SAVANNA ENERGY SERVICES CORP.

2006 annual report

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President's Message

The past year has been an extremely eventful one for Savanna. We have dramatically changed the scale and focus of the Company, placing ourselves in a tremendous position to take advantage of North America's relentless demand for oil and natural gas. The merger of Western Lakota and Savanna was announced just prior to the start of the third quarter, just when field activity levels started to demonstrate increased demand after an extended spring break-up. However, lower commodity prices and wet weather in September curtailed resumption of field activity. The reduced commodity price environment continued to moderate demand for the Company's services throughout the second half of 2006 relative to 2005.

The merger closed effective August 25, 2006 and both Savanna and Western Lakota spent time over the summer months prioritizing those areas where the combination would be best capitalized upon. Those efforts were accelerated after the merger closed and continued for the remainder of 2006. Recognizing and maintaining the unique market positions of the two highly successful organizations, while expanding on each other's strengths, leaves Savanna poised for whatever the market throws at us in 2007.

In testament to the value of the Aboriginal relationships developed by Western Lakota, and continued post-merger, during 2006 several new drilling rig and well servicing partnerships were consummated. As well, the Dene Thá First Nation became a significant shareholder of Savanna as a result of the Company's acquisition of a 50% interest in three drilling rigs previously held in partnership.

During the fourth quarter, Savanna added one hybrid drilling rig and two 3,600 metre ultra-heavy telescoping double drilling rigs, bringing our total drilling fleet to 83 rigs (78.5 rigs net of partnership interests) at December 31, 2006. We also introduced two mobile double service rigs, bringing that fleet to 24 rigs by year end. The Company anticipates operating 100 drilling rigs and 52 service rigs once our committed capital programs are completed.

In January 2007, the Company sold 100% of the shares of its wireline division, Ultraline Services Corporation, to Halliburton Group Canada Inc. for $208 Million in cash. Prior to the sale, Ultraline declared and paid a dividend of $5.5 Million to Savanna as contemplated under the purchase and sale agreement. The Company used part of the proceeds from the sale to repay the entire term revolving credit facility outstanding at December 31, 2006, of $125 Million, plus $10 Million on the Company's swing-line operating facility. The full $250 Million credit facility remains available for future use.

In February 2007, the Company acquired all of the operating assets of a private well servicing company operating in east central Alberta and west central Saskatchewan. This acquisition provided 20 additional service rigs to the Savanna fleet, as well as key operational personnel. The focus on production services of this acquisition should help offset an anticipated slowdown in drilling and completion demand for 2007.

The merger with Western Lakota in the third quarter of 2006, plus events subsequent to year end, including the sale of Ultraline, the acquisition of 20 additional well servicing rigs, and the reduction in long-term debt, puts the Company in an extremely strong financial position. This will provide the basis for continued expansion and growth in its drilling and well servicing segments in 2007 and thereafter through a combination of organic growth and complementary acquisitions. The Company will continue to seek opportunities to expand these divisions with due respect and consideration for future market activity.

Depressed commodity prices relative to 2005 and 2006 continue to create uncertainty regarding 2007 activity levels; however, recognizing these influences to be beyond our control, Savanna remains focused on positioning our services as advantageously as we can regardless of what the market throws at us. We remain confident in the strength of our relationships, people and equipment to ensure that the Company continues to get more than its share in any market, and that will remain our focus moving forward.

We wish to thank all of you for continuing to support Savanna as we endeavor to optimize the Company's strengths and opportunities to create value for our employees, customers and shareholders.

Respectfully submitted,

Ken Mullen
President and Chief Executive Officer

March 15, 2007
Calgary, Alberta

Management's Discussion and Analysis

For the Year Ended December 31, 2006

This discussion focuses on key items from the audited, consolidated financial statements of Savanna Energy Services Corp. ("Savanna" or the "Company") for the years ending December 31, 2006 and 2005, 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 audited consolidated financial statements and the related notes for the same period. Additional information regarding the Company is available on SEDAR at www.sedar.com. This Management's Discussion and Analysis ("MD&A") is dated March 15, 2007.

Savanna is an oilfield services company operating in Western Canada. In 2006, our overall business was conducted through two major segments: contract drilling and well servicing.

