In today's market, it can be difficult for companies and investors to find their bearings. Formerly comfortable assumptions about exploration and production activities might no longer apply. In this environment, investors are understandably keen to separate the known from the unknown.

This much is known. While drilling and service activity has slowed, the volume that remains in this down-cycle will increasingly go to companies with the best technology, the best-trained people and the most comprehensive health and safety performance.

In a challenging market,
we know where we are and where we're going.

SAVANNA.

WE ARE HERE

RAISING THE BAR ON QUALITY.

Not long ago, E&P companies had one question above all for drilling and service firms: how soon can you get there? Today's market is very different. Companies can afford to be choosier, and will choose the efficiency and flexibility made possible by new equipment. The quality of our assets allows Savanna to price higher during up markets and stay relatively busy during down periods.

We continue to seek and find new and better ways to get the job done for our clients.

SAVANNA ACCESS TO CANADIAN WELLS

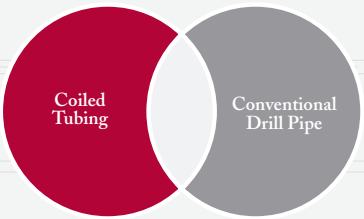
Our range of drilling rigs are capable of accessing over 99% of the wells drilled in Canada.

SAVANNA AVERAGE FLEET AGE OF EQUIPMENT

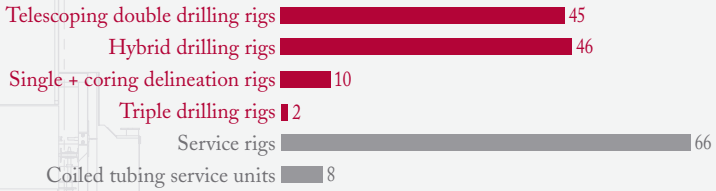
Of the larger drilling rig companies in North America, Savanna has the newest fleet of equipment in the market. The average age of our equipment is less than 5 years.

HYBRID TECHNOLOGY

Our proprietary hybrid technology combines both coiled tubing and conventional drill pipe on the same highly mobile rig. Our hybrid rigs provide a key efficiency advantage on any location up to 2,500 metres.



DRILLING FLEET AND WELL SERVICING FLEET



New rig builds to be delivered in 2009 include 4 telescoping double drilling rigs and 1 double service rig.

EXPANDING OUR HORIZONS.

With our well-trained people and top-notch equipment, Savanna has become one of the leading players in the Canadian oil and gas services industry. These same attributes will be of value in other resource-producing regions of North America. We have already established viable operations in North Dakota (Bakken), Texas (Barnett & Permian), and Louisiana (Haynesville).

With our strong position in Canada, and a solid foothold in the U.S., the North American oil and gas industry will continue to offer opportunity. On the horizon, international expansion beckons.


GRANDE PRAIRIE, AB
NISKU, AB
LACOMBE, AB
SEDGEWICK, AB
BLACKFALDS, AB
CALGARY, AB
BROOKS, AB
REDCLIFF, AB
CARLYLE, SK
DICKINSON, ND
WEATHERFORD, TX
HAUGHTON, LA
ODESSA, TX
HOUSTON, TX

WE ARE HERE

ADVANCING SAFETY AND EFFICIENCY THROUGH PRECISE TRAINING.

Top-quality crews make all the difference to oilfield performance. Savanna has consistently attracted the industry's most qualified and best-performing people. We can do this because we offer the latest and best technology, a comprehensive training package and the opportunity for long-term advancement. Savanna believes safety standards are just the beginning of what's possible. In every area where our people could potentially be at risk, Savanna has developed training tools and management approaches to do all we can to bring everyone home safely. This commitment both protects our people and provides a vital measure of assurance to our customers.

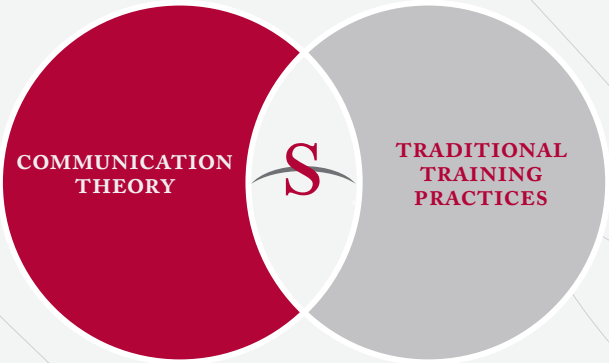
More than ever, oil and gas companies want to work with firms that share their commitment to health and safety. Savanna continues to meet that commitment.

CREATED BY SAVANNA FOR SAVANNA

Older programs traditionally either focus on management or green-hands. We developed a program to focus on zero incidents. COACH truly converts our beliefs and philosophy into a culture that fosters safe practices.

COMMUNICATION
OWNERSHIP
ACCOUNTABILITY
CONTINUOUS IMPROVEMENT
HAZARD IDENTIFICATION

THE PLAN IS TO HAVE **100%** OF SAVANNA EMPLOYEES PARTICIPATE IN THE 2 DAY IN-CLASS PROGRAM.



MOTIVATION AND COMMUNICATION

Every individual is motivated differently. Understanding first what motivates someone is crucial in determining how to teach safe behavior. Communication is the key to not only achieving that initial understanding, but reinforcing the behavior once it is established.

TARGETING EXCEPTIONAL GROWTH.

In today's market, relatively few drilling and service companies want to talk about growth. We can and we do. That's because over the past six years, we have invested approximately $1 billion in hard assets, building the newest and most capable fleet of equipment, enduring community partnerships and many top-performing employee teams. While mindful of prevailing market conditions, we remain confident in our ability to deliver value for customers and growth for shareholders.

With our exceptional people, assets and financial position, Savanna sees sustainable growth ahead, despite today's challenging market conditions.

CAPITAL INVESTMENT

Savanna has aggressively expanded our capital assets over the past 7 years, with a net book value highly representative of the replacement cost of its assets.

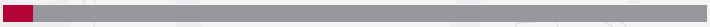
$889 M.

DEBT NET OF WORKING CAPITAL

$115 M.

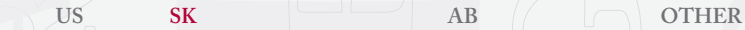
A healthy balance sheet puts Savanna in a strong position to grow, both organically and through acquisition, while maintaining fleet quality and capability.

ANNUAL EXPENDITURES ON REPAIRS & MAINTENANCE



As a direct result of our modern fleet, annual expenditures on repairs and maintenance is **<5%** of revenue.

REVENUE BY LOCATION – 2008



WE ARE HERE

BUILDING LONG-TERM PARTNERSHIPS.

A significant part of oil and gas development in Western Canada takes place on Aboriginal land. Aboriginal communities and individuals are also important as employees, managers and owners. Savanna has developed and diligently maintains respectful and productive relationships with Aboriginal communities all over Canada.

These partners have a significant interest in producing lands, jointly own assets with Savanna and form a core part of our dedicated employee team.

9

SAVANNA'S CURRENT LONG-TERM ABORIGINAL PARTNERSHIPS

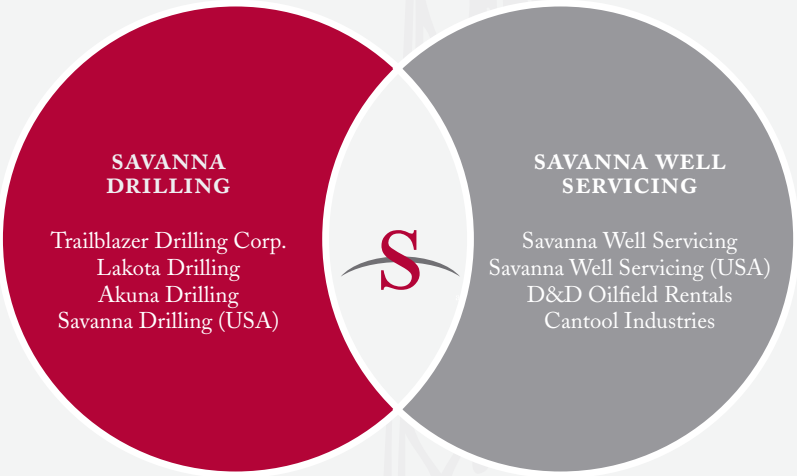
The key to the success of these partnerships is respectful engagement, an award-winning training program, economic opportunities outside of aboriginal lands, and a shared vision for the future.

Alexander First Nation
Alexis Nakota Sioux Nation
Blood Tribe
Cold Lake First Nation
Dene Tha' First Nation
Duncan's First Nation
Heart Lake First Nation
Saddle Lake First Nation
Sturgeon Lake First Nation

UNITED IN THE PURSUIT OF EXCELLENCE.

In recent years, Savanna operated under several unique brands serving distinct markets. In 2008, we took steps to simplify this corporate landscape, organizing the company into Drilling and Oilfield Services. This structure will make it easier for our stakeholders and customers to grasp the full scope of our company. While committed to maintaining a leadership position in Western Canada, we will also use this new identity to expand our international presence. Our strong balance sheet and proven management team position Savanna to grow organically or acquire opportunistically.

Over time, the brand equity that resided with our legacy companies will be enhanced through growing awareness of Savanna's new structure and identity.



NOT IN EVERY BASIN,
BUT THE BEST IN EVERY BASIN WE'RE IN

Superior operational foundation to serve Northeast BC, Alberta, Saskatchewan, North Dakota, Texas, and Louisiana. Opportunities for expansion of existing products plus introduction of ancillary services.

% OF REVENUE

WELL SERVICING

19%

81%

DRILLING

PRESIDENT'S MESSAGE

Left to right: Darcy Draudson, *Vice President Finance & Chief Financial Officer;* George Chow, *Executive Vice President, Corporate;* Chris Oddy, *Vice President Operations & Chief Operating Officer;* Ken Mullen, *President & Chief Executive Officer;* Dwayne LaMontagne, *Executive Vice President & Chief Development Officer*

Cautionary Statement Regarding Forward-Looking Information and Statements.

Certain statements and information contained in this Annual Report may constitute forward-looking information within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995.

These statements are based on certain factors, assumptions and analysis made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations.

Consequently, all of the forward-looking information and statements made in this Annual Report are qualified by this cautionary statement and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. Except as may be required by law, the Company assumes no obligation to update publicly any such forward-looking information and statements, whether as a result of new information, future events, or otherwise. See "Cautionary Statement Regarding Forward-Looking Information and Statements" in the Company's "Management's Discussion & Analysis".

In both Canada and the U.S., falling commodity prices and a slumping economy contributed directly to significant declines in drilling and well servicing activities.

In 2008, the oilfield services business experienced one of the most volatile years in recent memory. Exiting an 18-month slowdown in Canada, where activity levels decreased dramatically from a 2006 peak, 2008 opened with reasonable levels of drilling and well servicing demand. More importantly, a cold 2007/08 winter combined with reduced domestic natural gas supply and reduced LNG imports created a very attractive commodity pricing environment. Exiting Q1 2008, our customers announced expanded drilling and maintenance programs, particularly deep programs, based on which we then focused on much higher activity plans for late Q3. It appeared that natural gas demand would be more than sufficient to propel stronger activity levels in late 2008 and beyond. Canadian drilling activity had been in cyclical decline since 2006, making any support going forward welcome.

In the U.S., activity levels had been rising steadily since 2006 and, in line with our long-term strategy, Savanna had been steadily increasing our U.S. exposure. We expanded our U.S. presence in 2008 by over 100% through the greenfield expansion of our well servicing business into North Dakota (six newly manufactured rigs), and through further drilling rig manufacturing (three rigs) and acquisition (five rigs) in key U.S. basins. By Q3, Savanna had almost 10% of our well servicing fleet, and 15% of our drilling fleet operating in the United States.

Unfortunately, triggered by the credit and mortgage crisis in the U.S., in late Q3 the overall economy began to unravel. This quickly curtailed demand for crude oil and natural gas and, at the same time, choked off debt and equity financing for our customers. Combining a low commodity price environment with limited access to capital, U.S demand for oilfield services began to decrease by late Q4, and has since declined precipitously. As of today, the U.S. rig count has declined to roughly 50% utilization, with a strong expectation that it will drop lower. In Canada the expectation of a pickup in activity was short-lived, and demand has decreased significantly since Q3 2008 as well.

Since margin expansion in well servicing was solely a function of deploying additional equipment, our gross margin percentages continued to decline for both drilling and well servicing. Despite Savanna's increased presence in the U.S. market in 2008, the Company remains much more exposed to the depressed Canadian market than the vast majority of our U.S. focused competitors, and Savanna could not match their financial performance. Post-Q2 2009 U.S. activity levels appear likely to be as depressed as those in Canada. Notwithstanding these challenges, in 2008 the Company continued to generate strong operating cash flow, matching the levels achieved in 2007.

With roughly 40% of Savanna's drilling fleet exposed to shallow drilling, the continuous decline in this market since 2006 has negatively impacted Savanna's financial results. This market segment is projected to remain depressed throughout the remainder of 2009, meaning our hybrid drilling fleet will continue to be challenged in respect of utilization, and negatively impacting our overall drilling utilization rate and margins. In response to this challenge, Savanna continues to seek U.S. and other international markets into which the hybrid technology can be introduced. The sales cycle for this has been extended due to economic upheaval worldwide, but we are confident that Savanna will begin seeing success in this regard. At the same time, we continue to expand our deeper drilling capability, decreasing our relative reliance on shallow drilling. Finally, we remain confident that shallow drilling demand will again test the previous highs as natural gas prices recover and regulatory and financial measures directed at increasing shallow drilling take hold. Savanna's patented hybrid technology remains the drilling medium of choice for these wells.

In addition to the obvious operational challenges affecting Savanna's 2008 results, a weakening economy and resultant decreased demand for our services led to a writedown in the carrying value of Savanna's goodwill and intangibles. Since we have determined that these values have become permanently impaired, non-cash charges against income of $309.6 million in respect of goodwill and $9.8 million in respect of intangible assets were taken in 2008.

At this time, both the depth and the duration of the slowdown cannot be known with certainty. With this in mind, Savanna is addressing three strategic areas:

Preserve cash. *Armed with a strong and conservative balance sheet, Savanna is well-positioned to weather the storm. Our cash position will be further protected by largely limiting capex to maintenance.*

Restructure and re-brand. *Our labour cost structure is being addressed to bring those costs in line with current market activity. Simplifying and re-branding our businesses under Savanna Well Servicing and Savanna Drilling will streamline operations, build brand equity and reduce costs.*

Diversify markets. *Savanna will continue to seek the best and most profitable deployment of our top-quality assets, whether in the U.S. or beyond.*

In Canada, as mentioned, drilling activity has remained in general decline for most of the past two years. Well servicing activity has sustained much higher relative demand levels than drilling. In fact, Savanna's well servicing utilization in 2008 exceeded both the industry and the levels set in 2006. Hourly rates have held up, but costs have risen even more rapidly. Margins have been steadily narrowing on a percentage basis over that time. While chargeout rates were decreasing, costs continued to increase in response to an overall shortage of labor and materials in the industry. The dramatic decrease in activity in all areas of the economy make it highly likely that the cost pressures experienced over the past few years will abate, and Savanna will be able to adjust its cost structure to better match its revenue-generating capability moving forward.

During this severe downturn, recognizing the uncertainty of both its depth and possible duration, Savanna is focusing its efforts on three key strategic areas:

1. Cash conservation: While Savanna has a conservatively structured balance sheet overall, the degree of demand destruction for our services will substantially curtail cash flow. Savanna has sharply scaled back equipment expansion for 2009 at least. We will complete the manufacture of 4 deep double drilling rigs and 1 double service rig initiated in mid-2008, but beyond that we will limit capex to core maintenance only.

2. Restructuring/re-branding: Already carrying one of the lowest overheads among our peers, Savanna has proactively taken steps to reduce internal costs to match anticipated near-term activity levels. The Company has focused on eliminating non-core expenses, reduced salary and wage levels of all salaried employees and deferred or eliminated discretionary expenses.

While a return to higher activity levels is clearly desirable, it's important to be realistic. In 2009, we will likely be limited in what we can achieve.

Once activity levels improve, it's a different story. In such a market, Savanna has the well-trained people, diverse equipment base, leading technology and robust relationships to once again get more than our share.

No broad-based staff reductions have been undertaken to date. Savanna has chosen to 'right' its labor costs through salary reductions rather than layoffs. Given that we expect a recovery to much higher activity levels, retention of as many core personnel as possible remains a key objective. In addition, after successfully combining and re-branding our various Canadian well servicing divisions as one under the banner of Savanna Well Servicing in 2008, the Company has commenced a similar project for the drilling division. The project will re-brand and combine Trailblazer Drilling Corp., Lakota Drilling Corp. and Akuna Drilling Trust under the banner of Savanna Drilling. Combining these entities will streamline operations and will provide advantages in purchasing power, recruitment, employee mobility and ancillary equipment utilization, as well as create greater name recognition between Savanna as a whole and our operating divisions.

3. Geographic diversification: Savanna has been progressing on several fronts to further deploy our drilling rigs more widely in Canada and in international markets, including the United States. The penetration of the U.S. market to date has been primarily focused on the deeper capacity rigs in our fleet. The challenge has been finding the best application beyond North America for Savanna's unique hybrid technology with customers who can support a term commitment sufficient to warrant mobilizing rigs to a new region. The sales cycle on these prospects is one to two years, and the worldwide economic slowdown has acted to extend this due both to decreased current activity, as well as limited access to credit for our potential customers.

In the near term, the supply of natural gas significantly exceeds demand, despite a cold 2008/09 winter demand season. Substantial low-cost production of gas from shale plays, particularly in the U.S., continues to sustain supply at high levels. The level of LNG deliveries to North America also represents a wildcard with respect to both supply and pricing. Industrial demand remains weak as a result of the recession.

