").

Included in these consolidated financial statements are the accounts of Enterprise Oilfield Group, Inc. and its wholly-owned subsidiaries: Enterprise Energy Services Inc. ("EES") and Enterprise Pipeline Company Inc. ("EPC"). All significant inter-entity balances and transactions have been eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The principal financial statement components subject to measurement uncertainty include property, plant and equipment (note 5), intangible assets (note 6), future income tax asset (note 10), and the allowance for doubtful accounts (note 15). Actual results could differ from those estimates.

Change in accounting estimate

Effective January 1, 2009, the Company evaluated the amortization of its construction equipment. As a result of this review, it was determined to include salvage values in the calculation of amortization to more accurately allocate the cost of the assets to the periods in which they are used. This change in estimate has been accounted for on a prospective basis with effect from January 1, 2009. For the year ended December 31, 2009, amortization is $360,006 lower than it would have been had no salvage values been estimated.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less at acquisition.

Inventory

Supplies and parts inventory are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out basis method. Work in progress inventory is valued at the lower of absorption cost and net realizable value. Absorption costs include direct labour, direct materials and related variable and fixed overhead pertaining to the jobs in progress.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Property, plant and equipment, net of salvage values, are amortized over their estimated useful lives using the straight line method at the following rates, commencing the month of acquisition:

Buildings	25 years
Office furniture and equipment	5 years
Computers and communication equipment	4 years
Small tools and equipment	5 years
Light automotive equipment	5 years
Heavy automotive equipment	10 years
Construction equipment	10 years

Leasehold improvements are amortized over the remaining term of the lease.

Impairment of long-lived assets

Long-lived assets consist of property, plant and equipment and intangible assets. The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in the consolidated statement of income in the period when the impairment is determined.

Goodwill

Goodwill represents the excess of purchase price over the fair value of the net identifiable assets acquired, and is recorded at cost, less any provision for permanent impairment. Goodwill is not amortized. Instead, during each fiscal year and as economic events dictate, management conducts an impairment test, taking into consideration any events or circumstances which might have impaired the fair value. Goodwill is carried at initial cost less write down for impairment. Goodwill will be written down when the carrying value exceeds its fair value using a discounted cash flow approach. Any impairment is included in the current period earnings.

On December 31, 2008, as a result of completing the Company's annual impairment test, it was determined that the goodwill associated with the amounts recognized initially on prior business acquisitions were fully impaired. The conditions that precipitated the goodwill write-down were the unfolding global financial crisis and weakening future outlook for the oil services industry. These uncertainties culminated in a decreased market value of the Company which resulted in a non-cash goodwill write-down of $15,107,935 during the year ended December 31, 2008.

Intangible assets

Customer relationships are recorded at cost and amortized on a straight line basis over their estimated life of ten years.

Future income taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the financial reporting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be settled or recovered. A valuation allowance is recorded for the portion of the future tax assets for which the realization of any value does not meet the “more likely than not” test.

Stock-based compensation

The Company uses the fair value method, whereby compensation cost is charged directly to earnings for all stock-based awards granted. The Company determines the fair value of the stock options, using the Black-Scholes option-pricing model. The expense is determined on the grant date and recognized in income over the vesting period of the option, with a corresponding increase to contributed surplus in shareholders' equity. When stock options are exercised, the proceeds, together with the amount previously recognized in contributed surplus, are recorded in share capital. The Company accounts for forfeitures in the period that they occur. This may result in a reduction of stock-based compensation expense. Awards of warrants to agents are accounted for using the fair value method and result in share issue costs and a credit to contributed surplus when the warrants are issued. Any compensation paid on exercise of the warrants is credited to share capital.

Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated using the "treasury stock method", which assumes that all outstanding share options and share purchase warrants are exercised, if dilutive, and the assumed proceeds from the exercise of share options and share purchase warrants that are in the money are used to purchase the Company's common shares at the average market price during the period.