FINANCIAL HIGHLIGHTS

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

(Stated in thousands of dollars, except per share amounts)	**2006**	2005	% Change
Operating Results			
Revenue	**$ 247,082**	$ 132,794	86%
Operating expenses	**$ 148,687**	$ 84,026	77%
Operating margin (1)	**$ 98,395**	$ 48,768	102%
Operating margin % (1)	**40%**	37%	8%
Net earnings from continuing operations	**$ 41,610**	$ 17,345	140%
Per share: basic	**$ 1.06**	$ 0.60	77%
diluted	**$ 1.05**	$ 0.59	78%
Net earnings	**$ 54,598**	$ 31,727	72%
Per share: basic	**$ 1.39**	$ 1.10	26%
diluted	**$ 1.37**	$ 1.08	27%
Cash Flows			
Operating cash flows from continuing operations before changes in working capital (1)	**$ 76,275**	$ 39,412	94%
Capital expenditures from continuing operations	**$ 128,145**	$ 59,140	117%
Financial Position			
Working capital (1)	**$ 35,404**	$ 19,571	81%
Capital assets	**$ 590,132**	$ 188,942	212%
Total assets	**$ 1,205,939**	$ 277,329	335%
Long-term debt*	**$ 155,052**	$ 49,505	213%

* Total long-term debt including capital leases, and the current portion thereof.

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 our financial position, results of operations and cash flows.

Due to extreme fluctuations in the commodity prices for both oil and natural gas, the oil and gas industry has been subject to significant volatility in recent years. The prices of natural gas and oil have held at historically high levels throughout the past two and a half years due to a number of domestic and international factors. This has resulted in historically high drilling and completion activity throughout the Canadian basin as well. However, recently both crude oil, and to a greater extent natural gas prices, have weakened significantly from their previous record highs. As a result, there have been shifts by Savanna customers away from natural gas drilling to oil drilling, and there have been public announcements by several exploration and development companies, juniors through seniors, that perpetuation of low natural gas prices will result in their further reducing their drilling and completion budgets in 2007. In the medium and long term, the Company remains confident that demand for all of its services will be sustained.

MERGER WITH WESTERN LAKOTA ENERGY SERVICES INC.

On August 25, 2006, Savanna and Western Lakota completed the merger of the two companies through a Plan of Arrangement under the Business Corporations Act of Alberta, whereby Western Lakota shareholders received 0.64 of a common share of Savanna for each common share of Western Lakota held.

Upon completion of the merger, Savanna shareholders owned 51.5% and Western Lakota shareholders owned 48.5% of the combined company. The merger has been accounted for using the purchase method with the results of operations of Western Lakota being included in the Savanna consolidated financial statements from the closing date.

Western Lakota's fleet of oilfield service equipment is among the newest in the industry and at the time of the merger included 34 drilling rigs, seven core drilling rigs and six coil service units. At the time of the merger ten of the drilling rigs and five coil service units were held in limited partnerships owned 50% by one of six First Nation communities and 50% by Western Lakota.

The value of this merger was driven by the tremendous opportunities the combination presented to both companies to expand on each of their strengths. Going forward, the aboriginal relationships of Western Lakota will facilitate the introduction of Savanna's industry dominant hybrid drilling and well servicing expertise to a whole new group of customers and regions. Similarly, the availability of Western Lakota's deeper drilling expertise will accelerate and enhance the expansion of Savanna's current growth plans in the deeper contract drilling market. Finally, the combined company will have a U.S. base from which to evaluate the potential for further deeper and hybrid drilling opportunities in the United States market. Overall, the combined company constitutes one of Canada's largest drilling contractors with a fleet having an average age of approximately three years.

The purchase price allocation is as follows:

(Stated in thousands of dollars)	
Net assets acquired:	
Cash	**$ 3,968**
Non-cash working capital	**(23,868)**
Notes receivable	**1,778**
Capital assets	**289,919**
Intangibles	**27,290**
Goodwill	**421,326**
Long-term debt	**(25,913)**
Future income taxes	**(22,989)**
Non-controlling interest	**(3,608)**
	$667,903
Consideration:	
Common shares issued, net of share issue costs	**$648,750**
Fair value of options	**12,371**
Cash	**545**
Payable subsequent to closing	**6,237**
Total consideration	**$667,903**

The purchase price was funded by issuing 27.9 Million common shares of Savanna at $23.49 per share net of share issue costs of $5.7 Million ($3.9 Million net of tax) plus $12.4 Million for the fair value of options exchanged. Total consideration also includes $0.5 Million for debt restructuring fees and $0.6 Million relating to the settlement of employee contracts. Of the $6.8 Million total share issue costs, debt restructuring fees and settlement of employee contracts, $0.6 Million had been paid in cash at the acquisition date and $6.2 Million was payable subsequent to closing. At December 31, 2006, $6.2 Million of these costs had been paid in cash and $0.6 Million has been included in accounts payable and accrued liabilities.

The purchase price has been adjusted from that disclosed in the third quarter as a result of the Company's ongoing analysis and integration of outstanding information. These adjustments resulted in a $0.6 Million increase in the purchase price due to increased acquisition costs, a $4.4 Million increase in non-cash working capital, a $3.7 Million increase in intangible assets, a $4.9 Million decrease in goodwill, and a $2.5 Million increase in future income taxes payable.