At this juncture, it is very difficult to foresee any significant increase in activity in either Canada or the United States for 2009. Savanna has been saddled with lower Canadian activity for more than two years, and our U.S. operations will face similar low activity levels for 2009 at least. The good news is that Savanna gained market share in Canada in a depressed market, which should put the company in strong position to benefit from the eventual upturn. Although the industry is uncertain with respect to the demand and prices of oil and gas for the remainder of 2009, Savanna believes it is well positioned for the eventual upturn, thanks to our high-quality people and equipment, leading-edge technology, First Nations partnerships and strong balance sheet. While Savanna is certainly not immune to pricing or utilization pressures caused by the industry slowdown, the Company believes it can and will manage to capitalize on the conditions now facing the oilfield services industry. In 2008, Savanna significantly diversified both its equipment and geographic bases, and in turn its overall capacity. The Company remains optimistic regarding the long-term prospects for drilling in North America, and has positioned its fleet to take advantage of this opportunity.

Respectfully submitted,

Ken Mullen
President and Chief Executive Officer

March 10, 2009
Calgary, Alberta

For the Year Ended December 31, 2008

This discussion focuses on key items from the consolidated financial statements of Savanna Energy Services Corp. ("Savanna" or "the Company") for the years ended December 31, 2008 and 2007, which have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion should not be considered all inclusive as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future. This discussion should be read in conjunction with the Company's annual audited consolidated financial statements and the related notes for the fiscal year ended December 31, 2008, as well as the Cautionary Statement Regarding Forward-Looking Information found at the end of this discussion. Additional information regarding the Company, including the Company's Annual Information Form for the year ended December 31, 2008, is available on SEDAR at www.sedar.com. This MD&A is dated March 10, 2009.

Savanna is an oilfield services company operating in Western Canada and the U.S. The Company's overall business is conducted through two major divisions: contract drilling and oilfield services. The Company's oilfield services division is operated primarily through Savanna Well Servicing Inc. and its drilling division is operated primarily through Trailblazer Drilling Corp., Lakota Drilling Corp. and Savanna Drilling LLC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

The following is a summary of selected financial information of the Company:

	2008	2007	2006
(Stated in thousands of dollars, except per share amounts)	$	$	$
OPERATING RESULTS			
Revenue	460,101	373,452	247,082
Operating expenses	320,821	232,937	148,687
Operating margin[1]	139,280	140,515	98,395
Net earnings (loss) from continuing operations	(281,068)	(84,971)	41,610
Per share: basic	(4.74)	(1.44)	1.06
Per share: diluted	(4.74)	(1.44)	1.05
Impairment loss on goodwill and intangible assets	(319,365)	(151,400)	–
Per share: basic	(5.39)	(2.56)	–
Per share: diluted	(5.39)	(2.56)	–
Net earnings from discontinued operations, net of tax	–	140,755	12,988
Per share: basic	–	2.38	0.33
Per share: diluted	–	2.38	0.32
Net earnings (loss)	(281,068)	55,784	54,598
Per share: basic	(4.74)	0.94	1.39
Per share: diluted	(4.74)	0.94	1.37
CASH FLOWS			
Operating cash flows from continuing operations before changes in working capital[1]	107,619	111,488	76,348
Cash paid on acquisitions and on the purchase of property, equipment, intangibles and other assets	(172,514)	(187,134)	(130,699)
Dividends paid	(7,415)	(1,485)	–

FINANCIAL POSITION AT DECEMBER 31	2008	2007	2006
(Stated in thousands of dollars)	$	$	$
Working capital[1]	87,680	25,971	35,163
Property and equipment	888,509	746,063	590,132
Total assets	1,037,582	1,180,092	1,205,939
Long-term debt	202,274	58,218	155,052

FINANCIAL HIGHLIGHTS
($ MILLION)

In a mixed year for the oilfield services industry, Savanna was able to increase revenues in 2008.

FINANCIAL HIGHLIGHTS 2008 COMPARED TO 2007

Overall, 2008 was a mixed year for both Savanna and the oilfield services industry. After a bleak outlook to start the year the first quarter showed signs of a potential upswing in the industry only to be followed by an early and extended spring breakup. There were again signs of a potential improvement in oil and gas activity levels in Q3 2008 as oil commodity prices reached record highs. However, as the fourth quarter began so to did the worldwide credit and equity crisis which was quickly followed by a general economic slowdown and diminishing oil and natural gas commodity prices. Canadian activity levels continued to decrease in 2008 and with over 85% of its equipment based in Canada, Savanna suffered substantially as a result.

Despite all of these factors, the Company was able to increase revenues due to its larger equipment fleet and again achieved higher than industry average utilization rates. The increase in revenues was offset by increased labour costs, fuel costs and cost of materials and other consumables used in running and maintaining Savanna's fleet.

In contrast with the decrease in Canadian activity, U.S. activity in 2008 held relatively steady through Q4. With an increased exposure to the most active U.S. basins, Savanna benefited slightly from this.

The economic slowdown and depressed oil and gas prices took a further toll on the Company's net earnings based on the results of impairment tests on goodwill and intangible assets on December 31, 2008. As a result of the industry slowdown and worldwide credit and equity crisis, both the anticipated operating levels for 2009 and Savanna's market capitalization have deteriorated dramatically. As a result, both goodwill and intangible assets have become permanently impaired, resulting in a writedown of $309.6 million of goodwill and $9.8 million of intangible assets for 2008.

FINANCIAL HIGHLIGHTS 2007 COMPARED TO 2006

Despite a slowdown in the market in 2007 compared with 2006 the Company was able to increase its share of the market as evidenced by higher than industry average utilization rates for the year ending December 31, 2007. During this period Savanna was also able to increase both daily and hourly revenue in the drilling and services divisions respectively while at the same time increasing both the drilling and services fleets. However, operating margins for 2007 did not increase at the same rate as revenue due to operating costs, specifically direct labour costs, appreciating at an even higher rate.

As a result of the merger between Savanna and Western Lakota in August, 2006 Savanna was required to reflect goodwill to the extent of the excess purchase price, as determined based on the share exchange ratio, utilizing the then share price of Savanna of $23.49 which resulted in goodwill of $421.3 million and intangible assets of $27.3 million. At December 31, 2007, the Company conducted impairment tests on goodwill and intangible assets based on the then anticipated operating levels for 2008 along with a consideration of the market capitalization of Savanna at that date. The tests indicated that both were impaired which resulted in a writedown of $128.6 million of goodwill and $22.8 million of intangible assets for a total of $151.4 million.

On January 31, 2007 Savanna sold its wireline division for net cash proceeds of $208 million resulting in a gain of $140.4 million net of tax. Earnings for the one month ending before the sale are included in net earnings from discontinued operations in the consolidated statement of earnings. For comparative purposes, the results for 2006 also reflect the discontinuation of this division.

MARKET TRENDS

Savanna's business depends significantly on the level of spending by oil and gas companies for exploration, development, production and abandonment activities. Sustained increases or decreases in the price of natural gas or oil could materially impact such activities, and thereby materially affect its financial position, results of operations and cash flows (see "Risks and Uncertainties" later in this discussion and the Company's 2008 Annual Information Form).

Due to extreme fluctuations in the prices for both oil and natural gas, the oil and gas industry is subject to significant volatility. As a result of these varying commodity prices, there are continuous shifts by Savanna's customers between natural gas drilling and oil drilling and there remains significant uncertainty expressed by exploration and development companies, juniors through seniors, regarding their drilling and completion budgets for the remainder of 2009. Recently, both oil and natural gas prices have weakened drastically and, coupled with an expanded capital base in the energy services industry overall, activity levels have significantly decreased. In addition, the continuing worldwide credit and equity crisis and general economic slowdown has created significant economic uncertainty. The short-term effects of this crisis may decrease our customers' ability to access capital and hence fund their operations, as well as have a negative impact on the demand for oil and natural gas.

Savanna continues to assess further expansion of its fleet both domestically and internationally, weighing the potential diversification and expansion benefits, for both oilfield services and drilling, against the inherent economic, political and operating risks. The current equity and credit crisis appears to have more significantly affected the U.S. than Canada and our cautious stance on further immediate expansion into the U.S. drilling and well servicing market is reflective of this.

EQUIPMENT FLEET

Savanna's equipment fleet expanded in 2008 through internal growth and acquisitions. The following table outlines the Company's drilling and service rig fleet by type of rig at December 31, 2008:

	2008	2007	CHANGE
DRILLING RIGS			
Heavy and ultra-heavy telescoping doubles	45	40	5
Hybrid drilling	46	45	1
Triples	2	–	2
Pipe-arm single	1	1	–
Conventional shallow/surface/coring	9	10	(1)
Total drilling rigs *(gross)*	103	96	7
Total drilling rigs *(net)* *	99	91.5	7.5
SERVICE RIGS			
Service rigs	66	56	10
Coil tubing service units	8	8	–
Total service rigs *(gross)*	74	64	10
Total service rigs *(net)* *	72	61.5	10.5

* *8 drilling rigs and 4 service rigs (2007 – 9 drilling rigs and 4 service rigs) were owned in 50/50 limited partnerships at December 31, 2008. At December 31, 2007 a 50% interest in a service rig was included in inventory as it was being held for sale into a partnership with an Aboriginal community. The sale of this service rig into a partnership closed January 31, 2008.*

The Company also has a substantial inventory of drilling and well servicing-related rental assets and support equipment, as well as a machining and pipe-inspection facility.

The following outlines the Company's deployment of its drilling and service rig fleet by geographic location at the end of 2008:

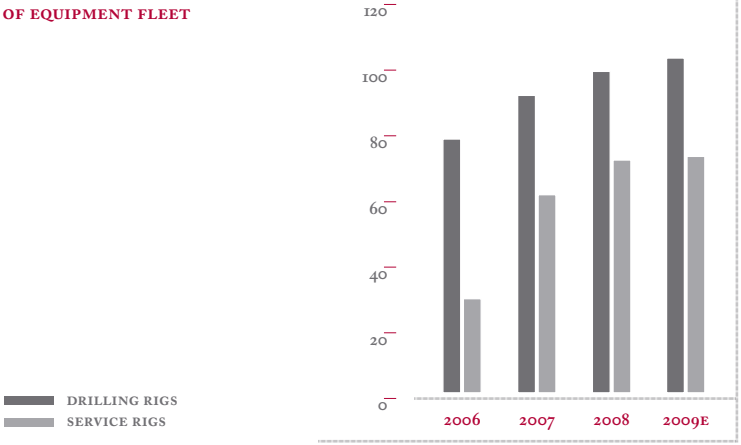
	2008	2007	CHANGE
DRILLING RIGS			
Alberta	74	83	(9)
British Columbia	2	–	2
Saskatchewan	12	6	6
United States	15	7	8
Total drilling rigs	103	96	7
SERVICE RIGS			
Alberta	52	60	(8)
Saskatchewan	16	4	12
United States	6	–	6
Total service rigs	74	64	10

Excluded from the previous tables are 4 additional drilling rigs and an additional double service rig Savanna has committed to construct. The drilling rigs will be heavy-duty doubles capable of deployment into most basins in which Savanna currently operates, either in Canada or the U.S. The service rig will be supplied to the Company's Carlyle, Saskatchewan base. Previously the Company had announced it would build 2 additional double service rigs; however, due to current economic conditions the construction of the second service rig has been deferred indefinitely. The above rigs, along with additional drill pipe and other equipment to support the existing fleet, are expected to cost $51.9 million. To the end of December 2008, $20.8 million had been expended on these rigs. The remaining capital expenditures will be funded from cash flows generated from operations, working capital and/or existing debt facilities, and all equipment should be in the field by Q3 2009. This capital expansion will enhance Savanna's capabilities in the deeper directional and horizontal natural gas and oil drilling plays throughout North America.

In combination with previously announced capital programs and acquisitions, the Savanna drilling rig fleet will grow by a minimum of 11 rigs, to 107, or by 11% from January 1, 2008 to the completion of the capital program in 2009. Savanna's well servicing fleet will increase by a minimum of 11 rigs, to 75, or by 17% over the same time frame.

From January 1, 2008 to the completion of the capital program in 2009, Savanna's drilling rig fleet will increase by 11% and its well servicing fleet will increase by 17%.

Composition of equipment fleet
(# of rigs)



Business acquisitions

a) On October 1, 2008, the Company acquired the assets of a privately-held well servicing company for cash consideration of $6.5 million. The assets acquired include 3 well servicing rigs and related equipment.

b) On September 12, 2008, the Company acquired the assets of a privately-held oilfield services rental company for cash consideration of $20.0 million. Among the assets acquired were $10.1 million in land and buildings.

c) On June 16, 2008, the Company acquired the assets of a private U.S. drilling company for cash consideration of $60.4 million. The assets acquired include 5 drilling rigs and related equipment.

d) On January 31, 2008, the Company acquired a 50% interest in a drilling rig and related assets for cash consideration of $4.1 million The rig was previously held in a limited partnership that was 50% owned by each of the Company and a First Nations community.

All of the acquisitions have been accounted for using the purchase method with the results of operations being included in the consolidated financial statements from the date of acquisition.

The purchase price allocations are as follows:

(Stated in thousands of dollars)	(a)	(b)	(c)	(d)	2008 TOTAL
	$	$	$	$	$
Net assets acquired:					
Cash	–	–	–	596	596
Non-cash working capital	–	556	–	(387)	169
Land and buildings	–	10,117	–	–	10,117
Equipment	5,847	8,564	56,018	3,810	74,239
Intangibles and other assets*	653	763	4,333	81	5,830
	6,500	20,000	60,351	4,100	90,951
Cash consideration	6,500	20,000	60,351	4,100	90,951
*Intangible assets deductible for tax	653	763	4,333	–	5,749

CONTRACT DRILLING

Drilling Services

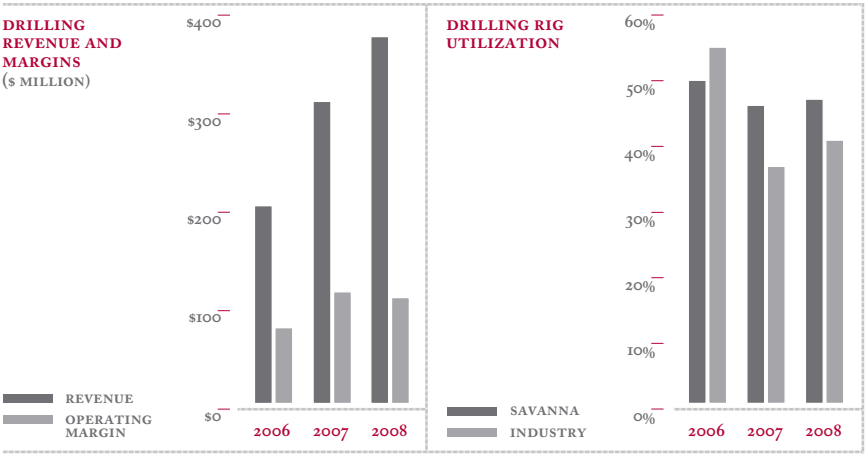
(Stated in thousands of dollars, except revenue per operating day)	2008	2007	CHANGE
Revenue	$ 373,785	$ 309,395	21%
Operating expenses	$ 262,367	$ 193,481	36%
Operating margin[(1)]	$ 111,418	$ 115,914	(4%)
Number of operating days*	17,790	14,533	22%
Revenue per operating day	$ 21,011	$ 21,289	(1%)
Number of spud to release days*†	14,942	12,180	23%
Wells drilled†	4,410	4,929	(11%)
Total metres drilled†	4,327,712	4,442,027	(3%)
Utilization†	47%	46%	2%
Industry average utilization±	41%	37%	11%

* *The number of operating days and number of spud to release days are all on a net basis which means only Savanna's proportionate share of any rigs held in limited partnerships have been included.*

† *Savanna reports its rig utilization based on spud to release time for the rigs and excludes moving, rig up and teardown time, even though revenue is earned during this time. Savanna's rig utilization, spud to release days, wells drilled and total metres drilled exclude coring delineation rigs as the operating environment is not comparable to the Company's other drilling rigs. However, these rigs are included in total fleet numbers.*

± *Source of industry figures: Canadian Association of Oilwell Drilling Contractors (CAODC).*

Savanna's drilling division consistently achieved higher than industry average utilization rates in 2008.

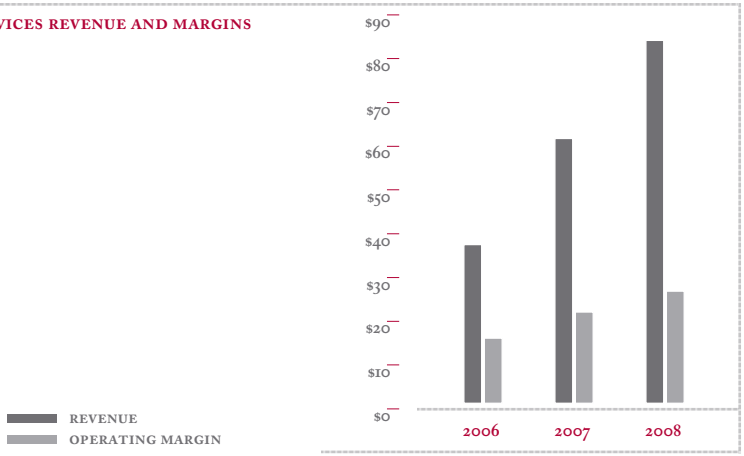


The drilling division was able to increase revenue and operating days in 2008 compared to 2007 as a result of increasing the average number of rigs deployed by 14 net rigs and the number of rigs operating in the U.S. from 7 to 15. During 2008, Savanna averaged a deployed fleet of 97 net rigs (2007 – 83) and exited the year operating a fleet of 99 net rigs (2007 – 91.5 net rigs).