Revenue recognition

Revenues from long-term contracts are recognized using the percentage of completion method based on the percentage of total costs incurred to total expected costs. Work in progress inventory includes unbilled amounts where revenues recognized on long-term contracts based on the percentage of completion exceed the amount billed to date. Revenues from short-term contracts are recognized as the work is performed and related costs are incurred. The Company performs the majority of its projects under unit price, cost plus or fixed price contracts. Losses are provided for in full when first determined.

New accounting standards and policies

a) Financial instruments – recognition and measurement

Section 3862 *Financial instruments – disclosures* was amended during the year. These changes include additional disclosures about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

• Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

• Level 2: Valuations based on inputs other that quoted prices that are observable for the asset or liability either directly or indirectly; and

• Level 3: Valuations based on significant inputs that are not derived from observable market data.

These amendments are effective for the Company's current year ending December 31, 2009. The disclosure required under this amendment is included in note 7.

b) Goodwill and intangible assets

The CICA issued a new standard, Section 3064 *Goodwill and intangible assets*. Standards concerning goodwill are unchanged from the previous Handbook Section 3062, however, this new section provides guidance for the treatment of preproduction and start up costs and requires these costs be expensed as incurred. This new section was effective for the fiscal year beginning on January 1, 2009. The adoption of this standard has no impact on the Company's financial statements.

Recent accounting pronouncements

International financial reporting standards

In March 2008, the CICA announced that Canadian publicly accountable enterprises will adopt *International Financial Reporting Standards* ("IFRS") effective January 1, 2011. The Company is currently assessing the impact that IFRS will have on its financial statements, and is in the assessment stage of its conversion plan.

3. Cash and cash equivalents

Cash includes $454,200 held in term deposits bearing interest at 0.24% maturing on January 29, 2010 (December 31, 2008 - $453,079 bore interest at 1.1% and matured on January 5, 2009).

4. Inventory

		2009		2008
Supplies and parts	**$**	**706,155**	$	707,759
Work in progress		**-**		29,837
	$	**706,155**	$	737,596

Inventory of supplies and parts expensed in direct expenses during the year ended December 31, 2009 is $3,504,311 (2008 - $4,993,342).

5. Property, plant and equipment

	Cost	Accumulated amortization	**Net book value 2009**
Land	$ 250,000	$ -	**$ 250,000**
Buildings	590,766	69,455	**521,311**
Leasehold improvements	115,885	81,447	**34,438**
Computers and communication equipment	126,558	91,934	**34,624**
Office furniture and equipment	360,690	194,790	**165,900**
Small tools and equipment	832,748	412,559	**420,189**
Light automotive equipment	1,904,960	1,213,593	**691,367**
Heavy automotive equipment	4,514,796	1,465,067	**3,049,729**
Construction equipment	6,859,399	1,533,541	**5,325,858**
	$ 15,555,802	**$ 5,062,386**	**$ 10,493,416**

5. Property, plant and equipment continued:

	Cost	Accumulated amortization	Net book value 2008
Land	$ 250,000	$ -	$ 250,000
Buildings	590,766	45,825	544,941
Leasehold improvements	113,426	50,559	62,867
Computers and communication equipment	116,553	61,694	54,859
Office furniture and equipment	353,218	130,346	222,872
Small tools and equipment	673,423	254,065	419,358
Light automotive equipment	2,009,904	935,020	1,074,884
Heavy automotive equipment	4,830,550	1,104,381	3,726,169
Construction equipment	10,591,340	2,142,000	8,449,340
	$ 19,529,180	$ 4,723,890	$ 14,805,290

6. Intangible assets

	Cost	Accumulated amortization	**Net book value 2009**
Customer relationships	1,455,000	400,125	**1,054,875**

	Cost	Accumulated amortization	Net book value 2008
Customer relationships	1,455,000	254,625	1,200,375

7. Portfolio investment

	2009		2008	
	Cost	**Market**	Cost	Market
Samoth Oilfield Inc. **400,000 common shares**	**$100,000**	**$32,000**	$100,000	$28,000

The Company has invested $100,000 in 400,000 common shares of Samoth Oilfield Inc. ("Samoth"), a public company, incorporated May 8, 2006. Samoth is controlled by certain directors and officers of Enterprise.