EQUIPMENT FLEET

Savanna's equipment fleet has grown substantially in 2006 through internal growth as well as through the Western Lakota transaction.

	As at December 31, 2006	Committed New Equipment	Total
Drilling Rigs			
Heavy and ultra-heavy telescoping doubles	35	7	42
Hybrid drilling	38	8	46
Pipe-arm single	1	–	1
Conventional shallow/surface/coring	9	2	11
Total drilling rigs (gross)	83	17	100
Total drilling rigs (net)*	78.5	16.5	95
Service Rigs			
Service rigs	24	28‡	52
Coil tubing service units (gross)	6	2	8
Coil tubing service units (net)†	3.5	2	5.5

* 9 drilling rigs are held in 50/50 limited partnerships and a 50% interest in 1 rig currently under construction has been included in inventory since it is being held for resale.

† 5 coil tubing service units are held in 50/50 limited partnerships.

‡ Includes 20 service rigs purchased from a private Alberta company in February 2007.

CONTRACT DRILLING

Savanna provides proprietary hybrid drilling rigs, telescoping double drilling rigs, a pipe-arm single drilling rig and coring delineation rigs through Trailblazer Drilling Corp. ("Trailblazer"), Western Lakota and Akuna Drilling Limited Partnership ("Akuna").

DRILLING SERVICES

(Stated in thousands of dollars, except revenue per operating day)	**2006**	2005	% Change
Revenue	**$ 204,498**	$ 101,005	102%
Operating expenses	**$ 123,466**	$ 64,318	92%
Operating margin (1)	**$ 81,032**	$ 36,687	121%
Number of operating days*	**9,764**	5,822	68%
Revenue per operating day	**$ 20,944**	$ 17,349	21%
Number of spud to release days*†	**8,373**	4,479	87%
Wells drilled	**4,706**	3,563	32%
Total metres drilled	**3,550,741**	2,389,995	49%
Utilization†	**50%**	50%	0%
Industry average utilization‡	**55%**	59%	(7%)

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

† Savanna reports its rig utilization based on the spud to release time for the rigs and excludes moving and rig up and tear down time, even though revenue is earned during this time. Savanna's rig utilization and spud to release days excludes Akuna drilling rigs as the operating environment is not comparable to Trailblazer's and Western Lakota's rigs. The Akuna rigs have been included in the total fleet however.

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

Although utilization remained stable year over year, the drilling division was able to more than double its revenue and operating margin as a result of its increase in fleet size during 2006, as compared to the prior year. The drilling division had a lower utilization than industry average in 2006 which is in part because of reduced activity in shallow drilling plus wet weather conditions in central and northern operating areas. These factors have a large impact on our hybrid drilling rigs, which typically drill shallower wells. Because these hybrid rigs are highly efficient, they move daily, and are therefore much more affected by wet weather, resulting in lower than average utilization rates using standard industry measures.

During the year, Savanna (including Western Lakota from August 25, 2006) averaged a deployed fleet of 42 net rigs (2005 — 25). Savanna exited 2006 with an operating a fleet of 78.5 net rigs.

RIG SALES

(Stated in thousands of dollars)	**2006**	2005
Revenue	**$ 5,703**	$ –
Cost of sales	**$ 3,848**	$ –
Operating margin (1)	**$ 1,855**	$ –

Western Lakota has historically been a leader in the establishment and maintenance of relationships and partnerships with First Nation and Métis communities throughout Alberta, which has provided it with many business opportunities. Savanna has carried on this program since the merger. As part of these relationships, Savanna sells an interest in a drilling rig or rigs to a community and operates the rig through an equally owned limited partnership. A monthly fee is charged by Savanna to operate and manage the rigs on behalf of the partnership. Subsequent to Savanna's merger with Western Lakota, the sale of a 50% interest in two 3,600 metre telescoping double drilling rigs was completed with two First Nation communities. These rigs will be operated through 50/50 limited partnerships. Proceeds of the sales were $10.5 Million which was paid with cash of $4.5 Million and two promissory notes totaling $6.0 Million. The promissory notes bear interest of prime plus 10% and will be repaid through partnership distributions to the First Nation communities. The cash received and a proportionate share of the cost of sales has been recognized immediately. The remaining revenue and cost of sales has been recorded as deferred net revenue and will be recorded as revenue as the promissory notes are collected.

WELL SERVICING

Savanna provides well servicing through Great Plains Well Servicing Corp. ("Great Plains") which operates double and single well service rigs and Command Coil Services Inc. ("Command") which operates coil service units, throughout Western Canada.