Although revenues increased year over year, downward pricing pressure and increasing operating costs reduced operating margins in 2008. The increased operating costs are a result of labour cost increases, fuel cost increases and increases in the cost of materials and other consumables used in running and maintaining the drilling rigs. In addition, the Company incurred additional labour costs during the extended spring breakup and into Q3 2008 as personnel were retained in the Company's shallow drilling division in anticipation of busier fall and winter drilling seasons for this type of equipment. Similarly, discretionary repairs and maintenance took place on the fleet as rigs were idle during this same period, again in anticipation of a busier winter drilling season. Coupled with the increases in the costs of materials and services contracted to complete these repairs, costs were higher in 2008 than they were in 2007. Furthermore, fuel cost increases had a particularly negative effect on margin percentages in 2008 as much of the fuel costs incurred are directly billed to customers with no markup. As a result these costs, included in the day rate, supported day rate levels, but did not support margins. Unfortunately the benefits of these additional costs were not fully realized in the last three months of the year as depressed oil and gas commodity prices during this period negatively impacted the oilfield services industry in both Canada and the U.S. and drilling activity remained muted.

Overall 2008 was a mixed year for the drilling division. The year started with the division posting a strong first quarter. This was offset in Q2 by the effects of an extended spring breakup. There were signs of improvement in oil and gas activity levels in Q3 2008 buoyed by rising commodity prices for oil and natural gas. However, the worldwide economic slowdown took its toll in the fourth quarter as oil and natural gas commodity prices fell dramatically. Despite all of these factors, Savanna's drilling division consistently achieved higher than industry average utilization rates in 2008, as the division operated 6% above average industry utilization levels.

OILFIELD SERVICES REVENUE AND MARGINS
($ MILLION)



SAVANNA'S SERVICES DIVISION PERFORMED WELL IN A MIXED YEAR, INCREASING REVENUES 37% AND OPERATING MARGINS BY 24%.

OILFIELD SERVICES

Oilfield Services

(Stated in thousands of dollars, except revenue per hour)	2008	2007	CHANGE
Revenue	$ 83,663	$ 60,931	37%
Operating expenses	$ 56,949	$ 39,456	44%
Operating margin[1]	$ 26,714	$ 21,475	24%
Number of hours	107,382	76,132	41%
Revenue per hour	$ 746	$ 800	(7%)
Utilization*†	49%	47%	4%

* *Utilization is based on standard hours of 3,650 per rig per year. Industry average utilization figures, specific to well servicing, are not available.*

† *The utilization rate excludes the coiled tubing service units since these units are not comparable in size or operations to the division's service rigs.*

The oilfield services division achieved an increase in revenue and number of hours in 2008 compared to 2007 due to an increase in the average fleet size to 65 rigs (an increase of 14 rigs). However, the increase in revenue due to the change in fleet size was somewhat offset by the downward pricing pressure in late 2008 and disproportionate cost increases throughout the year. Included in the revenue above is $3.5 million related to the rental assets acquired late in Q3 2008; this revenue is excluded from the per hour revenue calculations above.

In 2008, the oilfield services division operated an average of 57 (55 net) service rigs, 8 coiled tubing service units and 34 boilers, compared to 2007 when the division operated an average of 43 service rigs, 8 coiled tubing service units, and 30 boilers. The oilfield services division exited the year with 66 (64 net) service rigs, 8 coiled tubing service units, and 34 boilers.

Although relatively consistent on a percentage of revenue basis, operating costs did increase in 2008 compared to 2007. The increased operating costs are primarily a result of labour and fuel cost increases, the costs of which trended upward for most of 2008, consistent with the increases experienced in the drilling division.

Overall the oilfield services division had a more consistent year in 2008 than the drilling division. Despite the depressed market to begin the year and the extended spring breakup, the division capitalized on its increased operating fleet posting relatively strong results in the first half of the year, particularly in Q2 2008 versus Q2 2007. Record oil prices drove increased industry activity levels in Q3 2008, and the division performance reflected this. However, the weakened oil and gas commodity prices led to an early Q4 slowdown. This has carried on into 2009. Despite all of these factors, Savanna's services division performed well in a mixed year, increasing revenues 37% and operating margins by 24%.

Rig Sales

	2008	2007
(Stated in thousands of dollars)	$	$
Revenue	1,600	–
Operating expenses	1,505	–
Operating margin [1]	95	–

On January 31, 2008, the Company sold a 50% interest in a service rig to a First Nations community in exchange for a promissory note of $1.6 million. As at December 31, 2008 $0.3 million of the note had been repaid. The rig is now held in a limited partnership that is 50% owned by each of Savanna and the First Nations community.

OTHER FINANCIAL INFORMATION

	2008	2007	CHANGE
(Stated in thousands of dollars)	$	$	
From continuing operations:			
General and administrative expenses	27,597	16,442	68%
as a % of revenue	6.0%	4.4%	36%
Stock-based compensation	3,980	6,137	(35%)
Depreciation and amortization	45,903	33,868	36%
Impairment loss on goodwill and intangibles	319,365	151,400	111%
Interest on long-term debt	6,979	3,969	76%
Foreign exchange loss and other expenses	1,690	2,146	(21%)
Income tax expense	14,834	10,872	36%
Effective income tax rate	28%	15%	86%

The increase in general and administrative expenses in 2008 compared with 2007 reflects Savanna's expansion into new markets as well as significant non-recurring tax planning and other advisory fees incurred in the year. These non-recurring amounts aggregated $1.2 million in Q4 2008, and $2.0 million for the full 2008 period. In addition, as the credit and equity crisis began to take its toll on the oil and gas industry the Company's bad debt expense increased to $6.8 million from $.06 million in 2007; $6.3 million of the bad debt expense was allowed for in the fourth quarter of 2008. Despite the overall increase in the operating assets and geographic locations of the Company, as a percentage of revenue, administrative expenses, excluding bad debt expense, remained fairly consistent year over year.

Stock-based compensation decreased in the year as the weighted average number of options granted in 2008 was lower than in 2007. In addition, the mark-to-market adjustment on deferred share units decreased despite an increase in the number of units outstanding as Savanna's share price decreased significantly in the year.

Included in depreciation and amortization is $1.9 million (2007 – $3.0 million) of intangible asset amortization. Overall, the increase in depreciation and amortization for 2008 is primarily a result of the increase in capital assets in the year in the form of both capital expenditures and acquisitions.

At December 31, 2008 and 2007, impairment tests on goodwill and intangible assets were performed which indicated that the carrying amounts of certain of these assets exceeded their fair value. As a result, a loss of $309.6 million (2007 – $128.6 million) relating to goodwill impairment and a loss of $9.8 million (2007 – $22.8 million) relating to intangible asset impairment occurred. The conditions which led to the impairment of goodwill and intangible assets were impacted by external factors such as a decrease in overall economic activity, depressed oil and natural gas pricing, government regulations regarding oil and gas royalties and a global credit and equity crisis which have negatively impacted industry activity levels and utilization rates.

The increase in interest expense in 2008 is a direct result of the increase in the Company's revolving debt facility relative to 2007. Early in 2007 Savanna repaid the balance of its revolving credit facility with the proceeds from the sale of its wireline division. The funds advanced on the revolving debt facility in the last year have primarily been used to fund capital expansion, acquisitions and working capital requirements.

The decrease in foreign exchange loss and other expenses is primarily a result of less volatile foreign currency fluctuations between the Canadian and U.S. dollars to the end of Q2 2008. Additionally, effective July 1, 2008 the Company reclassified its integrated U.S. operations to self-sustaining after certain organizational, operational, financial and administrative changes occurred. As a result of the change, exchange gains and losses arising on the translation of assets and liabilities are now included in other comprehensive income ("OCI"). Previously, these exchange gains and losses were included in earnings.

The significant increase in the Company's effective income tax rate for 2008 compared to 2007 is primarily a result of the tax effect on sale of the Company's wireline division in the prior year. The income on the sale of that operating division in 2007 was considered a capital gain for income tax purposes and the Company was therefore only taxed on 50% of the gain on sale. In addition, the reductions in the Canadian tax rate for 2008 and future years have been somewhat offset by the higher U.S. tax rates the Company expects to realize with its increasing operations in that country. The Company's operations are complex and computation of the provision for income taxes involves tax interpretations, regulations, and legislation that are continually changing. There are matters that have not yet been confirmed by taxation authorities; however, management believes the provision for income taxes is adequate.

DISCONTINUED OPERATIONS

Effective January 31, 2007, the Company closed the sale of its wireline division for net proceeds of $208.0 million in cash plus a working capital adjustment of $1.1 million. The net book value of Savanna's interest in its wireline division and the related assets that were sold on January 31, 2007 was $36.7 million, resulting in a gain of $172.4 million ($140.4 million net of tax). Revenue from discontinued operations for the year ended December 31, 2007 was $6.0 million and net earnings from discontinued operations was $0.3 million, net of tax of $1.2 million.

FINANCIAL CONDITION AND LIQUIDITY

The market risks outlined under "Market Trends" and "Risks and Uncertainties" in this MD&A, can significantly affect the financial condition and liquidity of the Company. Savanna's ability to access its debt facilities is directly dependent on, among other factors, its total debt to equity ratios and trailing cash flows. Additionally, the ability of Savanna to raise capital through the issuance of equity could be restricted in the face of continuing volatility in worldwide capital markets.

Although Savanna cannot anticipate all eventualities in this regard, the Company maintains what it believes to be a conservatively leveraged balance sheet, and makes every effort to ensure a balance between maximizing returns for its shareholders over both short-term and long-term activity levels in the oil and gas services business.

Working capital and cash provided by operations

	2008	2007	CHANGE
(Stated in thousands of dollars)	$	$	
Operating cash flows from continuing operations before changes in working capital [1]	107,619	111,488	(3%)
Per diluted share	1.81	1.88	(3%)
Increase in cash, net of bank indebtedness	11,525	9,406	23%

The Company's operating cash flows are closely related to its operating margins; consequently the marginal decrease in operating cash flow is directly related to the 1% decrease in operating margins. Therefore, as with operating margin, increased costs and downward pressures on overall activity and pricing year over year have operating cash flows before changes in working capital slightly off pace in 2008 compared with 2007.

The increase in cash, net of bank indebtedness is primarily a result of a larger amount being drawn on the Company's term revolving credit facility at the end of 2008 compared to 2007.

	2008	2007	CHANGE
(Stated in thousands of dollars)	$	$	
Working capital held outside of partnerships	83,377	20,679	62,698
Working capital held in partnerships*	4,303	5,292	(989)
Working capital [1]	87,680	25,971	61,709

* *Working capital held in limited partnerships owned 50% by the Company. The amount presented is the Company's proportionate share.*

The increase in working capital is primarily a result of the decrease in the amount drawn on the Company's swing-line facility and the change in net income taxes receivable (payable) at December 31, 2008 compared to 2007. At December 31, 2007 there was a significant amount of income tax payable that arose on the sale of the Company's wireline division.

At December 31, 2008, there was $57 million available for use on the Company's term revolving credit facility; as of the date of this report there was approximately $73 million available on the facility.

INVESTING ACTIVITIES

	2008	2007	CHANGE
(Stated in thousands of dollars)	$	$	
From continuing operations:			
Purchase of property and equipment	(77,440)	(128,212)	(40%)
Purchase of intangibles and other assets	(4,719)	(3,185)	48%
Cash paid on acquisitions, net of cash acquired	(90,355)	(55,737)	62%
From discontinued operations:			
Cash received on sale of discontinued operations, net of costs	–	209,017	(100%)

The 2008 property and equipment purchases are primarily associated with finalizing the manufacture of drilling rigs from the 2007 build program, retrofitting drilling rigs for use in different geographical areas, the manufacture of 6 well servicing rigs for work in the U.S. and commencing the 2008 build program described previously in this MD&A under the heading "Equipment Fleet".

The purchase of intangibles and other assets in 2008 relates entirely to rig re-certification costs incurred in the year which are classified on the balance sheet as other assets.

The $90.4 million paid on acquisitions in 2008 relates to the acquisitions previously described in this MD&A under the heading "Business Acquisitions". The prior year amount of $55.8 million relates mainly to acquisitions in the oilfield services division.

FINANCING ACTIVITIES

	2008	2007	CHANGE
(Stated in thousands of dollars)	$	$	
From continuing operations:			
Proceeds from stock options exercised	2,552	2,947	(13%)
Shares repurchased	(8,630)	–	100%
Issuance of long-term debt	226,745	42,250	437%
Repayment of long-term debt	(93,986)	(142,778)	(34%)
Repayment of deferred drilling advance	–	(2,264)	(100%)
Dividends paid	(7,415)	(1,485)	399%

The average price of the stock options exercised during the 2008 was $13.29 (2007 – $8.44) per share.

Pursuant to a normal course issuer bid filed by the Company and approved by the Toronto Stock Exchange ("TSX") in December 2007, Savanna purchased 774,000 common shares in the open market during 2008, aggregating $8.6 million.

At the date of this report, the number of common shares outstanding was 59 million and the number of stock options outstanding was 2.6 million, the proceeds from which, if exercised, would be $53.3 million.

Savanna had long-term debt outstanding of $184.2 million at December 31, 2008 (December 31, 2007 – $43.0 million), excluding the $18.1 million (December 31, 2007 – $15.2 million) current portion thereof. Funds from the increase in long-term debt (an increase of $144.1 million) were primarily used to fund the $90.4 million in business acquisitions discussed previously in this MD&A under the heading "Business Acquisitions", the $82.2 million in capital expenditures and manage working capital requirements throughout year.

At December 31, 2008, $Nil (December 31, 2007 – $8.2 million) was drawn on the Company's swing-line operating facility. At the date of this report, $Nil was drawn on the swing-line operating facility and $177 million was drawn on the Company's committed revolving debt facility.

In Q2 2007, the Company settled the outstanding balance of its deferred drilling advance for $2.3 million, and the remaining $2.2 million was included in revenue in that period with no associated costs.

In 2008, the Company declared $5.9 million in dividends and paid $7.4 million including the $1.5 million of dividends payable at December 31, 2007.

Contractual Obligations

In the normal course of business, the Company incurs contractual obligations, primarily related to short-term and long-term indebtedness. The expected maturities of the Company's contractual obligations, including interest, are as follows:

For the period ended	Jun 30 2009	Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 2012	Dec 31 2013	Total
(Stated in thousands of dollars)	$	$	$	$	$	$	$
Bank indebtedness	585	–	–	–	–	–	585
Accounts payable and accrued liabilities	44,567	–	–	–	–	–	44,567
Long-term debt*	8,940	17,664	57,036	54,225	87,019	–	224,884
Operating leases	1,107	1,005	1,511	1,249	933	5	5,810
Construction commitments	28,452	–	–	–	–	–	28,452
	83,651	18,669	58,547	55,474	87,952	5	304,298

* *Assumes the Company's term revolving credit facility is not renewed in 2009. Interest payments required on the term revolving credit facility are estimated based on an assumed static prime rate of interest of 3.5%.*

For 2009 and the foreseeable future, the Company expects cash flow from operations, working capital and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

CONTINGENCIES

At December 31, 2008, the Company was subject to legal claims with respect to the Company's patents. In addition, the Company and its Board of Directors were served with court documents effectively seeking a declaration that there are sufficient grounds to require Savanna to pursue an action against current and former directors for damages relating to allegedly back-dated options. While any outcome of these matters is not determinable at this time, Savanna believes that any potential outcome from these matters will not be material to the Company's financial position or operating results.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008:

Lease revenue, management fees and other fees in the amount of $2.7 million (2007 – $3.2 million), net of inter-company eliminations, were received from partnerships that are 50% owned by the Company. Lease amounts have been recorded as revenue and management and other fees have been recorded as a reduction of either operating expenses or general and administrative expenses in the consolidated statement of earnings (loss). These transactions were in the normal course of operations and have been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties.

The Company provided a $3 million home relocation loan to an officer who has relocated to another city on behalf of the Company. The amount is included in accounts receivable. The full amount is due on or before June 30, 2009 and is interest free if paid by that date. Any amount that remains unpaid after that date will bear interest at prime, which was 3.5% at December 31, 2008. The loan receivable is secured by a first charge mortgage over other properties being sold by the officer; the fair value of the properties is estimated to exceed the fair value of the loan. This related party transaction was not in the normal course of operations and has been recorded at the carrying amount of the asset.

The Company sold a 50% interest in a well servicing rig (cost $1.6 million) to a limited partnership that is 50% owned by the Company. The rig was sold in exchange for cash plus 50% of the previously unissued partnership units of the limited partnership. This related party transaction was not in the normal course of operations and has been recorded at the carrying amount of the asset.

QUARTERLY RESULTS

In addition to other market factors, quarterly results of Savanna are markedly affected by weather patterns throughout its operating area in Canada. Historically, the first quarter of the calendar year is very active, followed by a much slower second quarter. As a result of this, the variation on a quarterly basis, particularly in the first and second quarters, can be dramatic year-over-year independent of other demand factors. The following is a summary of selected financial information of the Company for the last eight completed quarters. All prior period amounts have been restated to reflect the discontinuation of the Company's wireline division.