The portfolio investment is classified as available-for-sale. At December 31, 2009, the Company adjusted the carrying value of its investment in Samoth, to its market value of $0.08 per share resulting in a change in unrealized loss, net of future income taxes in the amount of $1,680. The Company recognized an other than temporary loss on its portfolio investment of $54,000 (2008 - $nil). The Company's investment in Samoth is classified as a Level 2 financial instrument as it is not actively traded.

8. Bank indebtedness

The Company has an authorized revolving line of credit of $9,000,000, of which $5,080,000 was available based on margins as at December 31, 2009. $3,363,530 of bank indebtedness was outstanding as at December 31, 2009, comprised of $3,265,000 of revolving line of credit and $ 98,530 of bank overdraft balances.

The revolving line of credit bears interest at the Company's bank prime plus 3.00% (5.25% at December 31, 2009). The loan cannot exceed 75% of eligible unencumbered accounts receivable as defined by the Company's bank measured on an ongoing basis. Collateral issued and its borrowing covenants and restrictions are described in note 9.

9. Long term debt

Summary	**Note**	**2009**	2008
Bank loans	**(a)**	**$ 1,518,647**	$ 3,261,095
Vendor debt	**(b)**	**-**	500,000
Equipment and automotive loans	**(c)**	**391,290**	1,242,042
Mortgages	**(d)**	**412,304**	453,459
		2,322,241	5,456,596
Less: current portion		**(2,205,801)**	(3,249,975)
Long term portion		**$ 116,440**	$ 2,206,621

(a) Bank loans

The Company has non-revolving bank loans used to finance certain equipment acquisitions. The loans bear interest at the bank's prime lending rate plus 3.50% (5.75% at December 31, 2009) and repayments are as follows:

Loan	**Type**	**Balance 2009**	**Balance** 2008	**Monthly Repayments**	**Maturity Date**
Loan 1	Business acquisition	$ -	$ 1,751,212	$ 105,553	
Loan 2	Capital line	-	361,366	37,703	
Loan 5	Capital line	-	681,480	18,250	
Loan 8	Capital line	-	139,595	3,575	
Loan 9	Capital line	-	141,772	4,455	
Loan 10	Capital line	-	185,670	3,680	
Loan 96	Capital line	1,518,647	-	66,400	January 2012
		$ 1,518,647	$ 3,261,095	**$ 239,616**	

In October 2009, the Company refinanced its non-revolving bank loans. The loans were consolidated into a non-revolving prime based facility. The loan is currently at an interest rate of prime plus 3.50% (5.75%) with monthly payments of $66,400. The loan is secured by a general security agreement on all the assets of the Company.

The Company’s mortgages and revolving lines of credit were not significantly affected by the refinancing agreement.

During October 2009, the Company’s equipment acquisition line has been reduced to $1,000,000 maximum ($2,500,000 maximum and $990,117 available at December 31, 2008) and will not be available to the Company until March 2010.

9. Long term debt (a) continued:

The following has been pledged as security for the bank indebtedness:

- General Security agreements charging all assets of the Company and its subsidiaries.
- Guarantee from all subsidiaries of the Company.

The credit facility requires the Company to comply with certain financial covenants. At December 31, 2009 the Company was required to maintain the following financial statement ratios as defined in the credit facility:

working capital of not less than 1.35 :1
funded debt to EBITDA of not more than 3.50:1
total debt to capitalization of not more than 0.60:1
fixed charge coverage of not less than 1.75:1

At December 31, 2009, the Company was not in compliance with the working capital ratio, the funded debt to EBITDA ratio and the fixed charge coverage ratio.

The Company is in compliance with all repayment terms and the lender has not given any indication that they will demand repayment. However, as the lender has the ability to demand repayment, generally accepted accounting principles require that the entire amount of the debt be shown as a current liability until such time as the covenant breaches are remedied or waived by the lender.