(Stated in thousands of dollars, except revenue per hour)	**2006**	2005	% Change
Revenue	**$ 36,881**	$ 31,789	16%
Operating expenses	**$ 21,373**	$ 19,629	9%
Operating margin (1)	**$ 15,508**	$ 12,160	28%
Number of hours	**46,702**	48,195	(3%)
Revenue per hour	**$ 790**	$ 660	20%
Utilization*	**60%**	73%	(18%)

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

Although the number of hours and the utilization rate for 2006 were both lower than 2005, they were more than offset by an increase in day rates, causing revenue and operating margin to increase year over year. The current year reductions in utilization rate and number of hours were a result of wet weather causing an inability to access well locations as well as a general slowdown in the market late in the third quarter which extended through the fourth quarter.

During 2006, the well servicing division operated an average of 22 service rigs (2005 — 18), 6 coil service trucks (2005 — Nil) and 12 boilers (2005 — 12).

DISCONTINUED OPERATIONS

Effective January 31, 2007, the Company sold all of the shares of its wireline division, Ultraline Services Corporation ("Ultraline"), a 100% owned subsidiary of Savanna, for $208 Million in cash. Included as part of the sale were specific real estate assets and office equipment owned by Savanna.

Since the decision to sell this division was made in December, 2006, as evidenced by a formal letter of intent, all activity relating to this division has been considered as held for sale for the year ending December 31, 2006. For comparative purposes, the amounts shown in the financial statements for 2005, have been restated.

Subsequent to December 31, 2006, but prior to January 31, 2007, Ultraline declared and paid dividends aggregating $5.5 Million to Savanna in cash in accordance with the terms of the sale.

Revenue from discontinued operations for the year ended December 31, 2006 was $58.2 Million (2005 – $58.9 Million). The carrying amounts of the remaining net assets held for disposal are as follows:

(Stated in thousands of dollars)	**2006**	2005
Working capital	**$ 12,783**	$ 8,728
Capital assets	**32,341**	28,968
Goodwill	**1,398**	1,398
Obligations under capital leases	**(1,249)**	(1,181)
Future income tax liability	**(4,125)**	(3,930)
	$ 41,148	$ 33,983

OTHER FINANCIAL INFORMATION

(Stated in thousands of dollars)	**2006**	2005	% Change
From continuing operations:			
General and administrative expenses	**$ 11,141**	$ 6,177	80%
General and administrative expenses *(as a % of revenue)*	**4.5%**	4.7%	(4%)
Depreciation and amortization	**$ 17,486**	$ 9,046	93%
Interest expense	**$ 5,197**	$ 2,348	121%
Income tax expense	**$ 19,006**	$ 12,270	55%
Effective income tax rate	**31.5%**	41.4%	(24%)

The increase in general and administrative expenses and depreciation expense reflects the increased scale of operations, the merger with Western Lakota and the Company's expanding capital asset base. Administrative expenses as a percentage of revenue in 2006 remained relatively consistent with the prior year.

Included in depreciation and amortization expense is the amortization of deferred financing costs and intangible assets, including the value attributed to Aboriginal relationships, customer relationships, lease agreements, construction agreements, and the cost of acquiring intellectual property rights. Intangible assets are amortized over their expected period of benefit.

The increase in interest expense in 2006 is a direct result of the increase in the Company's net debt position used to fund its capital expansion.

The reduction in the Company's effective income tax rate from the prior year is primarily a result of Canadian tax rate reductions effective April 1st, 2006 and expected reductions in future income tax rates. Increases in overall tax expense from 2005, are a result of higher income from operations; in addition, as the Company utilizes its tax pools, the percentage of current versus future taxes also increases. 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.

FINANCIAL CONDITION AND LIQUIDITY

Savanna's aggressive capital expansion, coupled with the market risks outlined previously can significantly affect the financial condition and liquidity of the Company. Savanna's ability to access its debt facilities is directly dependent, among other factors, on our total debt to equity ratios and trailing cash flows. Additionally, the ability of Savanna to raise capital through the issuance of equity would likely be restricted in the face of an existing or anticipated 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, and makes every effort to ensure a balance between maximizing returns for our shareholders over both the short and long-term activity levels in the oil and gas services business.

WORKING CAPITAL AND CASH PROVIDED BY OPERATIONS

(Stated in thousands of dollars, except per share data)	**2006**	2005	% Change
Operating cash flows from continuing operations			
before changes in working capital (1)	**$ 76,275**	$ 39,412	94%
Per diluted share	**$ 1.92**	$ 1.34	43%
Change in cash (net of bank indebtedness)	**$ (9,887)**	$ (3,284)	201%

The increase in operating cash flows before changes in working capital is a direct result of the Company's expanding capital base through internal growth as well as through the merger with Western Lakota. The primary reason for the decrease in cash position is that funds from operations have been used to partially finance the Company's capital expansion during the year, the remainder being financed through advances of long-term debt.