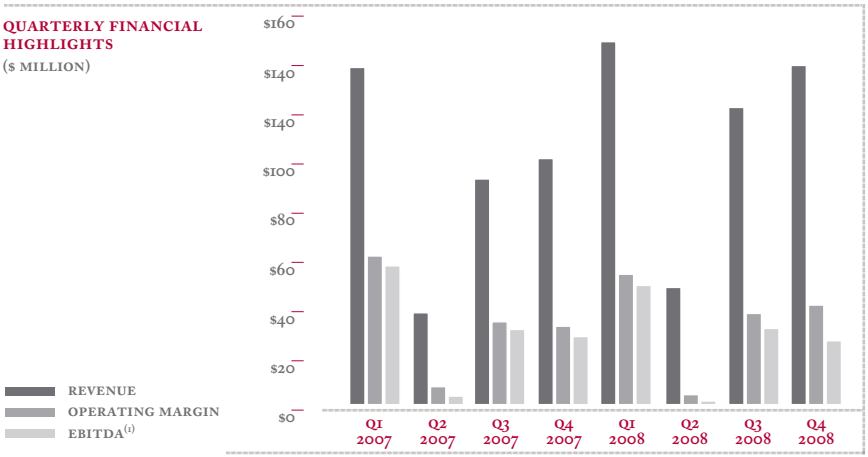
Summary of Quarterly Results

Three Months Ended	Dec 31 2008	Sep 30 2008	Jun 30 2008	Mar 31 2008
(Stated in thousands of dollars, except per share amounts)	$	$	$	$
Revenue	139,746	122,205	48,990	149,160
Operating expenses	98,152	84,207	43,365	95,097
Operating margin [1]	41,594	37,998	5,625	54,063
Operating margin % [1]	30%	31%	11%	36%
Net earnings (loss) from continuing operations	(311,250)	11,315	(7,050)	25,917
Per share: basic	(5.26)	0.19	(0.12)	0.44
Per share: diluted	(5.26)	0.19	(0.12)	0.44
Net earnings (loss)	(311,250)	11,315	(7,050)	25,917
Per share: basic	(5.26)	0.19	(0.12)	0.44
Per share: diluted	(5.26)	0.19	(0.12)	0.44
Total assets	1,037,582	1,306,065	1,234,165	1,243,562
Long-term debt	202,274	183,301	125,423	119,428

Three Months Ended	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007
(Stated in thousands of dollars, except per share amounts)	$	$	$	$
Revenue	101,804	93,735	39,097	138,817
Operating expenses	68,156	58,111	30,271	76,400
Operating margin [1]	33,648	35,624	8,826	62,417
Operating margin % [1]	33%	38%	23%	45%
Net earnings (loss) from continuing operations	(125,639)	12,581	(3,493)	31,580
Per share: basic	(2.11)	0.21	(0.06)	0.54
Per share: diluted	(2.11)	0.21	(0.06)	0.54
Net earnings (loss)	(125,639)	12,581	(3,650)	172,492
Per share: basic	(2.11)	0.21	(0.06)	2.95
Per share: diluted	(2.11)	0.21	(0.06)	2.94
Total assets	1,180,092	1,298,935	1,242,724	1,290,303
Long-term debt	58,218	44,510	27,034	34,527

Fourth Quarter Discussion

Despite the decline in overall economic activity in Q4 2008, the Company was able to increase revenues on its larger equipment fleet and again achieved higher than industry average utilization rates. The increases in revenues were offset by increases in labour costs, fuel costs and the cost of materials and other consumables used in running and maintaining Savanna's fleet.



The drilling and oilfield services divisions increased revenues 36% and 40% respectively in Q4 2008 compared to Q4 2007.

Contract Drilling

(Stated in thousands of dollars, except revenue per operating day) *For the three months ended December 31*	2008	2007	CHANGE
Revenue	$ 115,112	$ 84,340	36%
Operating expenses	$ 80,347	$ 57,498	40%
Operating margin(1)	$ 34,765	$ 26,842	30%
Number of operating days*	5,289	4,195	26%
Revenue per operating day	$ 21,764	$ 20,105	8%
Number of spud to release days *†	4,318	3,537	22%
Wells drilled †	1,540	1,637	(6%)
Total metres drilled †	1,453,966	1,228,822	18%
Utilization†	52%	50%	4%
Industry average utilization±	43%	37%	16%

* *The number of operating days and number of spud to release days are all on a net basis which means only Savanna's proportionate share of any rigs held in limited partnerships have been included.*

† *Savanna reports its rig utilization based on spud to release time for the rigs and excludes moving, rig up and teardown time, even though revenue is earned during this time. Savanna's rig utilization, spud to release days, wells drilled and total metres drilled exclude coring delineation rigs as the operating environment is not comparable to the Company's other drilling rigs. However, these rigs are included in total fleet numbers.*

± *Source of industry figures: Canadian Association of Oilwell Drilling Contractors (CAODC).*

Drilling division revenues and operating days in the fourth quarter of 2008 increased compared to the same period in the prior year as a result of increasing the average number of rigs deployed overall by 12 net rigs and the number of rigs operating in the U.S. The shift to drilling deeper wells continued in Q4 2008 which is the key contributor to the decline in the number of wells drilled quarter over quarter despite the increase in the number of metres drilled.

Although relatively consistent on a percentage of revenue basis, operating costs did increase in the three months ended December 31, 2008 compared to the same quarter in 2007. The increased operating costs are a result of labour cost increases, fuel cost increases and increases in the cost of materials and other consumables used in running and maintaining the drilling rigs. These costs began trending upward in Q4 2007 which is why as a percentage of revenue margins are relatively consistent with the same quarter in the prior year. Also, day rates include third party charges to customers that generate much lower margins than direct day rate charges. As these charges constituted a higher ratio of the day rates in the quarter, operating margins decreased accordingly.

Oilfield Services

(Stated in thousands of dollars, except revenue per operating day) *For the three months ended December 31*		2008		2007	CHANGE
Revenue	$	24,326	$	17,409	40%
Operating expenses	$	17,927	$	10,658	68%
Operating margin *(1)*	$	6,399	$	6,751	(5%)
Number of hours		29,625		22,860	30%
Revenue per hour	$	720	$	762	(6%)
Utilization *†		49%		49%	0%

* *Utilization is based on standard hours of 3,650 per rig per year. Industry average utilization figures, specific to well servicing, are not available.*

† *The utilization rate excludes the coiled tubing service units since these units are not comparable in size or operations to the division's service rigs.*

The oilfield services division achieved an increase in revenue and number of hours in the fourth quarter of 2008 compared to the same period in the prior year due to an increase in the average fleet size to 70 rigs (an increase of 11 rigs); however, downward pricing pressure occurred in Q4 2008. Included in the revenue above is $3 million related to the rental assets acquired late in Q3 2008; this revenue is excluded from the per hour revenue calculations above.

Finally, an earlier December slow down this year than in 2007 resulted in additional costs being incurred as rigs became idle.

RISKS AND UNCERTAINTIES

The Company's primary activity is the provision of contract drilling and oilfield services to the oil and gas industry in Western Canada and the United States. The demand, price and terms of contract drilling services are dependent on the level of activity in this industry, which in turn depends on several factors, including:

- Crude oil, natural gas and other commodity prices, markets and storage levels;
- Expected rates of production and production declines;
- Discovery of new oil and natural gas reserves;
- Availability of capital and financing;
- Exploration and production costs;
- Pipeline capacity and availability;
- Manufacturing capacity and availability of supplies for rig construction; and
- Government imposed royalties and taxes.

Other risk factors that affect the oil and gas industry and the Company are as follows:

Volatility of Industry Conditions

The demand, pricing and terms for oilfield services largely depend upon the level of industry activity for Canadian natural gas and, to a lesser extent, oil exploration and development. Industry conditions are influenced by numerous factors over which the Company has no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and gas production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas production levels and therefore affect the demand for drilling and well servicing services to oil and gas customers. A material decline in oil or gas prices or Canadian industry activity could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Any addition to or elimination or curtailment of government incentives could have a significant impact on the oilfield services industry in Canada.

Seasonality

In Canada, the level of activity in the oilfield services industry is influenced by seasonal weather patterns. The spring thaw makes the ground unstable and less capable of supporting heavy weights. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing drilling and well servicing activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting revenues.

There is greater demand for oilfield services provided by the Company in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Company may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. Volatility in the weather and temperature can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Reliance on Key Personnel

The success of the Company is dependent upon its key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Company. The ability of the Company to expand its services is dependent upon its ability to attract additional qualified employees.

Workforce Availability

The Company's ability to provide reliable and quality services is dependent on its ability to hire and retain a dedicated and quality pool of employees. The Aboriginal partnerships that the Company has formed have provided access to a large, capable workforce of Aboriginal employees. The Company strives to retain employees by providing a safe working environment, competitive wages and benefits, employee savings plans and an atmosphere in which all employees are treated equally regarding opportunities for advancement. The Company also operates an innovative drilling rig training program designed to provide inexperienced individuals with the skills required for entry into the drilling and well servicing industry.

Competition

The oilfield services industry is highly competitive and the Company competes with a substantial number of companies which have greater technical and financial resources. The Company's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Company or that new competitors will not enter the various markets in which the Company is active. In certain aspects of its business, the Company also competes with a number of small and medium-sized companies, which, like the Company, have certain competitive advantages such as low overhead costs and specialized regional strengths. Reduced levels of activity in the oil and natural gas industry can intensify competition and result in lower revenue to the Company. Variations in the exploration and development budgets of oil and natural gas companies which are directly affected by fluctuations in energy prices, the cyclical nature and competitiveness of the oil and natural gas industry and governmental regulation, will have an affect upon the Company's ability to generate revenue and earnings.

Environmental Liability

The Company is subject to the operating risks inherent in the industry, including environmental damage. The Company has established programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. However, 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. On occasion, substantial liabilities to third parties may be incurred. The Company may have the benefit of insurance maintained by it or the operator; however the Company may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

Operating Risk and Insurance

The Company has an insurance and risk management program in place to protect its assets, operations and employees. The Company also has programs in place to address compliance with current safety and regulatory standards. However, the Company's operations are subject to risks inherent in the oilfield services industry such as equipment defects, malfunction, failures and natural disasters. These risks could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Company has obtained insurance against certain of the risks to which it is exposed, 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, financial condition, results of operations and cash flows could be materially adversely effected.

Vulnerability to Market Changes

Fixed costs, including costs associated with operating losses, leases, labour costs and depreciation will account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Technology Risks

The ability of the Company to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Company will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Company to do so could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over the Company. The Company relies on proprietary technology in respect of aspects of its oilfield services, particularly coiled tubing drilling. The Company has been granted patent protection in Canada and in the United States in respect of certain of such technology. No assurances can be given that the proprietary nature of the technology can be adequately protected.

Dependence on Suppliers

Failure of suppliers to deliver equipment in a timely and efficient manner would be detrimental to the Company's ability to keep customers and to grow. In addition, certain equipment is manufactured specifically for the Company and the Company is dependent upon the continued availability of the manufacturer and the maintenance of the quality of manufacture. No assurances can be given that the Company will be successful in maintaining its required supply of equipment.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and gas products, and any major changes could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Access to Additional Financing

The Company may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Company's growth and could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Alberta Royalty Structure Changes

In 2007, the Government of Alberta announced changes to the Alberta royalty regime, including changing the royalty structure for natural gas and conventional oil by adjusting sliding rate formulas that are price and volume sensitive; additionally a new price sensitive formula will be adopted for oil sands development at both the pre- and post-payout stages. In late 2008 and early 2009, relief from this royalty regime was announced in the form of additional transitional provisions, royalty credits and royalty rate incentives. The Company is not a royalty payor, and therefore is not directly affected by these proposed changes. However, as a service provider, the Company is affected by producers' responses to the regime and any proposed changes. Producers have and will continue to assess the impact of the current royalty regime along with the recently announced relief measures on their operations and future activities. Both the short-term and long-term implications of these announcements for the Company are difficult to determine.

Changes in Income Tax Laws

On October 31, 2006, Finance announced changes to the taxation of certain publicly-traded trusts and partnerships and their unit holders. The SIFT Rules became law in June 2007. The SIFT Rules apply to trusts and partnerships that are resident in Canada for purposes of the *Income Tax Act* (Canada) (in the case of partnerships, pursuant to new residency rules for this purpose), that hold one or more "non-portfolio properties", and the units of which are listed on a stock exchange or other public market (a "specified investment flow-through trust" or "SIFT trust", and a "specified investment flow-through partnership" or "SIFT partnership"). A trust or partnership that was a SIFT trust or SIFT partnership on October 31, 2006, generally would not become taxable under the SIFT Rules until January 1, 2011,

provided the trust or partnership experiences only "normal growth" and not "undue expansion" before then. On December 15, 2006, Finance issued guidelines with respect to what would be considered "normal growth" for this purpose. It is unclear what impact the SIFT Rules will have on oil and gas producers and, consequently, demand for the Company's services.

Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as certain revenues and expenses derived from its U.S. operations are denominated in U.S. dollars. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the U.S. operations are included in OCI. As at December 31, 2008, the Company had $10.2 million in working capital and $72 million in long-term debt denominated in U.S. dollars. The Company uses its U.S. dollar denominated debt to manage the exposure to foreign exchange gains and losses arising from the translation of its self-sustaining U.S. operations included in OCI. The Company's sensitivity to foreign currency fluctuations for the year ended December 31, 2008 is as follows: all else being equal, a hypothetical strengthening of 5% of the U.S. dollar against the Canadian dollar would have increased OCI by $3.8 million; for a 5% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net earnings from continuing operations before income taxes.

Interest Rate Risk

The Company is exposed to interest rate risk on a portion of its notes receivable and long-term debt and does not currently hold any financial instruments that mitigate this risk. The Company's floating-rate notes receivable are subject to interest rate cash flow risk, as the cash received will fluctuate with changes in market interest rates. The Company's fixed-rate notes receivable and fixed-rate debt are subject to interest rate price risk, as the values will fluctuate as a result of changes in market interest rates. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates. Of the Company's total notes receivable at December 31, 2008, 18% is fixed-rate and 82% is floating-rate. Of the Company's total debt at December 31, 2008, 5% is fixed-rate debt and 95% is floating-rate debt. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

For the year ended December 31, 2008, all else being equal, the increase or decrease in net earnings from continuing operations before income taxes for each 1% change in interest rates on floating-rate notes receivable and floating-rate debt amounts to approximately $1.2 million.

Credit Risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers and partners in the form of outstanding accounts and notes receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

As stated above, the carrying amount of accounts receivable reflects management's assessment of the credit risk associated with its customers. The Company generally grants unsecured credit to its customers; however, the Company applies rigorous evaluation procedures to all new customers and analyzes and reviews the financial health of its current customers on an ongoing basis. The allowance for doubtful accounts and past due receivables are reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which

the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable. When a receivable balance is considered uncollectible it is written off against the allowance for doubtful accounts. Subsequent recovery of amounts previously written off is included in net earnings.

Based on the nature of its operations, Savanna will always have a concentration of credit risk as a substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. For the year ended December 31, 2008, ten customers comprised 48% of revenue (one customer comprised 12% of revenue) and 53% of accounts receivable (one customer comprised 14% of accounts receivable). Management believes the credit risk of its concentrated customer base is mitigated by the nature of these significant customers whose financial strengths are actively monitored. At December 31, 2008, approximately 87% of trade accounts receivable had been outstanding for less than 90 days. The following details the age of outstanding accounts receivable and the related allowance for doubtful accounts:

	2008
(Stated in thousands of dollars)	$
Trade accounts receivable:	
Not overdue (outstanding for less than 30 days)	45,120
Past due for more than one day but not more than three months	53,879
Past due for more than three months but not more than six months	3,609
Past due for more than six months	5,194
Less allowance for doubtful accounts	(6,603)
Accrued accounts receivable	5,849
Other accounts receivable	6,277
	113,325

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. The Company maintains what it believes to be a conservatively leveraged balance sheet and can finance any future growth through one of or a combination of internally generated cash flows, borrowing under existing credit facilities, the issuance of debt or the issuance of equity, according to its capital management objectives. Given the Company's currently available liquid resources as compared to its contractual obligations, management assesses the Company's liquidity risk to be low.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on the consolidated financial statements which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenues and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management's judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes. Management considers the following to be the most significant of these estimates:

Depreciation and Amortization

The accounting estimate that has the greatest effect on the Company's financial results is the depreciation of capital assets and asset impairment writedowns, if any. Depreciation of capital assets is carried out on the basis of the estimated useful lives of the related assets. Equipment under construction is not depreciated until it is put into use. Included in capital assets is equipment acquired under capital leases. All equipment is depreciated based on the straight-line method, utilizing either years, in the case of all non-drilling assets, or operating days, in the case of drilling equipment. All equipment is depreciated net of expected residual values of 10% – 20%.

Assessing the reasonableness of the estimated useful lives of property and equipment requires judgment and is based on currently available information, including periodic depreciation studies conducted by the Company. Additionally, the Company canvasses its competitors to ensure it utilizes methodologies and rates consistent with the remainder of the sector in which Savanna operates. Changes in circumstances, such as technological advances, changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations may result in the actual useful lives differing from the Company's estimates.

A change in the remaining useful life of a group of assets, or their expected residual value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. These changes are reported prospectively when they occur.

Stock-based Compensation

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

Stock compensation expense also includes the value of deferred share units ("DSUs") held by directors and officers and outstanding at the end of the year. DSUs are recognized when vested and valued on a mark-to-market basis. DSUs will be settled in cash on the date the director ceases to be a director of the Company or within 120 days of termination of an officer.

Goodwill

Goodwill is the amount that results when the cost of acquired assets exceeds their fair values, at the date of acquisition. Goodwill is recorded at cost, not amortized, and tested at least annually for impairment. The impairment test includes the application of a fair value test, with an impairment loss recognized when the carrying amount of goodwill exceeds its estimated fair value. Impairment provisions are not reversed if there is a subsequent increase in the fair value of goodwill. At December 31, 2008 the remaining amount of goodwill on the company's consolidated balance sheet was deemed to be impaired and as a result was written off. The writeoff was a result of management's best estimate as at December 31, 2008 and is subject to measurement uncertainty.

Intangible Assets

Intangible assets consist of the value attributed to customer relationships and non-competition agreements plus the costs associated with securing the Company's intellectual property rights. The initial valuation of intangibles at the closing date of any acquisition requires judgment and estimates by management with respect to identification, valuation and determination of expected periods of benefit. Valuations are based on discounted expected future cash flows and other financial tools and models and are amortized over their expected periods of benefit. Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. At December 31, 2008, a significant portion of the Company's intangible assets were deemed to be impaired and as a result were written off. The writeoff was a result of management's best estimate as at December 31, 2008 and is subject to measurement uncertainty.