(b) Vendor debt

The Company had vendor debt of $nil as at December 31, 2009 (December 31, 2008 - $500,000). The debt was non-interest bearing and the balance was repaid in full in the amount of $500,000 on May 29, 2009. No specific security had been issued.

(c) Equipment and automotive equipment loans

The Company financed specific construction equipment with a total balance of $282,893 as at December 31, 2009 (December 31, 2008 - $1,072,430) bearing interest from 0% to 9.98%, with cumulative monthly payments of $11,822 maturing January 2013. Specific construction equipment has been pledged as collateral.

The Company financed specific automotive equipment and other equipment with a total balance of $108,398 as at December 31, 2009 (December 31, 2008 - $169,612), bearing interest from 0% to 7.42% with cumulative blended monthly payments of $5,258, maturing August 2013. Specific automotive equipment and, other equipment have been pledged as collateral.

Included in equipment and automotive equipment loans for the year ended December 31, 2009 are $43,727 (2008 - $60,663) of capital lease obligations.

(d) Mortgages

The Company owns buildings with mortgage balances of $412,304 as at December 31, 2009 (December 31, 2008 - $453,459) bearing interest at prime plus 3.5%, with monthly payments of $4,875 maturing March 2012. Specific buildings have been pledged as collateral.

Principal repayment requirements on the long term debt for the next five years and thereafter based on the Company's current repayment schedule are estimated as follows:

2010	2011	2012	2013	2014	Thereafter	Total
$1,039,052	$ 884,624	$ 89,680	$ 52,638	$ 44,938	$ 211,309	$ 2,322,241

10. Income taxes

The provision for income taxes recorded in the consolidated audited financial statements differs from the amount which would be obtained by applying the combined statutory income tax rate of approximately 29% (2009 - 29.5%) to the income (loss) before income taxes for the period as follows:

		2009		2008
Expected income tax (recovery)	**$**	**(1,685,856)**	$	(4,008,306)
Increase (decrease) in taxes resulting from:				
Stock-based compensation		**66,436**		28,372
Tax rate differences on non-capital loss carryback		**-**		(12,896)
Impact of substantively enacted rates		**254,283**		56,585
Non-deductible goodwill write-down		**-**		2,522,918
Non-taxable items and other		**79,669**		95,091
Actual income tax (recovery)	**$**	**(1,285,468)**	$	(1,318,236)

The components of the future income tax asset are as follows:

		2009		2008
Property, plant and equipment	**$**	**755,500**	$	1,013,400
Goodwill and customer relationships		**(1,430,200)**		(1,629,300)
Undeducted share issuance costs and financing fees		**(148,400)**		(231,200)
Non-capital losses		**(1,416,600)**		(67,500)
Portfolio investment		**(17,000)**		(18,000)
	$	**(2,256,700)**	$	(932,600)

As at December 31, 2009, the Company has non-capital losses of approximately $236,000, which expire if unutilized on December 31, 2028 and $5,666,476 which expire if unutilized on December 31, 2029.

The realization of the future income tax asset of $1,416,600 relating to the Company's non-capital loss carryforward is dependent on the Company's ability to generate sufficient taxable income to utilize these losses before they expire. The Company re-evaluates at each balance sheet date if this asset is more likely than not to be realized. Changes based on this re-evaluation could be material.

11. Share capital

(a) Authorized and issued capital

Unlimited Common shares
Unlimited Preferred shares, issuable in series, terms to be set at issuance

Common shares	2009		2008	
	Shares	**Amount**	Shares	Amount
Shares outstanding, beginning of year	**42,301,700**	**$24,032,796**	41,449,200	$24,142,242
Normal course issuer bid (note 11 (b))	**(120,000)**	**(68,122)**	(417,500)	(236,516)
Private placements (note 11 (c))	**6,500,000**	**1,105,000**	1,200,000	204,000
Share cancellation	**-**	**-**	(150,000)	(98,500)
Stock options exercised	**-**	**-**	220,000	69,366
Adjust warrants to fair market value (note 11 (e))	**-**	**-**	-	(47,796)
Share issue costs (net of $38,000 in future income tax)	**-**	**(123,713)**	-	-
Shares outstanding, end of year	**48,681,700**	**$24,945,961**	42,301,700	$24,032,796

(b) Normal course issuer bid

In July 2008, the Company received approval from the TSX to purchase up to 1,000,000 common shares at market price beginning July 21, 2008 and ending July 20, 2009.