(Stated in thousands of dollars)	**2006**	2005	Change
Working capital (1)	**$ 35,404**	$ 19,571	$ 15,833
Working capital held outside of partnerships	**$ 27,115**	$ 19,571	$ 7,544
Working capital held in partnerships(*)	**8,289**	–	8,289
	$ 35,404	$ 19,571	$ 15,833

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

The increase in working capital from amounts at December 31, 2005, is a result of increases in the Company's equipment base which was able to generate higher levels of cash and receivables relative to its current liabilities.

On October 2, 2006, the Company's term revolving loan was increased to $250 Million and will be used to finance the Company's commitments to construct new equipment.

At December 31, 2006, there was $115 Million on the Company's term revolving loan available to fund bank indebtedness.

Subsequent to year end, the Company repaid the entire term revolving loan outstanding at December 31, 2006 of $125 Million plus $10 Million on the Company's swing-line operating facility. The full credit facility remains available for use by the Company.

INVESTING ACTIVITIES

(Stated in thousands of dollars)	**2006**	2005	% Change
From continuing operations:			
Capital asset additions	**$128,145**	$ 59,140	117%

The majority of the 2006 capital expenditures relate to costs associated with the manufacture of drilling rigs for use in the contract drilling division.

Just prior to the end of the third quarter, Savanna completed a transaction with one of its First Nation partners to acquire their 50% interest in three drilling rigs and related equipment. These rigs, in conjunction with two additional rigs, were previously held in a limited partnership owned 50% by each of Savanna and the First Nation partner. The purchase price of the interests in these rigs was $10.25 Million, which was paid in full in cash. The First Nation used the sales proceeds to achieve an equity ownership in Savanna. Savanna and the First Nation partner will continue to operate the two remaining rigs in a limited partnership owned 50% each by Savanna and the First Nation.

FINANCING ACTIVITIES

(Stated in thousands of dollars)	**2006**	2005	% Change
From continuing operations:			
Advances on operating loans	**$ 337**	$ –	100%
Repayments on operating loans	**$ 16,100**	$ –	100%
Repayment of long-term debt	**$ 71,929**	$ 19,960	260%
Repayment of capital lease obligations	**$ 1,780**	$ 785	127%
Issuance of long-term debt	**$123,000**	$ 30,375	305%
Proceeds from stock options exercised	**$ 4,896**	$ 2,187	124%

- Savanna had capital lease obligations and long-term debt outstanding of $136.3 Million (2005 — $42.0 Million) at December 31, 2006, excluding the $18.8 Million (2005 — $7.5 Million) current portions thereof.
- On October 2, 2006, the Company's committed revolving debt facility was extended to September 29, 2007 and increased to $250 Million, $10 Million of which is committed to the swing-line operating facility. At the date of this report, no amounts were drawn on this facility.
- The average price of the stock options exercised in 2006 was $4.77 (2005 — $3.46) per share.
- At the date of this report, the number of common shares outstanding was 58.9 Million and the number of stock options outstanding was 1.9 Million, the proceeds from which, if exercised, would be $33.4 Million.
- The Company issued 27.9 Million shares at $23.49 as part of the consideration in the merger with Western Lakota on August 25, 2006. This was a non-cash transaction and has been excluded from the statement of cash flows for the year ending December 31, 2006.
- For 2007 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

RELATED PARTY TRANSACTIONS

The following transactions with related parties and jointly-controlled partnerships occurred during the year ended December 31, 2006:

(a) management and other fees in the amount of $0.5 Million, net of inter-company eliminations were received from the partnerships that are owned 50% by the Company;

(b) management and other fees in the amount of $0.1 Million were paid to a partnership that is owned 50% by the Company; and

(c) the Company sold its 50% interest in two drilling rigs to limited partnerships in exchange for promissory notes plus 50% of the previously unissued partnership units of the limited partnerships.

The related party transactions in (a) and (b) above were in the normal course of operations and have been measured at their 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 (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.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company incurs contractual obligations, primarily related to short-term and long–term indebtedness. The following table sets forth the Company's contractual obligations for the following items as at December 31, 2006.

(Stated in thousands of dollars)	2007	2008	2009	2010	2011	Total
Long-term debt obligations*	$ 15,615	$ 39,242	$ 35,324	$ 55,318	$ 1,067	$ 146,566
Capital lease obligations	3,156	3,456	1,341	469	64	8,486
Operating lease and construction commitments	5,186	2,973	1,136	630	402	10,327
Total obligations	$ 23,957	$ 45,671	$ 37,801	$ 56,417	$ 1,533	$ 165,379

* Excludes capital lease obligations and assumes the revolving credit facility is not renewed in 2007.