Provision of Doubtful Accounts Receivable

The allowance for doubtful accounts and past due receivables are reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. Given the cyclical nature of the oil and natural gas industry along with the current economic operating environment a customer's ability to fulfill their payment obligations can change suddenly and without notice.

ACCOUNTING POLICIES

The significant accounting policies are the same as those set out in the Company's annual audited consolidated financial statements. During the year, the Company adopted several new accounting policies, the most significant of which are as follows:

Capital Disclosures

CICA Handbook Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

Financial Instruments

CICA Handbook Section 3862, "Financial Instruments – Disclosures", describes the required disclosures related to the significance of financial instruments on an entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. CICA Handbook Section 3863, "Financial Instruments – Presentation", establishes standards for the presentation of financial instruments and non-financial derivatives. These sections replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". Comparative information about the nature and extent of risks arising from financial instruments is not required in the year these sections are adopted.

Inventories

CICA Handbook Section 3031, "Inventories", harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards and establishes guidance for determining cost, recognition as an expense and possible writedowns. The Company's accounting policies with respect to inventories were unchanged on adoption of this section.

Accounting Policy Changes

During the year the Company changed its accounting policy with respect to foreign currency translation as follows: Effective July 1, 2008, the Company reclassified its integrated foreign operations to self-sustaining after certain organizational, operational, financial and administrative changes occurred regarding its U.S. operations. The changes that occurred include: the establishment of a U.S. corporate headquarters, a significant increase in the operating assets and field locations in the U.S., and the incurrence of U.S. dollar denominated debt to finance the U.S. operations. With the changes that have occurred, the Company's U.S. operations now operate independently of its other operations and therefore the current rate method for foreign currency translation will provide more relevant information. As a result of the change in policy, the U.S. operation's assets and liabilities denominated in U.S. dollars are translated into Canadian dollars at rates of exchange in effect at the balance sheet date and revenues and expenses are translated at rates prevailing when they were incurred. Exchange gains and losses arising from this translation are recorded as a foreign currency translation adjustment in OCI. Amounts included in accumulated other comprehensive income ("AOCI") will be recognized in earnings when there is a reduction in the net investment of the foreign operation. Previously, only the U.S. operation's monetary assets and liabilities were translated into Canadian dollars at rates of exchange in effect at the balance sheet date and non-monetary assets, liabilities, revenues and expenses were translated at rates prevailing when they were acquired or incurred with any exchange gains and losses included in earnings. In addition, the Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in its self-sustaining U.S. operations. The effective portion of the change in fair value of the hedging instrument is recorded in OCI; any ineffectiveness is recorded immediately in earnings. Amounts included in AOCI will be recognized in earnings when there is a reduction of the hedged net investment.

RECENT ACCOUNTING PRONOUNCEMENTS

The following are GAAP changes that have been issued by the CICA but are not yet effective:

Goodwill and Intangibles

CICA accounting standard 3064 "Goodwill and Intangibles" which replaces 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises and will be adopted by the Company on January 1, 2009. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

International Financial Reporting Standards

The CICA Accounting Standards Board ("AcSB") confirmed that January 1, 2011 will be the effective date for complete convergence of current GAAP to International Financial Reporting Standards ("IFRS"). Therefore, the Company will be required to report using the converged standards for its interim and annual financial statements in 2011; therefore the 2010 comparative figures must also comply with the new standards. The eventual changeover to IFRS represents a change due to new accounting standards and is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is continually assessing the effect of the planned convergence; however, the effect on the future financial position and results of operations is not reasonably determinable or estimable at this time. The following are the key elements and timing of the Company's IFRS changeover plan:

Key Activity	Timing	Current Status
FINANCIAL REPORTING		
Identify differences in Canadian GAAP and IFRS and effect on current accounting policies	Assessment to be completed by Q4 2009 and updated for changes up to Q4 2010	Significant differences and accounting policy choices identified; analysis of issues underway
Determine which IFRS 1 exemptions will be relied upon	Assessment to be completed by Q4 2009 and updated for changes up to Q4 2010	Exemptions relevant to Savanna identified; assessment of alternatives underway
Prepare accounting policies in accordance with IFRS	To be completed by Q4 2010	Not yet started
Create financial statements in accordance with IFRS	To be completed by Q4 2010	Not yet started
Quantify effects of adopting IFRS	To be completed by Q4 2010 for preparing IFRS 1 disclosures and 2010 comparative figures	Not yet started
INFORMATION SYSTEMS		
Determine whether any process changes required	To be completed by Q4 2009 to facilitate parallel processing of 2010 general ledgers	Analysis underway in conjunction with work on accounting policies
Determine if software is IFRS compliant; identify any upgrades, changes or additions required	To be completed by Q4 2009 to facilitate parallel processing of 2010 general ledgers	Scoping study underway; a need for a more robust fixed asset register has been identified
Assess whether any changes to the general ledger required	To be completed by Q4 2009 to facilitate parallel processing of 2010 general ledgers	Analysis underway in conjunction with work on accounting policies
Assess ability to gather data for ongoing disclosures	To be completed by Q4 2010	Application and development team within IT group being assembled
Prepare first time adoption reconciliations required for IFRS 1	To be completed by Q4 2010	Not yet started

Key Activity	Timing	Current Status
BUSINESS ACTIVITIES		
Assess effect on financial covenants	To be completed by Q2 2010 to allow adequate time for negotiations if necessary	Analysis underway in conjunction with work on accounting policies
Assess effect on budgeting and planning process	To be completed by Q4 2010	Not yet started
Assess effect on compensation plans	To be completed by Q4 2010	Analysis underway in conjunction with work on accounting policies
Assess effect on customer and supplier contracts	To be completed by Q2 2010 to allow adequate time for negotiations if necessary	Analysis underway in conjunction with work on accounting policies
Assess needs for IFRS related training	Certain to be completed by Q4 2009 to facilitate parallel processing; remainder by Q3 2010	Analysis of requirements of staff in operations, accounting and IT underway
CONTROL ENVIRONMENT		
Determine whether any changes required to internal controls over financial reporting for all accounting policy changes	To be completed by Q4 2009 to facilitate parallel processing of 2010 general ledgers and updated for changes up to Q4 2010	Analysis underway in conjunction with work on accounting policies
Determine whether any changes required to disclosure controls and procedures for all accounting policy changes	To be completed by Q4 2009 to facilitate parallel processing of 2010 general ledgers and updated for changes up to Q4 2010	Analysis underway in conjunction with work on accounting policies

Leading up to the January 1, 2011 changeover date, the AcSB intends to harmonize certain Canadian accounting standards with IFRS. The adoption of accounting standards 1535, "Capital Disclosures"; 3031, "Inventories"; 3862, "Financial Instruments – Disclosures"; and 3863, "Financial Instruments – Presentation" during the year and 3064 "Goodwill and Intangibles" on January 1, 2009 all represent standards that have been partially or completely converged with IFRS. The following are additional standards the AcSB intends to issue or amend by the 2011 changeover date that will further harmonize Canadian standards with IFRS:

CICA Handbook Section 1582, "Business Combinations": under the new section, the term "business" will be more broadly defined than in the existing standard; most assets acquired and liabilities assumed will be measured at fair value; any interest in an acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions); a bargain purchase will result in recognition of a gain; and acquisition costs must be expensed.

CICA Handbook Sections 1601, "Consolidations" and 1602 "Non-controlling Interests". Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests which would be covered in Section 1602. Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholder's equity and net income will be calculated without deducting non-controlling interest and instead net income is allocated between the controlling and non-controlling interests.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") as defined by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. As of December 31, 2008, an evaluation of the effectiveness of the Company's DC&P was conducted by and under the supervision of the Company's management including the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's DC&P provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities, particularly during the period in which the interim filings of the Company are being prepared.

The CEO and CFO do not expect that the DC&P will prevent or detect all errors, misstatements and fraud but are designed to provide reasonable assurance of achieving their objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

In addition to DC&P, the CEO and CFO have designed internal controls over financial reporting ("ICFR") or caused them to be designed under their supervision. The design and effectiveness of these controls have been evaluated using the framework and criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO have concluded that the design and effectiveness of the Company's ICFR as of December 31, 2008, except as described below, provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Internal controls within certain business units acquired in 2008, previously described in this MD&A under the heading "Business Acquisitions", have not been fully implemented or tested for effectiveness. For the year ended December 31, 2008, the business units for which there is a scope limitation accounted for $24.6 million in revenue, $13.2 million in operating costs and $11.4 million in operating margin. The Company expects that the implementation and effectiveness testing of controls within these business units will be finalized in 2009.

The Company's ICFR may not prevent or detect all errors, misstatements and fraud. The design of internal controls must take into account cost-benefit constraints. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met. While the Company is continually improving its ICFR, no material changes were made during the year ended December 31, 2008 that would materially affect or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

Although the industry is uncertain with respect to the demand and prices of oil and gas for the remainder of 2009, Savanna believes it is well positioned with its high-quality people and equipment, leading-edge technology, First Nations partnerships and strong balance sheet. While Savanna is certainly not immune to pricing or utilization pressures caused by the industry slowdown, the Company does believe it is well positioned to manage and capitalize on the variable conditions facing the oilfield services industry. In 2008, Savanna significantly diversified both its equipment and geographic bases and in turn, its overall capacity. The Company remains optimistic regarding the long-term prospects for drilling in North America, and has positioned its fleet to take advantage of this opportunity.

The Company does however remain cautious regarding the impact of the global credit and equity crisis and resulting economic uncertainty. In order to maintain its balance sheet strength during this period the Company has also taken measures to align its fixed operating and administrative costs with the activity decreases and difficult operating conditions that the Company is likely to face through the remainder of 2009. These measures are in the form of salary and wage rollbacks for all non-rig related employees in the organization from 2% to 26% depending on their level of earnings. This will allow the Company to retain its personnel at a reasonable cost during a difficult period and at the same time keep people in place for the eventual return to more favourable operating conditions.

In addition, after successfully combining and re-branding its various Canadian well servicing divisions as one under the banner of Savanna Well Servicing in 2008, the Company has commenced a similar project for the drilling division. The project will re-brand and combine Trailblazer Drilling Corp., Lakota Drilling Corp. and Akuna Drilling Trust under the banner of Savanna Drilling. Combining these entities will streamline operations and will provide advantages in purchasing power, recruitment, employee mobility, and ancillary equipment utilization as well as provide greater name recognition between Savanna as a whole and its different operating divisions.

These measures along with the Company's strong balance sheet and largely variable cost structure will allow Savanna to sustain momentum during the short-term market difficulties and take advantage of any opportunities that the current market volatility may generate.

Cautionary Statement Regarding Forward-Looking Information and Statements

Certain statements contained in this MD&A, including statements related to the Company's 2009 capital expenditures and growth opportunities, outlook for future oil and gas prices, cyclical industry fundamentals, drilling, completion, workover and abandonment activity levels, the Company's ability to fund future obligations and capital expenditures, and statements that contain words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "likely", "estimate", "predict", "potential", "continue", "maintain", "retain", "grow", and similar expressions and statements relating to matters that are not historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995.

These statements are based on certain assumptions and analysis made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate in the circumstances. In particular, the Company's expectation of uncertain demand and prices for oil and natural gas and the resulting

depressed industry activity in 2009 with an emphasis of such reduction in shallow gas drilling, is premised on the Company's customers' reductions to their capital budgets, the focus of its customers on deeper drilling opportunities in the current natural gas pricing environment and the potential impact of the recent global financial crisis on their ability to access capital and its impact on economic activity which translates into demand for oil and gas. The anticipated capital additions to and enhancement of the Company's drilling, well servicing and rental operations in Canada and the United States are premised on access to capital and commodity price influence on cash flows of the Company's customers, which directly impact drilling activity and pricing pressure for Savanna services. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to: fluctuations in the price and demand for oil and natural gas; fluctuations in the level of oil and natural gas exploration and development activities; fluctuations in the demand for well servicing and contract drilling; the effects of weather conditions on operations and facilities; the existence of competitive operating risks inherent in well servicing and contract drilling; general economic, market or business conditions; changes in laws or regulations, including taxation, environmental and currency regulations; the lack of availability of qualified personnel or management; the other risk factors set forth under the heading "Risks and Uncertainties" in this MD&A and other unforeseen conditions which could impact on the use of services supplied by the Company.

Consequently, all of the forward-looking information and statements made in this MD&A are qualified by this cautionary statement and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. Except as may be required by law, the Company assumes no obligation to update publicly any such forward-looking information and statements, whether as a result of new information, future events, or otherwise.

Notes:

(1) *Operating margin, operating cash flows from continuing operations before changes in non-cash working capital, and working capital are not recognized measures under GAAP, and are unlikely to be comparable to similar measures presented by other companies. Management believes that, in addition to net earnings, the measures described above are useful as they provide an indication of the results generated by the Company's principal business activities prior to consideration of how those activities are financed and how the results are taxed in various jurisdictions.*

- *Operating margin is defined as revenue less operating expenses.*
- *Operating margin percent is defined as revenue less operating expenses divided by revenue.*
- *Operating cash flows from continuing operations before changes in working capital is defined as cash flows from continuing operating activities before changes in non-cash working capital.*
- *Working capital is defined as total current assets less total current liabilities excluding the current portions of long-term debt.*
- *EBITDA is defined as earnings before interest, income taxes, depreciation, amortization and stock-based compensation.*

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of Savanna. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, transactions are properly authorized and assets are safeguarded from loss or unauthorized use.

The Audit Committee is appointed by the Board of Directors, with all of its members being independent directors. The Audit Committee meets with management, as well as with the external auditors, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte & Touche LLP on behalf of the Company in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

Ken Mullen
President and Chief Executive Officer

March 10, 2009
Calgary, Alberta

Darcy Draudson
Chief Financial Officer

March 10, 2009
Calgary, Alberta

AUDITORS' REPORT

To the Shareholders of Savanna Energy Services Corp.:

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

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

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

Deloitte & Touche LLP

Chartered Accountants

March 10, 2009
Calgary, Alberta

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Earnings (Loss)
For the years ended December 31, 2008 and 2007

	2008	2007
(Stated in thousands of dollars, except per share amounts)	$	$
REVENUE		
Sales and services	460,101	373,452
EXPENSES		
Operating	320,821	232,937
General and administrative	27,597	16,442
Stock-based compensation *(Note 14(f))*	3,980	6,137
Depreciation and amortization	45,903	33,868
Interest on long-term debt	6,979	3,969
Foreign exchange loss and other expenses	1,690	2,146
Impairment loss on goodwill and intangible assets *(Note 8)*	319,365	151,400
	726,335	446,899
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(266,234)	(73,447)
INCOME TAXES *(Note 11(a))*		
Current	(2,750)	5,746
Future	17,584	5,126
	14,834	10,872
LOSS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTEREST	(281,068)	(84,319)
Non-controlling interest *(Note 16)*	–	(652)
LOSS FROM CONTINUING OPERATIONS	(281,068)	(84,971)
NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF TAX OF $33,161 *(Notes 11(a) and 23)*	–	140,755
NET EARNINGS (LOSS)	(281,068)	55,784
NET EARNINGS (LOSS) PER SHARE *(Note 14(g))*		
Basic – net loss from continuing operations	(4.74)	(1.44)
Diluted – net loss from continuing operations	(4.74)	(1.44)
Basic – net earnings from discontinued operations	–	2.38
Diluted – net earnings from discontinued operations	–	2.38
Basic – net earnings (loss)	(4.74)	0.94
Diluted – net earnings (loss)	(4.74)	0.94

Consolidated Statements of Retained Earnings (Deficit)

	2008	2007
(Stated in thousands of dollars)	$	$
Retained earnings, beginning of year	167,575	114,765
Dividends	(5,926)	(2,974)
Net earnings (loss)	(281,068)	55,784
Retained earnings (deficit), end of year	(119,419)	167,575

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Consolidated Balance Sheets
December 31, 2008 and 2007

	2008	2007
(Stated in thousands of dollars)	$	$
ASSETS		
Current		
Cash	4,178	3,094
Accounts receivable	113,325	95,386
Income taxes receivable	7,420	–
Inventory *(Note 5)*	6,032	8,529
Prepaid expenses and deposits	1,877	1,032
	132,832	108,041
Notes receivable *(Note 6)*	7,350	6,000
Property and equipment *(Note 7)*	888,509	746,063
Goodwill *(Note 8)*	–	309,625
Intangibles and other assets *(Note 8)*	8,891	10,363
	1,037,582	1,180,092
LIABILITIES		
Current		
Bank indebtedness *(Note 9)*	585	11,026
Accounts payable and accrued liabilities	44,567	44,465
Dividends payable	–	1,488
Income taxes payable	–	25,091
Current portion of long-term debt *(Note 10)*	18,056	15,168
	63,208	97,238
Deferred net revenue *(Note 6)*	1,647	1,647
Long-term debt *(Note 10)*	184,218	43,050
Future income taxes *(Note 11(b))*	80,294	62,180
	329,367	204,115
Commitments and contingencies *(Notes 12 and 13)*		
SHAREHOLDERS' EQUITY		
Share capital *(Note 14(b))*	789,841	797,156
Contributed surplus *(Note 14(c))*	16,483	11,246
Retained earnings (deficit)	(119,419)	167,575
	686,905	975,977
Accumulated other comprehensive income	21,310	–
	708,215	975,977
	1,037,582	1,180,092

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Approved by the Board

Ken Mullen
Director

Kevin Nugent
Director

Consolidated Statements of Cash Flows
For the years ended December 31, 2008 and 2007