During the year ended December 31, 2009, 120,000 common shares were purchased and cancelled at an approximate average cost of $0.16 per common share totalling $18,912. The carrying value of the total common shares purchased and cancelled in the amount of $68,122 was recorded as a charge against share capital with the balance of $49,210 credited against contributed surplus.

During the year ended December 31, 2008, 417,500 common shares were purchased and cancelled at an average cost of $0.16 per common share. The carrying value of the total common shares purchased and cancelled in the amount of $236,516 was recorded as a charge against share capital with the balance of $168,001 credited against contributed surplus.

(c) Private placements

During the year ended December 31, 2009, the Company completed two brokered private placements, consisting of 4,100,000 shares at $0.17 per share for gross proceeds of $697,000 and 2,400,000 shares at $0.17 per share for gross proceeds of $408,000, respectively.

In both placements, the broker received a 10% commission and common share purchase warrants equivalent to 10% of the total of each of the placements (410,000 warrants and 240,000 warrants respectively). Each share purchase warrant is exercisable at $0.17. The common share purchase warrant expire on December 22, 2010 and December 30, 2010 respectively. The private placement on December 30, 2009, for 2,400,000 shares was with a director of the Company.

For the year ended December 31, 2008, the Company completed a non-brokered private placement, on October 31, 2008, consisting of 1,200,000 units at $0.17 per unit for gross proceeds of $204,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant exercisable at $0.25 per common share purchase warrant. The common share purchase warrants expire Oct. 31, 2010. The private placement was with a company controlled by a director of the Company.

11. Share capital continued:

(d) Stock options

The Company has a stock option plan for directors, officers, consultants and employees to purchase common shares over a period ranging from two to five years from the date the option is granted at prices approximating market prices on the day prior to the date of grant.

The table below sets out the changes in stock options, with their weighted average prices, during the year ended December 31, 2009:

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Stock options, outstanding, beginning of period	**3,970,000**	**$ 0.74**	3,490,000	$ 1.20
Granted	1,480,000	0.25	700,000	0.42
Exercised	-	-	(220,000)	0.25
Forfeited	(630,000)	(0.54)	-	-
Expired	(1,340,000)	(0.78)	-	-
Stock options, outstanding, end of year	**3,480,000**	**$ 0.51**	3,970,000	$ 0.74

Exercisable stock options:

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Expiry date				
August 6, 2009	-	-	120,000	$ 0.25
August 25, 2010	80,000	$ 0.25	80,000	0.25
January 9, 2011	375,000	0.72	375,000	0.72
July 20, 2011	710,000	0.82	750,000	0.82
April 3, 2011	360,000	0.82	685,000	0.82
May 2, 2009	-	-	1,260,000	0.82
May 4, 2010	600,000	0.42	700,000	0.42
June 4, 2011	1,355,000	0.25	-	-
	3,480,000	**$ 0.51**	3,970,000	$ 0.74

The Company recorded stock-based compensation expense of $229,090 for the year ended December 31, 2009, relating to 1,355,000 stock options issued during the year which vested immediately on June 4, 2009.

For the year ended December 31, 2008 the Company recorded stock-based compensation expense of $96,175, relating to 700,000 stock options issued during the period which vested November 4, 2008.