For 2007 and the foreseeable future, the Company expects cash flow from operations and from its various sources of financing to be sufficient to meet its debt repayments and future obligations, and to fund anticipated capital expenditures.

QUARTERLY RESULTS

The quarterly results of Savanna are markedly affected by weather patterns throughout our operating area in Canada. Historically, the first quarter of the calendar year is very active followed by a much slower second quarter. Because the timing of the slower period is directly dependent on weather, the timing of the slow period could fall partially in the first or second quarter, or be completely contained within either of these quarters each year. 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.

With respect to the third and fourth quarters of the year, weather is also a factor; however, the demand for our services is generally much more consistent in these quarters and is much more dependent on the deployment of capital budgets of our customers. The factors affecting this aspect of our business have been discussed at length in other portions of this analysis. Outlined on the following page are the results of our quarterly activities in 2006 and 2005.

SUMMARY OF QUARTERLY RESULTS

(Stated in thousands of dollars, except per share data) (Unaudited)	**2006**	2005	% Change
Revenue from continuing operations			
Q1	**$ 63,099**	$ 35,697	77%
Q2	**20,067**	17,831	13%
Q3	**70,041**	33,316	110%
Q4	**93,875**	45,951	104%
Net earnings from continuing operations			
Q1	**$ 12,021**	$ 4,706	155%
Q2	**(1,015)**	492	(306%)
Q3	**12,466**	4,694	166%
Q4	**18,138**	7,453	143%
Net earnings from continuing operations per share diluted			
Q1	**$ 0.40**	$ 0.16	150%
Q2	**(0.03)**	0.02	(250%)
Q3	**0.30**	0.16	88%
Q4	**0.31**	0.25	24%
Net earnings			
Q1	**$ 19,959**	$ 9,806	104%
Q2	**2**	1,107	(100%)
Q3	**14,825**	7,676	93%
Q4	**19,812**	13,138	51%
Net earnings per share diluted			
Q1	**$ 0.67**	$ 0.33	103%
Q2	**0.00**	0.04	(100%)
Q3	**0.36**	0.26	38%
Q4	**0.34**	0.44	(23%)

Revenue and net earnings from continuing operations for the fourth quarter showed a strong increase from the same period in 2005 as a result of a larger equipment base through construction and through the Western Lakota merger. On a per share basis, net earnings in the fourth quarter has decreased from the prior year due to the 27.9 Million shares issued on the Western Lakota transaction, which significantly increased the weighted average number of shares outstanding during 2006 as compared to 2005, resulting in a lower net earnings per share value. The decrease in net earnings per share for the fourth quarter of 2006 was also negatively impacted by costs relating to the merger and a general decrease in oilfield service activity during the period.

QUARTERLY STATISTICS

For the Three Months Ended December 31
(Stated in thousands of dollars, except revenue per operating day or per hour)
(Unaudited)

	2006	2005	% Change
Contract Drilling			
Revenue	**$ 80,319**	$ 35,906	124%
Operating expenses	**$ 46,439**	$ 21,724	114%
Operating margin (1)	**$ 33,880**	$ 14,182	139%
Number of operating days*	**3,631**	1,944	87%
Revenue per operating day	**$ 22,120**	$ 18,470	20%
Number of spud to release days*†	**3,086**	1,522	103%
Wells drilled	**1,414**	1,044	35%
Total metres drilled	**1,168,300**	777,958	50%
Utilization†	**49%**	57%	(14%)
Industry average utilization‡	**47%**	71%	(34%)
Rig Sales			
Revenue	**$ 3,452**	–	
Operating expenses	**$ 2,206**	–	
Operating margin (1)	**$ 1,246**	–	
Well Servicing			
Revenue	**$ 10,104**	$ 10,045	1%
Operating expenses	**$ 6,240**	$ 5,590	12%
Operating margin (1)	**$ 3,864**	$ 4,455	(13%)
Number of hours	**12,295**	13,370	(8%)
Revenue per hour	**$ 822**	$ 751	9%
Utilization§	**56%**	81%	(31%)

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

† Savanna reports its rig utilization based on the spud to release time for the rigs and excludes moving and rig up and tear down time, even though revenue is earned during this time. Savanna's rig utilization and spud to release days excludes Akuna drilling rigs as the operating environment is not comparable to Trailblazer's and Western Lakota's rigs.

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

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

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. 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, and
- Manufacturing capacity and availability of supplies for rig construction.