(Stated in thousands of dollars)	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	(281,068)	(84,971)
Items not affecting cash:		
Stock-based compensation *(Note 14(f))*	3,980	6,137
Depreciation and amortization	45,903	33,868
Impairment loss on goodwill and intangibles *(Note 8)*	319,365	151,400
Amortization of other assets *(Note 8)*	1,208	477
Future income taxes *(Note 11(a))*	17,584	5,126
Non-controlling interest *(Note 16)*	–	652
Settlement of deferred drilling advances *(Note 18)*	–	(2,197)
Unrealized foreign exchange gain	(254)	–
Loss on disposal of assets	901	996
	107,619	111,488
Change in non-cash working capital from continuing operations *(Note 17(b))*	(48,324)	(22,670)
Cash flows from continuing operations	59,295	88,818
Net earnings from discontinued operations	–	140,755
Items not affecting cash *(Notes 11(a) and 23)*	–	1,295
Gain on disposal of assets *(Note 23)*	–	(140,425)
	–	1,625
Change in non-cash working capital from discontinued operations *(Note 17(b))*	–	4,630
Cash flows from discontinued operations	–	6,255
Total cash flows from operating activities	59,295	95,073
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued on exercise of stock options *(Note 14(b))*	2,552	2,947
Shares repurchased *(Notes 14(b) and 14(c))*	(8,630)	–
Repayment of deferred drilling advance *(Note 18)*	–	(2,264)
Issuance of long-term debt	226,745	42,250
Repayment of long-term debt	(93,986)	(142,778)
Dividends paid	(7,415)	(1,485)
Change in working capital related to financing activities *(Note 17(b))*	1,489	(1,489)
Cash flows from (used in) continuing financing activities	120,755	(102,819)
Cash paid on acquisition and cancellation of options *(Note 14(c))*	–	(520)
Cash flows used in discontinued financing activities	–	(520)
Total cash flows from (used in) financing activities	120,755	(103,339)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(77,440)	(128,212)
Proceeds on disposal of assets	1,990	1,285
Cash paid on acquisitions, net of cash acquired *(Note 4)*	(90,355)	(55,737)
Purchase of intangibles and other assets	(4,719)	(3,185)
Change in working capital related to investing activities *(Note 17(b))*	1,999	(5,347)
Cash flows used in continuing investing activities	(168,525)	(191,196)
Purchase of property and equipment	–	(149)
Cash received on sale of discontinued operations, net of costs *(Note 23)*	–	209,017
Cash flows from discontinued investing activities	–	208,868
Total cash flows from (used in) investing activities	(168,525)	17,672
INCREASE IN CASH, NET OF BANK INDEBTEDNESS	11,525	9,406
CASH, NET OF BANK INDEBTEDNESS, BEGINNING OF YEAR	(7,932)	(17,338)
CASH, NET OF BANK INDEBTEDNESS, END OF YEAR	3,593	(7,932)

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2008 and 2007

	2008	2007
(Stated in thousands of dollars)	$	$
net earnings (loss)	(281,068)	55,784
other comprehensive income (loss)		
Foreign currency translation adjustment	29,516	–
Unrealized foreign exchange loss on net investment hedge, net of tax benefit of $1,572	(8,206)	–
comprehensive income (loss)	(259,758)	55,784

Consolidated Statements of Accumulated Other Comprehensive Income

	2008	2007
(Stated in thousands of dollars)	$	$
Accumulated other comprehensive income, beginning of year	–	–
Other comprehensive income	21,310	–
Accumulated other comprehensive income, end of year	21,310	–

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

(Stated in thousands of dollars)

1. DESCRIPTION OF BUSINESS

Savanna Energy Services Corp. (the "Company" or "Savanna") was incorporated under the Alberta Business Corporations Act on March 22, 2001, to provide a variety of services in the oil and natural gas industry. Savanna operates through a number of wholly-owned subsidiaries and 50/50 limited partnerships. The Company's services division is operated primarily through Savanna Well Servicing Inc., and its drilling division is operated primarily through Trailblazer Drilling Corp., Lakota Drilling Corp. and Savanna Drilling LLC.

2. BASIS OF PRESENTATION

The consolidated financial statements of Savanna have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated.

The results of operations and cash flows for the years ending December 31, 2008 and 2007 include the results of all acquisitions (Note 4) from their dates of acquisition. Earnings for the Company's wireline division for the one month ended January 31, 2007 have been included in net earnings from discontinued operations in the consolidated statement of earnings (loss) (Note 23).

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Partnerships

The Company conducts a portion of its operations in the contract drilling and services divisions through limited partnerships. The Company accounts for its interests in these partnerships on a proportionate consolidation basis as these partnerships are jointly-controlled entities.

In certain circumstances, the Company will build and sell interests in drilling or well servicing rigs and related equipment to these partnerships. Such sales may be transacted directly with the partnership or with the other partners. The Company eliminates its proportionate share of transactions with the limited partnerships.

b) Revenue Recognition

Revenue from contract drilling, well servicing and other oilfield services is recognized upon delivery of service to customers and is calculated on a daily or hourly basis. Cost recoveries billed to customers are included as both revenue and operating expenses and are not netted. The customer contract terms do not include a provision for post-delivery obligations.

Included in revenues are the proceeds from the sales of the interests in drilling or well servicing rigs and related equipment sold to partners. Net profits related to amounts that remain receivable from the partners or partnerships are deferred and recognized once collection is reasonably assured. All other sales of rigs are recognized upon completion of the transaction and transfer of beneficial ownership to the acquirer. Any income earned from rigs held for sale in inventory is credited to the cost of the related rig held in inventory.

c) Cash and Bank Indebtedness

Cash consists of cash held in banks. Bank indebtedness consists of temporary overdrafts, operating facilities and cheques written in excess of funds. Classification as cash or bank indebtedness depends on the financial institution in which the consolidated balance is held, except for balances held through jointly-controlled partnerships. Balances held through jointly-controlled partnerships are classified on an individual basis rather than as a consolidated group.

d) Inventory

The Company's inventory includes drilling or well servicing rigs constructed and under construction and related equipment for sale to third parties or jointly-controlled partnerships. The portion included in inventory is based on management's expectations of the percentage the Company will sell to a third party or jointly-controlled partnership. Inventory is valued at the lower of cost (less any income earned prior to sale) and estimated net realizable value.

Inventory also includes parts and operating supplies valued at the lower of cost, determined on a weighted average basis, and net realizable value.

e) Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is determined using the straight-line method beginning in the month of acquisition, except for drilling rigs and related equipment which are depreciated based on the number of drilling days.

Buildings	20 years straight-line
Field equipment – non-drilling	10 to 15 years straight-line with salvage values of 10% to 20%
Drilling rigs and equipment	1,500 to 4,125 drilling days with a salvage value of 20%
Furniture and office equipment	3 to 5 years straight-line
Vehicles under capital leases	3 to 5 years straight-line

Costs related to equipment under construction are capitalized when incurred. No depreciation is provided on assets under construction until those assets are substantially complete and ready for use.

f) Goodwill

Goodwill is recorded at cost and is not amortized. The recorded amount of goodwill is tested for impairment, based on expected future cash flows of the reporting segment to which the goodwill is attributable, at least annually at year-end or whenever events or circumstances indicate a possible impairment, to ensure that the fair value is greater than, or equal to, book value. Any impairment is charged to income in the period in which it is determined.

g) Intangible Assets

Intangible assets consist of costs associated with securing Savanna's intellectual property rights as well as the value attributed to customer relationships and non-competition agreements arising on acquisitions completed by the Company. Intangible assets are amortized on a straight-line basis over the expected period of benefit (three to five years). Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. Any impairment is charged to income in the period in which it is determined.

h) Other Assets

Other assets include rig re-certification costs which are being amortized on a straight-line basis over their expected useful lives (three to four years). Amortization expense related to re-certification costs is included in operating expenses in the consolidated financial statements.

i) Impairment of Long-Lived Assets

On a periodic basis management assesses the carrying value of long-lived assets for indications of impairment. Indications of impairment include an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company will test for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value. The Company uses undiscounted future cash flows to determine the net recoverable amount and measures the amount of impairment using undiscounted cash flows.

j) Asset Retirement Obligations

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs before salvage values are capitalized as part of the carrying amount of the related property and equipment. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

As at December 31, 2008 and 2007, the estimated fair value of the asset retirement obligation for the Company's capital assets is nominal. Accordingly, no provision has been made for any asset retirement obligation.

k) Future Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences, which are the differences between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis. The Company's future tax balances have been reflected at the substantively enacted tax rates which are expected to apply when the temporary differences between the accounting and tax balances of the Company's assets and liabilities are reversed. The amount of any future income tax assets recognized is limited to the amount that is more likely than not to be realized.

l) Earnings Per Share

Earnings per share are calculated using the weighted average number of shares outstanding. Diluted earnings per share are calculated using the treasury stock method where the deemed proceeds of the exercise of options and the average unrecognized stock-based compensation are considered to be used to reacquire shares at an average share price for the period.

m) Stock-based Compensation

The Company follows the fair value method of accounting, using the Black-Scholes option pricing model, whereby, compensation expense is recognized for the stock options on the date of granting, and amortized over the options' vesting period. All forfeited options are cancelled by the Company immediately and no stock-based compensation is recorded on these options in future periods and any unvested stock-based compensation in the current period is reversed.

Stock-based compensation expense also includes the value of deferred share units ("DSUs") held by directors and officers of the Company and outstanding at the end of the year. DSUs are recognized over the vesting period and are valued on a mark-to-market basis. DSUs will be settled in cash upon exercise or on the date a director ceases to be a director of the Company or within 120 days of termination of an officer. The recognition and valuation of DSUs results in stock-based compensation expense and a corresponding liability which has been included in accounts payable and accrued liabilities in the consolidated balance sheet.

n) Capital Disclosures

On January 1, 2008 the Company adopted CICA Handbook Section 1535, "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance. The additional disclosure, required as a result of the adoption of this standard, has been included in Note 15 of these financial statements.

o) Comprehensive Income

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). For the Company, OCI is comprised entirely of the movement in the cumulative foreign currency translation adjustment balance. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is an equity category comprised of the cumulative amounts of OCI.

p) Foreign Currency Translation

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period.

Effective July 1, 2008 the Company reclassified its integrated foreign operations to self-sustaining after certain organizational, operational, financial and administrative changes occurred regarding its U.S. operations. The changes that occurred include: the establishment of a U.S. corporate headquarters, a significant increase in the operating assets and field locations in the U.S., and the incurrence of U.S. dollar denominated debt to finance the U.S. operations. With the changes that have occurred, the Company's U.S. operations now operate independently of its other operations and therefore the current rate method for foreign currency translation will provide more relevant information. As a result of the change in policy, the U.S. operation's assets and liabilities denominated in U.S. dollars are translated into Canadian dollars at rates of exchange in effect at the balance sheet date and revenues and expenses are translated at rates prevailing when they were incurred. Exchange gains and losses arising from this translation are recorded as a foreign currency translation adjustment in OCI. Amounts included in accumulated other comprehensive income

("AOCI") will be recognized in earnings when there is a reduction in the net investment of the foreign operation. Previously, only the U.S. operation's monetary assets and liabilities were translated into Canadian dollars at rates of exchange in effect at the balance sheet date and non-monetary assets, liabilities, revenues and expenses were translated at rates prevailing when they were acquired or incurred with any exchange gains and losses included in earnings. Advances made to its U.S. operations for which settlement is not planned or anticipated in the forseeable future are considered part of the Company's net investment in its self-sustaining U.S. operations. Accordingly, unrealized gains and losses from these advances are recorded in OCI.

q) Derivative Instruments

Derivative instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates or other financial or commodity prices or indices. Embedded derivatives are derivatives embedded in a host contract or other financial instrument. They are recorded separately from the host contract or financial instrument when their economic characteristics and risks are not clearly and closely related to those of the host contract or financial instrument. The terms of the embedded derivative are the same as those of a freestanding derivative and the combined contract is not measured at fair value. The Company has not designated any derivative instruments or identified any embedded derivatives requiring separate recognition for the years ended December 31, 2008 and 2007.

r) Financial Instruments

All of the Company's financial instruments, including embedded derivatives, are initially recognized at fair value on the balance sheet and classified into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurements of the financial instruments are based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in OCI and are transferred to earnings when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. Any transaction costs with respect to financial instruments are expensed in the period incurred.

The following accounting policy changes with respect to financial instruments were adopted retroactively without restatement on January 1, 2008: CICA Handbook Section 3862, "Financial Instruments – Disclosures", describes the required disclosures related to the significance of financial instruments on an entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. CICA Handbook Section 3863, "Financial Instruments – Presentation", establishes standards for the presentation of financial instruments and non-financial derivatives. These sections replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". Comparative information about the nature and extent of risks arising from financial instruments is not required in the year these sections are adopted. The additional disclosures, required as a result of the adoption of these standards, have been included in Note 22 of these financial statements.

The Company's financial instruments are listed as follows, according to their classification:

i) Cash is classified as held for trading and is measured at fair value. Gains and losses as a result of subsequent revaluations are recorded in net earnings.

ii) Accounts and notes receivable are classified as loans and receivables and are initially measured at fair value with subsequent revaluations recognized at amortized cost using the effective interest rate method.

iii) Bank indebtedness, accounts payable and accrued liabilities, and long-term debt are classified as other liabilities and are initially measured at fair value with subsequent revaluations recognized at amortized cost using the effective interest rate method.

The Company's U.S. dollar denominated long-term debt has been designated as a hedge of the net investment in its self-sustaining U.S. operations. The effective portion of the change in fair value of the hedging instrument is recorded in OCI; any ineffectiveness is recorded immediately in earnings. Amounts included in AOCI will be recognized in earnings when there is a reduction of the hedged net investment.

s) Use of Estimates and Accounting Policy Changes

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the depreciation period for property, equipment and intangible assets, the recoverability of property, equipment, intangible assets and goodwill, the provision of doubtful accounts receivable, stock-based compensation expense and estimates in future income taxes. Actual results could differ significantly from these estimates.

Changes in accounting policies are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings.

The following are GAAP changes that have been issued by the CICA but are not yet effective:

i) CICA accounting standard 3064 "Goodwill and Intangibles" which replaces 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises and will be adopted by the Company on January 1, 2009. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

ii) The CICA Accounting Standards Board ("AcSB") confirmed that January 1, 2011 will be the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). Therefore, the Company will be required to report using the converged standards for its interim and annual financial statements in 2011; therefore the 2010 comparative figures must also comply with the new standards. The eventual changeover to IFRS represents a change due to new accounting standards and is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is continually assessing the effect of the planned convergence; however, the effect on the future financial position and results of operations is not reasonably determinable or estimable at this time.

Leading up to the January 1, 2011 changeover date, the AcSB intends to harmonize certain Canadian accounting standards with IFRS. The adoption of accounting standards 1535, "Capital Disclosures"; 3031, "Inventories"; 3862, "Financial Instruments – Disclosures"; and 3863,

"Financial Instruments – Presentation" during the year and 3064 "Goodwill and Intangibles" on January 1, 2009 all represent standards that have been partially or completely converged with IFRS. The following are additional standards the AcSB intends to issue or amend by the 2011 changeover date that will further harmonize Canadian standards with IFRS:

CICA Handbook Section 1582, "Business Combinations"; under the new section, the term "business" will be more broadly defined than in the existing standard, most assets acquired and liabilities assumed will be measured at fair value, any interest in an acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase will result in recognition of a gain, and acquisition costs must be expensed.

CICA Handbook Sections 1601, "Consolidations" and 1602 "Non-controlling Interests". Section 1601 carries forward the requirements of Section 1600, "Consolidated Financial Statements", other than those relating to non-controlling interests which would be covered in Section 1602. Under Section 1602, any non-controlling interest will be recognized as a separate component of shareholder's equity and net income will be calculated without deducting non-controlling interest and instead net income is allocated between the controlling and non-controlling interests.

4. BUSINESS ACQUISITIONS

a) On October 1, 2008, the Company acquired the assets of a privately-held well servicing company for cash consideration of $6,500. The assets acquired include 3 well servicing rigs and related equipment.

b) On September 12, 2008, the Company acquired the assets of a privately-held oilfield services rental company for cash consideration of $20,000. Among the assets acquired were $10,117 in land and buildings.

c) On June 16, 2008, the Company acquired the assets of a private U.S. drilling company for cash consideration of $60,351. The assets acquired include 5 drilling rigs and related equipment.

d) On January 31, 2008, the Company acquired a 50% interest in a drilling rig and related assets for cash consideration of $4,100. The rig was previously held in a limited partnership that was 50% owned by each of the Company and a First Nations community.

e) On December 21, 2007, the Company acquired a 50% interest in 4 service rigs and related assets for a net purchase price of $1,100 in cash. These rigs are held in a limited partnership that is owned 50% each by the Company and a First Nations community.

f) On July 26, 2007, Savanna acquired 50% of Command Coil Services Limited Partnership held by a First Nations partner which included five coiled tubing service units for a net purchase price of $2,000 in cash. As a result of the transaction, Savanna now owns 100% of the 8 units operating in this fleet.

g) On June 1, 2007, Savanna completed the acquisition of the 14% minority interest of one of its subsidiaries, Akuna Drilling Trust ("Akuna"), held by First Nations and Métis Nation communities and associations. As a result of the transaction, Savanna now owns 100% of Akuna. The acquisition was funded with $2,984 of cash and 255 common shares of Savanna priced at $21.81 per share, for total consideration of $8,549.

h) On February 16, 2007, Savanna purchased the assets of Accell Well Services Ltd. for total consideration of $61,894. Total consideration was comprised of $46,300 of cash and 839 common shares of Savanna priced at $18.47 per share, net of acquisition costs of $94.

i) On February 16, 2007, Savanna completed the acquisition of all the outstanding shares of Bear Steam Ltd. for total consideration of $6,000. The acquisition was funded with $4,500 of cash and 81 common shares of Savanna priced at $18.47 per share.