11. Share capital (d) continued:

The weighted average fair value of options granted during the year ended December 31, 2009 was $0.15 estimated using the Black-Scholes option pricing model, under the following assumptions:

	2009	2008
Expected term	2 years	2 years
Risk-free interest	1.33%	3.60%
Expected dividends	nil	nil
Expected volatility	119%	61%

(e) Share purchase warrants

A summary of the warrants outstanding at December 31, 2009, is as follows:

Issuance date	Type	Exercise price ($)	Number	Value	Remaining contractual life (months)
December 30, 2009	Agent	0.17	240,000	$ 13,608	12
December 22, 2009	Agent	0.17	410,000	16,605	12
October 31, 2008	Common shareholder	0.17	1,200,000	47,796	10
			1,850,000	**$ 78,009**	

The Black-Scholes option pricing model was used to determine the fair market value of the warrants using the following assumptions:

	2009	2008
Expected term	1 year	1 year
Risk-free interest	1.41%	2.11%
Expected dividends	nil	nil
Expected volatility	69%	69%

The warrants relating to the December 22, 2009 and December 30, 2009 private placements (note 11 (c)) were valued at $13,608 and $16,605 respectively (2008 - $47,796).

12. Contributed surplus

	2009	2008
Balance, beginning of year	**$ 1,085,717**	$ 638,298
Options exercised (note 11 (a))	**-**	(14,366)
Stock-based compensation expense	**229,090**	96,175
Normal course issuer bid adjustment (note 11 (b))	**49,210**	168,001
Expired warrants	**-**	197,609
Balance, end of year	**$ 1,364,017**	$ 1,085,717

13. Related party transactions

The Company paid $48,000 during the year ended December 31, 2009 (2008 - $48,000) to a company controlled by a director, for premises rented for the Company's office in Slave Lake.

The Company paid $346,500 during the year ended December 31, 2009 (2008 - $575,000) to companies controlled by a director of the Company and $nil for the year ended December 31, 2009 (2008 - $30,000) to a company controlled by an officer for executive management services.

The Company paid fees and interest of $25,762 during the year ended December 31, 2009 (2008 - $nil) to Samoth, a company controlled by certain directors and officers of the Company, for a short term advance of $500,000 which was repaid November 27, 2009.

These transactions were recorded at the exchange amount established and agreed to by the parties. All transactions were rendered in the normal course of business during the period.

14. Commitments

The Company has lease commitments for facilities, construction equipment and vehicles that provide for minimum annual lease payments as follows:

2010	$	670,260
2011		412,092
2012		50,296
2013		-
2014		-
	$	1,132,648

15. Risk management and financial instruments

(a) Capital management

The primary objective of capital management is to ensure the Company has sufficient capital to support its business and maximize shareholder value. The Company manages its capital in proportion to risk of the underlying assets and makes adjustments in light of changes in economic conditions and risks. The Company's strategy remains unchanged from prior periods. Management considers its capital structure to include net debt and adjusted capital of the Company, as reflected in the table below:

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders; and,
- to finance its operations and growth strategies.

In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the net debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet less accounts payable and accrued liabilities) and less cash and cash equivalents. Adjusted capital comprises all components of equity (share capital, contributed surplus, warrants and deficit), other than amounts in accumulated other comprehensive income relating to the portfolio investment, and includes subordinated debt.

15. Risk management and financial instruments (a) continued:

		2009	2008
Total debt	$	**5,685,771**	$ 11,983,496
Less: cash and cash equivalents		**(1,667,547)**	(607,286)
Net debt		**4,018,224**	11,376,210
Total equity		**12,616,292**	15,868,444
Add: subordinated debt instruments		**-**	500,000
Less: amounts in accumulated other comprehensive loss relating to portfolio investment		**-**	(54,000)
Adjusted capital		**12,616,292**	16,314,444
Net debt-to-adjusted capital ratio		**0.32**	0.70

The decrease in the net debt-to-adjusted capital ratio during 2009 resulted primarily by the reduction in net debt that occurred on the sale of property, plant and equipment, as well as the accelerated long-term debt repayment schedule.

(b) Financial Instruments

Financial instruments consist of the Company's cash and cash equivalents, portfolio investment, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long term debt.