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

CREDIT RISK

As outlined above, lower commodity prices have a direct impact on our customers' ability to generate cash flows, which in turn directly impacts the demand for our services. These factors are clearly beyond the control of Savanna, and therefore represent significant uncertainty for the Company overall. Savanna has been very proactive in its approach to credit management and has specific policies and procedures to mitigate credit risk.

INTEREST RATE RISK

We are exposed to fluctuations in short-term interest rates from our floating-rate debt as their market value is sensitive to interest rate fluctuations. We maintain a portion of our debt capacity in revolving, floating-rate bank facilities, with the remainder issued in fixed-rate borrowings as a result of an interest rate swap on $10.0 Million of the term loan credit facilities. This interest rate swap reduces our exposure to interest rate fluctuations.

At December 31, 2006, approximately 24% (2005 — 26%) of operating loans, long-term debt and obligations under capital leases were subject to fixed rates.

WEATHER

The ability to move and operate drilling equipment is often dependent on weather conditions. As warm weather arrives in the spring and the frost begins leaving the ground, many secondary roads become too soft to support heavy equipment until they are completely dry. The inability to move equipment during this period (spring break-up) can have a direct effect on operations and can result in a period when some or all of the drilling rigs may be inactive. In addition, the ability to frequently move drilling equipment to new locations is even more critical in the shallow drilling market because of the speed and efficiency with which our rigs carry out this process. To mitigate this risk, efforts are made to work with customers to position drilling equipment before spring break-up so that it will be working as much as possible during or immediately after this period.

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 through Western Lakota 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. Through Western Lakota, the Company also operates an innovative drilling rig training program designed to provide inexperienced individuals with the skills required for entry into the drilling industry.

EQUIPMENT AND TECHNOLOGY

The ability of the Company to meet customer demands in respect of performance and cost will depend upon continuous improvements in its drilling rigs. The Company was founded on rigs designed and built internally and these rigs continue to be among the newest and most efficient in the industry. The experience of the Company's rig construction team and the knowledge gained in the five years it has been building rigs has led to new and innovative solutions to its customers' unique problems. The advancements the Company has made since its beginnings have been an important part of its success, and the Company will make every effort to continue employing high-quality people and to work with its customers to remain on the leading edge of technology.

Savanna carries what it believes to be adequate property and comprehensive public liability insurance to protect itself in the event of destruction or damage to its property or equipment and to limit exposure in the face of unforeseen incidents.

CONTINGENCIES

At December 31, 2006, the Company was subject to legal claims with respect to the Company's patents. The outcome of these matters is not determinable at this time.

CRITICAL ACCOUNTING ESTIMATES

This Management's Discussion and Analysis 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 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 write-downs, 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 properties 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 shares prices.

Stock compensation expense also includes the value of deferred share units ("DSU's") held by directors outside of the Company and outstanding at the end of the year. DSU's are recognized when granted and valued on a mark to market basis. DSU's will be settled in cash on the date the director ceases to be a director of the Company.

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.

INTANGIBLE ASSETS

Intangible assets consist of the value attributed to Aboriginal and customer relationships, lease agreements, and construction commitments acquired on the merger with Western Lakota plus the costs associated with securing the Company's intellectual property rights. The initial valuation of intangible assets relating to the Western Lakota merger, at the closing date, required judgment and estimates by management with respect to identification, valuation and determining expected periods of benefit. Valuations were based on discounted expected future cash flows and other financial tools and models. The intangible assets 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.

ACCOUNTING POLICIES

As a result of the merger with Western Lakota, several accounting policies had to be expanded. The most significant of which are as follows:

a) PARTNERSHIPS

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

In certain circumstances, the Company will build and sell interests in drilling 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 partnerships.

b) REVENUE RECOGNITION

Revenue from contract drilling and oilfield services is recognized upon delivery of service to customers and is calculated on a daily, hourly, or job basis. 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 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 virtual certainty regarding the collection of the related receivable exists. All other sales of drilling rigs are recognized upon completion of the transaction and transfer of beneficial ownership to the acquirer. Any income earned from drilling rigs held for sale in inventory is credited to the cost of the related drilling rig held in inventory.

Net profits on the sale of the Company's interest in drilling rigs and related equipment sold to the partnerships are eliminated on consolidation.

c) INVENTORY

The Company's inventory includes drilling 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.