All of the acquisitions have been accounted for using the purchase method with the results of operations being included in the consolidated financial statements from the date of acquisition. Savanna shares issued on any of the acquisitions were valued at the average closing price of Savanna shares for the five-day period before the closing date of the acquisitions. The purchase price allocations are as follows:

	(a)	(b)	(c)	(d)	2008 TOTAL
	$	$	$	$	$
Net assets acquired:					
Cash	–	–	–	596	596
Non-cash working capital	–	556	–	(387)	169
Property and equipment	5,847	18,681	56,018	3,810	84,356
Intangibles and other assets*	653	763	4,333	81	5,830
	6,500	20,000	60,351	4,100	90,951
Cash consideration	6,500	20,000	60,351	4,100	90,951
* Intangible assets deductible for tax	653	763	4,333	–	5,749

	(e)	(f)	(g)	(h)	(i)	2007 TOTAL
	$	$	$	$	$	$
Net assets acquired:						
Cash	–	81	–	–	160	241
Non-cash working capital	–	(1,092)	(3,717)	–	(160)	(4,969)
Settlement of note receivable	–	(575)	–	–	–	(575)
Property and equipment	2,910	3,478	7,701	51,020	2,865	67,974
Intangible assets*	–	–	–	4,821	1,558	6,379
Goodwill*	–	1,398	4,682	6,053	2,067	14,200
Long-term debt	(1,810)	(1,290)	(117)	–	–	(3,217)
Future income taxes	–	–	–	–	(490)	(490)
	1,100	2,000	8,549	61,894	6,000	79,543
Consideration:						
Cash	100	2,000	2,984	46,394	4,500	55,978
Payable subsequent to closing	1,000	–	–	–	–	1,000
Common shares issued	–	–	5,565	15,500	1,500	22,565
	1,100	2,000	8,549	61,894	6,000	79,543
* Intangible assets and goodwill deductible for tax	–	–	–	8,155	–	8,155

5. INVENTORY

	2008	2007
	$	$
Drilling rigs and equipment built for sale, at cost	–	1,505
Parts and operating supplies	6,032	7,024
	6,032	8,529

No inventories were pledged as security for the years ended December 31, 2008 and 2007. For the years ended December 31, 2008 and 2007, no writedowns of inventories to net realizable value were required. Inventory was expensed through operating expenses during the year as follows:

	2008	2007
	$	$
Drilling rigs and equipment built for sale, at cost	1,505	–
Parts and operating supplies	5,425	6,212
	6,930	6,212

6. NOTES RECEIVABLE AND DEFERRED NET REVENUE

	Interest Rate	Effective Rate	Notes Receivable	2008 Deferred Net Revenue	Notes Receivable	2007 Deferred Net Revenue
	%	%	$	$	$	$
Note receivable	P+5	12	3,000	828	3,000	828
Note receivable	P+5	12	3,000	819	3,000	819
Note receivable	10	10	1,350	–	–	–
			7,350	1,647	6,000	1,647

"P" denotes prime rate, which was 3.5% at December 31, 2008 and 6% at December 31, 2007.

All of the notes receivable arose from the sale of the interests in drilling and well servicing rigs and related equipment to partners or jointly-controlled partnerships. Net profits related to amounts that remain receivable are deferred and recognized once reasonable certainty regarding the collection of the related receivable exists. These notes must be paid in full before the partnerships make any cash distribution to the partners.

7. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	2008 Net Book Value	Cost	Accumulated Depreciation	2007 Net Book Value
	$	$	$	$	$	$
Land	12,815	–	12,815	8,036	–	8,036
Buildings	24,816	1,892	22,924	13,779	980	12,799
Field equipment	941,376	125,574	815,802	758,558	79,369	679,189
Equipment under construction	18,728	–	18,728	28,527	–	28,527
Furniture and office equipment	4,459	2,333	2,126	2,998	1,538	1,460
Equipment under capital leases	21,486	5,372	16,114	20,528	4,476	16,052
	1,023,680	135,171	888,509	832,426	86,363	746,063

8. GOODWILL, INTANGIBLES AND OTHER ASSETS

	Cost	Accumulated Amortization	2008 Net Book Value	Cost	Accumulated Amortization	2007 Net Book Value
	$	$	$	$	$	$
Goodwill	–	–	–	309,625	–	309,625
Intangible assets	40,366	38,040	2,326	33,770	26,356	7,414
Other assets	8,338	1,773	6,565	3,499	550	2,949
	48,704	39,813	8,891	346,894	26,906	319,988

At December 31, 2008 and 2007, impairment tests were performed on goodwill using discounted future cash flows and on intangible assets using primarily multiple period excess earnings analyses. These tests indicated that the carrying amounts of certain of these assets exceeded their fair value.

The conditions which led to the impairment of goodwill and intangible assets were impacted by external factors such as a decrease in overall economic activity, depressed oil and natural gas pricing, government regulations regarding oil and gas royalties and a global credit and equity crisis (2007 – depressed natural gas pricing, government regulations regarding oil and gas royalties and currency exchange rates) which have negatively impacted industry activity levels and utilization rates.

As a result, a loss of $309,625 (2007 – $128,578) relating to goodwill impairment and a loss of $9,740 (2007 – $22,822) relating to intangible asset impairment has been included in the consolidated statement of earnings (loss).

The impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows and were based on information that was available at December 31, 2008. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgement as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

During the year ended December 31, 2008, amortization expense of $1,875 (2007 – $3,000) relating to intangible assets has been included in depreciation and amortization expense and amortization expense of $1,208 (2007 – $477) relating to other assets has been included in operating expenses in the consolidated financial statements.

9. BANK INDEBTEDNESS

	Interest Rate	Effective Rate	Authorized	2008 Outstanding	2007 Outstanding
	%	%	$	$	$
Swing-line operating facility *(Note 10(a))*	Note 10(a)	–	15,000	–	8,240
Limited partnership operating facilities *(a)*	P+0.75 to 1	5.73	1,450	585	313
Cheques written in excess of funds	–	–	–	–	2,473
			16,450	585	11,026

"P" denotes prime rate, which was 3.5% at December 31, 2008 and 6% at December 31, 2007.

a) These operating facilities are in limited partnerships owned 50% by the Company. The amounts presented are the Company's proportionate share. The Company has not guaranteed any of the loans in the limited partnerships. These operating facilities are supported by either a general security agreement covering all assets of each limited partnership, or the accounts receivable of each limited partnership. These facilities are renewed annually at the banks' discretion.

10. LONG-TERM DEBT

	Monthly Principal Payments	Interest Rate	Effective Rate	Maturity Date	Authorized	2008 Outstanding	2007 Outstanding
	$	%	%		$	$	$
SAVANNA							
Term revolving credit facility *(a)*	(a)	(a)	5.02	(a)	235,000	193,042	35,000
Term non-revolving loans *(b)*	561	6.00 to 6.56	6.52	May 09 – Oct 09	2,859	2,859	9,392
Obligations under capital lease *(c)*	170	4.70 to 6.85	6.02	Jun 09 – Jun 11	1,854	1,854	5,261
					239,713	197,755	49,653
LIMITED PARTNERSHIP FACILITIES *(d)*							
Term loans	75	7.25	7.25	Oct 11 – Feb 12	2,772	2,772	5,380
Obligations under capital lease *(c)*	75	4.00 to 8.64	8.09	May 09 – Feb 11	1,747	1,747	3,185
					4,519	4,519	8,565
Total long-term debt					244,232	202,274	58,218
Less: current portion						18,056	15,168
						184,218	43,050

"P" denotes prime rate, which was 3.5% at December 31, 2008 and 6% at December 31, 2007.

a) The entire facility, which is with a syndicate of banks, is renewed every 365 days at the banks' discretion; however, if it is not renewed on the annual renewal date (September 26th), the facility reverts to a three-year term loan with a four-year amortization, requiring quarterly payments. The facility was renewed in September 2008 and as a result the first required principal repayment, if not renewed in 2009, would be due in December 2009.

The total $250,000 facility is comprised of the $235,000 outlined in the table above and the $15,000 (2007 – $10,000) committed to the swing-line operating facility included in bank indebtedness in the consolidated financial statements (Note 9).

Borrowings under the facility may be made by way of prime rate based advances, bankers' acceptances, letters of credit, U.S. based rate or LIBOR advances. The facility bears interest at the banks' prime rate to prime plus 0.75%, bankers' acceptance, letter of credit, or LIBOR plus a 0.75% to 2.25% stamping fee which is dependant on certain financial ratios of the Company. A commitment fee of 0.15% to 0.35% per annum is paid on the unused portion of the facility. The facility is secured by a general security agreement over all the present and future property of the Company and its subsidiaries, and a priority agreement with a commercial lender giving the banks priority on all assets of the Company and its subsidiaries. The Company was in compliance with all of its debt covenants as at December 31, 2008 (Note 15).

b) These loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of a subsidiary.

c) The obligations under capital lease are secured by the related equipment (Note 7).

d) The limited partnership facilities are in limited partnerships owned 50% by the Company. The amounts presented are the Company's proportionate share. The Company has not guaranteed any of the loans in the limited partnerships. Within the individual limited liability partnerships, the loans are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of the limited partnerships.

Repayments required over the next four years are as follows:

		Long-term debt	Obligations under capital lease		
		Principal	Principal	Interest	Total
		$	$	$	$
For the years ending December 31,	2009	15,826	2,230	162	18,218
	2010	49,224	971	69	50,264
	2011	49,168	400	7	49,575
	2012	84,455	–	–	84,455
		198,673	3,601	238	202,512

11. INCOME TAXES

a) Income Tax Expense

The provision for income taxes differs from the result which would be obtained by applying the combined federal and provincial income tax rate of 30% (2007 – 32%) to the earnings before income taxes. This difference results from the following items:

	2008	2007
	$	$
Earnings from continuing operations before income taxes	(266,234)	(74,099)
Earnings from discontinued operations before income taxes	–	173,916
	(266,234)	99,817
Computed income tax expense at the statutory rate	(78,539)	32,061
Increase (decrease) resulting from:		
Non-deductible expenses	1,652	2,656
Permanent differences relating to dispositions of property, equipment and discontinued operations	(1,646)	(23,393)
Permanent differences relating to loss on goodwill and intangibles	94,213	41,299
Income tax rate differential on U.S. operations	1,226	–
Reduction in future income tax rates	(2,202)	(8,288)
Other	130	(302)
Income tax expense	14,834	44,033
Represented by:		
Current income taxes on continuing operations	(2,750)	5,746
Future income taxes on continuing operations	17,584	5,126
Current income taxes on discontinued operations	–	32,573
Future income taxes on discontinued operations	–	588
Income tax expense	14,834	44,033

b) Future Income Tax Assets And Liabilities

The components of the Company's future income tax assets and liabilities are a result of the origination and reversal of temporary differences, and are comprised of the following:

	2008	2007
	$	$
FUTURE INCOME TAX ASSETS		
Unused non-capital losses*	16,605	3,586
Share issue and deferred financing costs	1,225	2,847
Deferred share unit plan	196	287
Future tax recovery on income from limited partnerships	–	865
Intangibles and other assets	866	–
Other	–	34
	18,892	7,619
FUTURE INCOME TAX LIABILITIES		
Property and equipment	(98,021)	(68,668)
Intangibles and other assets	–	(1,131)
Future income taxes on income from limited partnerships	(715)	–
Unrealized foreign exchange loss on net investment hedge	(400)	–
Other	(50)	–
	(99,186)	(69,799)
NET FUTURE INCOME TAX LIABILITY	(80,294)	(62,180)

* *The Company has non-capital losses available for carry forward totaling $47,891 (2007 – $10,436), of which $27,856 (2007 – $8,993) relates to U.S. entities and $20,035 (2007 – $1,443) relates to Canadian entities. The unused tax losses, which begin to expire in 2016, may be applied to reduce future taxable income and future income taxes payable.*

12. COMMITMENTS

Commitments relating to office and shop premises are recorded as rent expenses in the period the monthly amounts relate to and are included in operating and general and administrative expenses in the consolidated statement of earnings at that time.

Commitments relating to operating vehicle and equipment leases are recorded as equipment rental expenses in the period the amounts relate to and are included in operating expenses and general and administrative expenses in the consolidated statement of earnings at that time.

Commitments relating to equipment purchases are recorded as capital asset additions at the time of payment.

Payments required in each of the next five years are as follows:

		$
For the years ending December 31,	2009	30,564
	2010	1,511
	2011	1,249
	2012	933
	2013	5
		34,262

13. CONTINGENCIES

At December 31, 2008, the Company was subject to legal claims with respect to the Company's patents. In addition, the Company and its Board of Directors were served with court documents effectively seeking a declaration that there are sufficient grounds to require Savanna to pursue an action against current and former directors for damages relating to allegedly back-dated options. While any outcome of these matters is not determinable at this time, Savanna believes that any potential outcome from these matters will not be material to the Company's financial position or operating results.

14. SHARE CAPITAL

a) Authorized

The Company has authorized an unlimited number of common shares, Class A common shares, and preferred shares.

b) Issued

	2008		2007	
	Shares	$	Shares	$
COMMON SHARES				
Balance, beginning of year	59,535	797,156	57,919	771,495
Issued for cash on exercise of stock options	192	2,552	441	2,947
Fair value of stock options exercised	–	489	–	149
Shares repurchased	(774)	(10,356)	–	–
Shares issued on acquisitions *(Note 4)*	–	–	1,175	22,565
Balance, end of year	58,953	789,841	59,535	797,156

The Company has 5,846 (2007 – 5,052) common shares reserved for issue upon exercise of stock options.

The Company filed a normal course issuer bid in December 2007 which was approved by the Toronto Stock Exchange ("TSX") at that time and was renewed in December 2008. Under the renewal Savanna may purchase up to 2,900 (2007 – 2,950) common shares of Savanna between December 17, 2008 and December 16, 2009, representing approximately 5% of the Company's issued and outstanding common shares. Purchases are made in the open market through the facilities of the TSX at market prices and are immediately cancelled. During 2008, Savanna purchased and cancelled 774 common shares through normal course issuer bids.

c) Contributed Surplus

	2008	2007
	$	$
Balance, beginning of year	11,246	5,834
Stock-based compensation – continuing operations	4,001	5,416
Stock-based compensation – discontinued operations *(Note 23)*	–	665
Fair value of options exercised (reclassified to share capital)	(489)	(149)
Shares repurchased	1,725	–
Repurchase and cancellation of options*	–	(520)
Balance, end of year	16,483	11,246

* *During 2007, the Company paid $520 in cash for the purchase and cancellation of Savanna options held by its wireline division employees (Note 23).*

d) Deferred Share Unit Plan

The Company has a DSU plan for independent directors and officers of the Company. The DSUs are granted annually and represent rights to share value based on the number of DSUs issued. Under the terms of the plan, DSUs awarded to independent directors will vest immediately and those awarded to officers vest equally over a three-year term on their anniversary date.

During 2008, 41 deferred share units (2007 – 27 units) were granted to independent directors and 27 units (2007 – 27) were granted to officers. In addition, 10 units (2007 – 4 units) were settled in cash totalling $221 (2007 – $76) to outside directors.

At December 31, 2008, there were 132 units (2007 – 74) outstanding and 88 units vested (2007 – 51) with a corresponding liability of $782 (2007 – $1,024) included in accounts payable and accrued liabilities.

e) Stock Option Plan

The Company has a stock option plan for the purpose of developing the interest of officers, employees and consultants of the Company and its subsidiaries in the growth and development of the Company by providing them with the opportunity, through stock options, to acquire an increased effective interest in the Company.

	2008		2007	
	Share Options	Weighted Average Exercise Price (per share)	Share Options	Weighted Average Exercise Price (per share)
		$		$
Outstanding, beginning of year	2,011	19.73	1,946	17.41
Granted	1,099	19.31	950	18.88
Exercised	(192)	13.29	(490)	6.48
Cancelled	(333)	20.88	(395)	21.61
Outstanding, end of year	2,585	20.63	2,011	19.73

Of the 333 options (2007 – 395 options) cancelled during the period, 78 options (2007 – 23) had expired and 255 options (2007 – 372 options) were forfeited.

As a result of a review of our stock option granting procedures the exercise prices on certain stock option grants were increased in 2008. The increases in the exercise prices of the amended grants are reflected in the following information and table below.

At December 31, 2008, 2,585 (2007 – 2,011) options were outstanding at exercise prices between $8.05 and $29.99 per share (2007 – $3.00 and $28.12 per share). The options expire from March 6, 2009 to November 13, 2012 and vest in equal amounts on their anniversary over three to five years. At December 31, 2008, 905 (2007– 745) options were exercisable at a weighted average exercise price of $22.30 (2007 – $19.73). The following table summarizes these details:

	2008			2007		
Exercise Price (per share)	Number of Options Outstanding	Weighted Average Contractual Life (years)	Number of Options Exercisable	Number of Options Outstanding	Weighted Average Contractual Life (years)	Number of Options Exercisable
$3.00 – $6.75	–	–	–	5	–	5
$6.76 – $10.00	48	3.9	–	65	–	65
$10.01 – $15.00	103	0.4	103	115	0.1	115
$15.01 – $22.50	1,971	2.9	421	1,281	1.8	321
$22.51 – $29.99	463	1.7	381	545	0.7	239
	2,585	2.6	905	2,011	1.3	745

Compensation expense for stock options is recognized using the fair value when the stock options are granted, and is amortized over the option's vesting period. For options granted during 2008, the Company used the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4% (2007 – 4%), expected life of 3.5 years (2007 – 3.5 years), expected annual dividend $0.10 (2007 – $Nil), and expected volatility of 35% (2007 – 35%). The fair value of the options granted in the period was $6,538.

f) Stock-based Compensation Expense

	2008	2007
	$	$
Stock-based compensation expense relating to:		
Stock options	4,001	5,416
Deferred share units	(21)	721
	3,980	6,137

g) Reconciliation of Weighted Average Shares Outstanding

	2008	2007
Basic weighted average shares outstanding	59,301	59,092
Effect of dilutive securities:		
Stock options	–	107
Diluted weighted average shares outstanding	59,301	59,199

The effect of dilutive securities with respect to stock options was anti-dilutive in 2008 resulting in the same weighted average shares outstanding on both a basic and diluted basis. In 2007, 445 options were assumed exercised and 338 shares were assumed purchased.