The Company is exposed to the following risks in respect of certain of the financial instruments held:

i) Fair value

The carrying amounts of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate fair value due to the short term maturity of these instruments. The fair value of long-term debt approximates its carrying value as the interest rates on these instruments do not differ significantly from current market rates. The Company's portfolio investment, fair value (note 7), is subject to, market price and liquidity risk.

ii) Credit risk

Credit risk arises from the potential that a customer will fail to perform its obligations. The Company is exposed to credit risk from customers. This risk is elevated in the current year similar to the prior year due to the impact of the current credit market and economy on its customers. The Company's maximum exposure is the value of its accounts receivable. However, to mitigate this risk the Company regularly reviews customer credit limits.

The Company has accounts receivable from customers in the oil and gas industry, as well as the utilities and infrastructure industry. Credit risk is mitigated due to the Company's significant customers being large industry leaders, following a program of credit evaluation and limiting the amount of customer credit where deemed necessary. Included in accounts receivable at December 31, 2009 was $1,516,761 or 37%, of total accounts receivable owing from three customers due to the significant contracts in progress at December 31, 2009. As at December 31, 2009 the Company's exposure to credit risk in this area was as follows:

	Total	Current 1 - 90 days	91 - 120 days	121+ days
Accounts receivable	$4,011,810	$3,553,750	$322,659	$135,401

The Company monitors accounts receivable monthly to identify any amounts which are past due and considers if they are impaired. This assessment is done on an invoice by invoice basis. The Company has recorded a provision during the year of $378,904 (2008 - $86,003).

15. Risk management and financial instruments (b) continued:

iii) Liquidity risk

Liquidity risk is defined as the risk associated with the Company not being able to meet its financial obligations as they come due. The Company manages liquidity risk to ensure it has sufficient cash and credit facilities to meet its obligations under both normal and adverse conditions, by managing net working capital, monitoring cash flow requirements and maintaining flexibility with its line of credits.

Accounts payable and accrued liabilities as at December 31, 2009 totaled $2,277,882 which is payable within 30-45 days.

The Company has an authorized revolving line of credit of $9,000,000, of which $5,080,000 was available based on margins as at December 31, 2009. $3,363,530 of bank indebtedness was outstanding as at December 31, 2009, comprised of $3,265,000 of revolving line of credit and $ 98,530 of bank overdraft balances.

The revolving demand loan bears interest at prime plus 3.0% (5.75%) at December 31, 2009.

Under its long term credit facilities, the Company must maintain certain ratios. The Company was not in compliance with the Working Capital Ratio, the Funded Debt to EBITDA Ratio and the Fixed Charge Coverage Ratio at December 31, 2009 (note 9 (a)). This non-compliance resulted from lower than anticipated EBITDA for the year ended December 31, 2009.

This non-compliance increases the Company's liquidity risk as the bank could demand repayment of this facility. Management has assessed this risk and believes that it has sufficient capital through internally generated cash flows or alternate sources of financing to mitigate this risk.

iv) Interest rate risk

The Company minimizes its exposure to interest rate risks by securing financing with a fixed interest rate for certain of its capital asset acquisitions and limiting its financing terms to less than sixty months.

Management has assessed the effect of a 1% interest rate increase or decrease in the prime lending at December 31, 2009 rate to impact the Company's annual interest expense by approximately $50,800. The Company has not entered into any derivative agreements to mitigate this risk.

16. Comparative amounts

The comparative consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.

17. Segmented information

The Company operates in one segment in Western Canada with all its property, plant and equipment and intangible assets also held within Western Canada.

For the year ended December 31, 2009, the Company had revenues of 14% from one customer (2008- revenues of 25% from one customer). No other customers comprise more than 10% of revenues.

18. Changes in non-cash working capital

Years ended December 31	**2009**	2008
Account receivable	**$6,904,580**	$(3,595,559)
Inventory	**31,441**	480,061
Prepaid expenses	**36,233**	(269,233)
Accounts payable and accrued liabilities	**368,068**	567,647
Income taxes payable/ recoverable	**140,542**	30,670
	$7,480,864	$(2,786,414)