15. CAPITAL MANAGEMENT

The capital structure of the Company consists of the following:

	2008	2007
	$	$
Bank indebtedness (net of cash)	–	7,932
Long-term debt	202,274	58,218
Shareholders' equity	708,215	975,977
Total capitalization	910,489	1,042,127

Savanna's primary objective of managing capital, given the cyclical nature of the oil and gas services business, is to preserve the Company's financial flexibility in order to benefit from potential opportunities as they arise and in turn maximize returns for Savanna shareholders. This objective is achieved by: prudently managing the capital generated through internal growth; optimizing the use of lower cost capital; raising share capital when required to fund growth initiatives; and a conservative approach to safeguarding the Company's assets.

The Company's ability to access its debt facilities is directly dependent, among other factors, on its total debt to equity ratios and trailing cash flows. The Company was in compliance with all of its debt covenants as at December 31, 2008. Other than its debt covenants, the Company has no externally imposed capital requirements.

Additionally, the ability to raise capital through the issuance of equity could be restricted in the face of a reduction in oilfield service demand. Although Savanna cannot anticipate all eventualities in this regard, the Company maintains what it believes to be a conservatively leveraged balance sheet by maintaining a long-term debt to shareholders' equity ratio below 0.50 (see below). Previously the Company had maintained a ratio below 0.30; however, the $319,365 impairment loss on goodwill and intangibles recorded on December 31, 2008 significantly reduced shareholders' equity even though the transaction was a non-cash transaction. As a result, and in order to preserve flexibility in its capital management, Savanna increased the ratio to 0.50 which is consistent with the Company's debt covenants. In certain circumstances the Company may still need to increase this ratio in order to fund significant acquisitions or other significant expansions; however, the current level provides for considerable flexibility while maintaining a conservatively leveraged balance sheet.

	2008	2007
Long-term debt to shareholders' equity ratio	0.29	0.06

The Company intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust Savanna's capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, adjust the amount of dividends paid to align the dividend policy with shareholder expectations, raise debt or refinance existing debt with different characteristics.

16. NON-CONTROLLING INTEREST

The non-controlling interest in the consolidated financial statements represents First Nations and Métis organizations' and communities' minority ownership (14%) of Akuna's assets, liabilities, revenues and expenses prior to June 1, 2007 (Note 4(g)). Effective June 2, 2007 Akuna is a wholly-owned subsidiary of the Company.

17. SUPPLEMENTARY CASH INFORMATION

a) During the year the Company paid and received the following:

	2008	2007
	$	$
Cash interest paid	(6,742)	(3,996)
Cash interest received	74	230
Cash income taxes paid	(36,386)	(18,799)
Cash income taxes refunded	8,658	684

b) The net change in working capital items other than cash is as follows:

	2008	2007
	$	$
Accounts receivable	(15,114)	(5,269)
Inventory	1,740	(3,747)
Prepaid expenses and deposits	(807)	607
Current portion of notes receivable	–	2,250
Accounts payable and accrued liabilities	(262)	(10,972)
Income taxes payable	(30,393)	(12,375)
Current assets held for sale *(Note 23)*	–	4,225
Current liabilities held for sale *(Note 23)*	–	405
	(44,836)	(24,876)
Represented by:		
Cash flows from continuing operating activities	(48,324)	(22,670)
Cash flows from discontinued operating activities	–	4,630
Cash flows from continuing financing activities	1,489	(1,489)
Cash flows from continuing investing activities	1,999	(5,347)
	(44,836)	(24,876)

18. DEFERRED DRILLING ADVANCE

In 2007, the Company settled the outstanding balance of its deferred drilling advance for $2,264, and the remaining $2,197 was included in revenue in the consolidated financial statements for the year ended December 31, 2007. The advance was received from a customer and used towards the construction of five drilling rigs that are owned by the Company. These five rigs were to drill for this customer under three-year term contracts. By settling the outstanding balance, these contracts are considered cancelled.

19. JOINTLY-CONTROLLED ENTITIES

As described in Note 3(a), the Company conducts a portion of its business through jointly-controlled partnerships. The Company accounts for its 50% interest in these jointly-controlled partnerships using the proportionate consolidation method. The total amounts and the major components of each of the following relate to the Company's interest in these partnerships:

	2008	2007
	$	$
Current assets	5,198	7,526
Capital and other assets	27,948	22,692
Current liabilities	895	1,234
Long-term debt	4,519	8,565
Revenue	20,507	18,331
Expenses	18,944	13,993
Net income	1,562	4,338
Cash flows resulting from operating activities	3,779	5,386
Cash flows resulting from financing activities	(3,909)	(403)
Cash flows resulting from investing activities	(617)	(195)

20. SEGMENTED INFORMATION

The Company's reportable operating segments, as determined by management, are strategic operating units that offer different products and services. The Company has three reportable operating segments: corporate, services, and drilling.

The *corporate* segment provides management and administrative services to all its subsidiaries and their respective operations.

The *services* segment provides well servicing services and rental equipment to the oil and gas industry.

The *drilling* segment provides primarily contract drilling services to the oil and gas industry through both conventional and hybrid drilling rigs.

				2008
	Corporate	Services	Drilling	Total
	$	$	$	$
REVENUE				
Oilfield services	–	83,663	373,785	457,448
Rig sales	–	1,600	–	1,600
Other	–	218	835	1,053
	–	85,481	374,620	460,101
OPERATING COSTS				
Oilfield services	–	56,949	262,367	319,316
Rig sales	–	1,505	–	1,505
	–	58,454	262,367	320,821
REVENUE LESS OPERATING COSTS	–	27,027	112,253	139,280
Depreciation and amortization	870	11,126	33,907	45,903
Impairment loss on goodwill and intangibles	–	19,392	299,973	319,365
Interest on long-term debt	6,118	233	628	6,979
Loss from continuing operations before income taxes	(13,930)	(10,525)	(241,779)	(266,234)
Total assets	305,112	131,276	601,194	1,037,582
Goodwill	–	–	–	–
Capital assets *(i)*	20,902	167,456	709,042	897,400
Capital expenditures *(ii)*	5,195	50,894	116,256	172,345

				2007
	Corporate	Services	Drilling	Total
	$	$	$	$
REVENUE				
Oilfield services	–	60,931	309,395	370,326
Rig sales	–	–	–	–
Other	860	69	2,197	3,126
	860	61,000	311,592	373,452
OPERATING COSTS				
Oilfield services	–	39,456	193,481	232,937
Rig sales	–	–	–	–
	–	39,456	193,481	232,937
REVENUE LESS OPERATING COSTS	860	21,544	118,111	140,515
Depreciation and amortization	430	7,713	25,725	33,868
Impairment loss on goodwill and intangibles	–	736	150,664	151,400
Interest on long-term debt	1,981	206	1,782	3,969
Earnings (loss) from continuing operations before income taxes	(1,714)	8,197	(79,930)	(73,447)
Total assets	225,946	95,844	858,302	1,180,092
Goodwill	–	15,789	293,836	309,625
Capital assets *(i)*	16,659	128,838	610,929	756,426
Capital expenditures *(ii)*	12,267	84,534	106,360	203,161

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

	2008			2007		
	Canada	U.S.	Total	Canada	U.S.	Total
	$	$	$	$	$	$
Revenue	373,958	86,143	460,101	333,288	40,164	373,452
Total assets	840,396	197,186	1,037,582	1,103,645	76,447	1,180,092
Goodwill	–	–	–	309,625	–	309,625
Capital assets *(i)*	721,399	176,001	897,400	692,944	63,482	756,426

(i) Capital assets include property and equipment, intangibles, and other assets.

(ii) Capital expenditures include the purchase of capital assets and capital assets acquired through business acquisitions in exchange for cash.

21. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following related party transactions occurred:

a) In 2008, lease revenue, management fees and other fees in the amount of $2,720 (2007 – $3,241), net of inter-company eliminations, were received from partnerships that are owned 50% by the Company. Lease amounts have been recorded as revenue and management and other fees have been recorded as a reduction of either operating expenses or general and administrative expenses in the consolidated statement of earnings (loss).

b) In 2008, the Company provided a $3,035 home relocation loan to an officer who has relocated to another city on behalf of the Company. The amount is included in accounts receivable. The full amount is due on or before June 30, 2009 and is interest free if paid by that date. Any amount that remains unpaid after that date will bear interest at prime, which was 3.5% at December 31, 2008. The loan receivable is secured by a first charge mortgage over other properties being sold by the officer; the fair value of the properties is estimated to exceed the fair value of the loan.

c) In 2008, the Company sold a 50% interest in a well servicing rig (cost $1,600) to a limited partnership that is 50% owned by the Company. The rig was sold in exchange for cash plus 50% of the previously unissued partnership units of the limited partnership.

d) In 2007, a limited partnership owned 50% by the Company entered into a loan agreement for $2,250 with a financial institution that has a common director of the Company.

The related party transactions in (a) and (d) above were in the normal course of operations and have been measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which, in the opinion of management, are considered similar to those negotiable with third parties. The related party transactions in (b) and (c) above were not in the normal course of operations and have been recorded in these financial statements at the carrying amounts of the assets.

22. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, notes receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt. All of the Company's financial instruments were classified as either held for trading, loans and receivables or other financial liabilities. The fair values of the Company's financial instruments were determined as follows:

i) The carrying amounts of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their fair values due to the immediate or short-term maturity of these financial instruments.

ii) The fair values of the Company's notes receivable and long-term debt are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for similar financial instruments subject to similar risks and maturities. The fair values of these financial instruments are not materially different from their carrying amounts.

The nature of these financial instruments and the Company's operations expose the Company to the following:

a) Financial Risk Management

Financial risk management is the responsibility of the Company's corporate finance function. The main objective of the Company's risk management process is to properly identify financial risks and minimize the exposure to potential losses arising from those risks. The nature of the Company's operations and the issuance of long-term debt expose the Company to risks of varying degrees of significance. The principal financial risks to which the Company is exposed are described in b) to e) below. The Company does not manage these risks through the use of derivative instruments.

b) Foreign Currency Exchange Risk

The Company is exposed to foreign currency fluctuations as certain revenues and expenses derived from its U.S. operations are denominated in U.S. dollars. Realized foreign exchange gains and losses are included in net earnings while foreign exchange gains and losses arising on the translation of the assets, liabilities, revenues and expenses of the U.S. operations are included in OCI. As at December 31, 2008, the Company had $10,169 in working capital and $72,000 in long-term debt denominated in U.S. dollars. The Company uses its U.S. dollar denominated debt to manage the exposure to foreign exchange gains and losses arising from the translation of its self-sustaining U.S. operations included in OCI. The Company's sensitivity to foreign currency fluctuations for the year ended December 31, 2008 is as follows: all else being equal, a hypothetical strengthening of 5% of the U.S. dollar against the Canadian dollar would have increased net earnings from continuing operations before income taxes by $10 and increased OCI by $3,843; for a 5% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net earnings from continuing operations before income taxes and OCI.

c) Interest Rate Risk

The Company is exposed to interest rate risk on a portion of its notes receivable and long-term debt and does not currently hold any financial instruments that mitigate this risk. The Company's floating-rate notes receivable are subject to interest rate cash flow risk, as the cash received will fluctuate with changes in market interest rates. The Company's fixed-rate notes receivable and fixed-rate debt are subject to interest rate price risk, as the values will fluctuate as a result of changes in market interest rates. Floating-rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market interest rates. Of the Company's total notes receivable at December 31, 2008, 18% is fixed-rate and 82% is floating-rate. Of the Company's total debt at December 31, 2008, 5% is fixed-rate debt and 95% is floating-rate debt. The remainder of the Company's financial assets and liabilities are not exposed to interest rate risk.

For the year ended December 31, 2008, all else being equal, the increase or decrease in net earnings from continuing operations before income taxes for each 1% change in interest rates on floating-rate notes receivable and floating-rate debt amounts to approximately $1,163.

d) Credit Risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to customers and partners in the form of outstanding accounts and notes receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

As stated above, the carrying amount of accounts receivable reflects management's assessment of the credit risk associated with its customers. The Company generally grants unsecured credit to its customers; however, the Company applies rigorous evaluation procedures to all new customers and analyzes and reviews the financial health of its current customers on an ongoing basis. The allowance for doubtful accounts and past due receivables are reviewed by management on a monthly basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable. When a receivable balance is considered uncollectible it is written off against the allowance for doubtful accounts. Subsequent recovery of amounts previously written off is included in net earnings.

Based on the nature of its operations, Savanna will always have a concentration of credit risk as a substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. For the year ended December 31, 2008, ten customers comprised 48% of revenue (one customer comprised 12% of revenue) and 53% of accounts receivable (one customer comprised 14% of accounts receivable). Management believes the credit risk of its concentrated customer base is mitigated by the nature of these significant customers whose financial strengths are actively monitored. At December 31, 2008, approximately 87% of trade accounts receivable had been outstanding for less than 90 days. The following details the age of outstanding accounts receivable and the related allowance for doubtful accounts:

	2008
	$
Trade accounts receivable:	
Not overdue (outstanding for less than 30 days)	45,120
Past due for more than one day but not more than three months	53,879
Past due for more than three months but not more than six months	3,609
Past due for more than six months	5,194
Less allowance for doubtful accounts	(6,603)
Accrued accounts receivable	5,849
Other accounts receivable*	6,277
	113,325

* *Other accounts receivable consist of GST input tax credits, interest revenue accruals and the home relocation loan described in Note 21(b).*

The change in the allowance for doubtful accounts is as follows:

	2008
	$
Balance, beginning of year	(200)
Additional allowance	(6,703)
Amounts used	300
Balance, end of year	(6,603)

e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. The Company maintains what it believes to be a conservatively leveraged balance sheet and can finance any future growth through one of or a combination of internally generated cash flows, borrowing under existing credit facilities (see Note 10), the issuance of debt or the issuance of equity, according to its capital management objectives. Given the Company's currently available liquid resources as compared to its contractual obligations, management assesses the Company's liquidity risk to be low.

The expected maturities of the Company's contractual obligations, including interest, are as follows:

	Prior to Jun 30 2009	Jul 1 to Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 2012	Dec 31 2013	Total
	$	$	$	$	$	$	$
Bank indebtedness	585	–	–	–	–	–	585
Accounts payable and accrued liabilities	44,567	–	–	–	–	–	44,567
Long-term debt*	8,940	17,664	57,036	54,225	87,019	–	224,884
Operating leases	1,107	1,005	1,511	1,249	933	5	5,810
Construction commitments	28,452	–	–	–	–	–	28,452
	83,651	18,669	58,547	55,474	87,952	5	304,298

* *Assumes the Company's term revolving credit facility (Note 10(a)) is not renewed in 2009. Interest payments required on the term revolving credit facility are estimated based on an assumed static prime rate of interest.*

For 2009 and the foreseeable future, the Company expects cash flow from operations, working capital and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

23. DISCONTINUED OPERATIONS

Effective January 31, 2007, the Company closed the sale of its wireline division for net proceeds of $209,017. Revenue from discontinued operations for the year ended December 31, 2007 was $6,011 and net earnings from discontinued operations was $330, net of tax of $1,175. Stock-based compensation expense of $665 was included in net earnings from discontinued operations in 2007 which represented the remaining unamortized portion of stock-based compensation relating to options held by the Company's wireline division employees (Note 14(c)).

The gain on sale of discontinued operations was based on net proceeds of $209,017, comprised of $208,000 in cash and a working capital adjustment of $1,118 net of $101 in legal and property tax expenses. The net book value of Savanna's interest in its wireline division and the related assets that were sold on January 31, 2007 was $36,606, resulting in a gain of $172,411 ($140,425 net of tax).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Victor Buffalo [3]
Independent Businessman

John Hooks [1,3]
Chairman, President and CEO
Phoenix Technology Income Fund

Ken Mullen
President and CEO
Savanna Energy Services Corp.

Kevin Nugent [1,2]
President
Livingstone Energy Management Ltd.

James Saunders [1,2] (Chairman)
President and CEO
Twin Butte Energy Ltd.

Tor Wilson [2,3]
President and CEO
Badger Income Fund

[1] *Audit Committee*

[2] *Corporate Governance and Nomination Committee*

[3] *Compensation Committee*

OFFICERS

Ken Mullen
President and Chief Executive Officer

Chris Oddy
Vice President Operations and Chief Operating Officer

George Chow
Executive Vice President, Corporate

Darcy Draudson
Vice President Finance and Chief Financial Officer

Dwayne LaMontagne
Executive Vice President and Chief Development Officer

Lori Connell
Corporate Secretary

CORPORATE HEAD OFFICE

Savanna Energy Services Corp.
1800, 311 – 6th Avenue S.W.
Calgary, Alberta T2P 3H2
Phone: (403) 503-9990
Fax: (403) 267-6749

LEGAL COUNSEL

Stikeman Elliott LLP
Barristers & Solicitors
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

BANKERS

TD Canada Trust
Calgary, Alberta

GE Capital Solutions, a Canadian Division of Commercial Finance
Calgary, Alberta

Peace Hills Trust Company
Edmonton, Alberta

Royal Bank of Canada
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Symbol: SVY

WEBSITE

savannaenergy.com

INVESTOR RELATIONS

info@savannaenergy.com

ANNUAL GENERAL MEETING

May 28, 2009 at 2:00 p.m. (MDT)
The Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

Designed and produced by Foundry Creative Inc.

WE ARE HERE

SAVANNAENERGY.COM