RECENT ACCOUNTING PRONOUNCEMENTS

The CICA has issued two new accounting standards: Section 3855, Financial Instruments — Recognition and Measurement; and Section 1530 — Comprehensive Income. The Corporation will adopt these standards effective January 1, 2007, which are summarized below:

a) SECTION 3855, FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT

The section describes the standards for recognizing and measuring financial instruments on the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets classified as loans and receivables and financial liabilities classified as other liabilities have to be measured initially at fair value. Management will be reporting on and recording the net impact resulting from the adoption of this accounting standard in the first quarter of 2007.

b) SECTION 1530, COMPREHENSIVE INCOME

This section incorporates the addition of a statement entitled "Consolidated Statement of Comprehensive Income" to the Company's Consolidated Statement of Earnings and Retained Earnings. Comprehensive Income consists of net income plus "other comprehensive income". Other comprehensive income will include gains or losses resulting from the adoption of Section 3855 as outlined above. Accumulated other comprehensive income will be presented separately in shareholders' equity.

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 to 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 annual filings of the Company are being prepared, in an accurate and timely manner in order for the Company to comply with its continuous disclosure and financial reporting obligations and in order to safeguard assets. The CEO and CFO evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the annual filings and have concluded that the Company's disclosure controls and procedures, as of the end of the period covered by the annual filings, are effective in providing reasonable assurance that material information is accumulated and made known to them by others within the Company and its consolidated subsidiaries.

In addition to disclosure controls and procedures, the CEO and CFO are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO have concluded that the Company's internal controls over financial reporting, as of the end of the period covered by the annual filings, are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There have been no changes in internal control over financial reporting that occurred over the most recent interim period that has materially affected or is likely to materially affect internal control over financial reporting.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures and internal controls over financial reporting can only provide reasonable assurance, and not absolute assurance.

OUTLOOK

- Drilling activity in Western Canada slowed in the last three quarters of 2006 due primarily to a softening of natural gas prices. According to the Canadian Association of Oilwell Drilling Contractors 22,127 wells were drilled in 2006 which is slightly higher than the record 21,925 wells drilled in 2005. Expectations for 2007 activity are much less clear, and are dependent to a substantial degree on the severity of the winter across North America, and on the impact of declines on existing production in the face of lower than previously anticipated drilling and completion activity throughout the Western Canadian Sedimentary Basin.
- The merger with Western Lakota, recognizing the complementary deeper focus of their drilling fleet, will provide significant contribution to the combined Company. However, the leverage of Savanna's proprietary shallow and medium depth drilling fleet will continue to ensure Savanna maintains a strong position in this market as well. To further provide stability, the Company maintains a strong production–based service offering through its well services division. All of these factors leave Savanna well positioned to maintain a leadership position among its peers in the oilfield services industry.
- The Company's drilling rig fleet, among the newest and strongest performing in the industry, has continued to grow. Based on publicly disclosed capital plans, the Company has committed to expanding its drilling fleet to 100 (94.5 net), 8 coil service rigs (5.5 net), and 52 conventional service rigs by the end of 2007.
- Aboriginal involvement continues to be of growing significance in doing business in the oil and gas industry. The Company, already a leader in Aboriginal relations, sees opportunities to expand its existing partnerships and develop new partnerships to provide equity ownership and employment opportunities to these communities.
- Savanna's growth will remain tempered by the economic realities of the industry within which we operate. Our cautious 2007 base capital plan is reflective of this. Savanna will continue to expand in areas where we possess a distinct operating or capital advantage, and where we are comfortable introducing incremental capital equipment. We recognize the critical "people" component of our service delivery and will not introduce equipment or services we cannot adequately crew and operate.
- The proposed modifications to the Canadian income tax treatment of trusts may also present acquisition opportunities for the Company. With the expected effect of leveling the valuations between trusts and corporations, the ability of Savanna to effectively compete with trusts on asset acquisition opportunities should be enhanced in the future, all else being equal. Should such opportunities present themselves; the Company will be well positioned to take advantage, given its current debt level and its recently negotiated credit facilities.

This Report contains forward-looking statements which reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "believe", "expect" and similar expressions have been used to identify these forward-looking statements. The statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk, uncertainties and assumptions. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. Although the forward-looking statements contained in this Report are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date hereof and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Note:

(1) Earnings from continuing operations is defined as earnings before interest, other income and taxes. Net earnings from continuing operations before stock compensation expense is calculated by adding stock compensation expense to net earnings from continuing operations. Operating margin is defined as revenue less operating expenses. Operating margin percentages are calculated by dividing operating margins 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 and capital leases. Earnings from continuing operations, net earnings from continuing operations before stock compensation expense, operating margin, operating margin percent, operating cash flows from continuing operations before changes in non–cash working capital, and working capital are not recognized measures under Canadian generally accepted accounting principles (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.

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

Darcy Draudson
Chief Financial Officer

March 15, 2007

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, 2006 and 2005 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 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

Calgary, Alberta
March 15, 2007

Deloitte & Touche LLP
Chartered Accountants

Consolidated Statement of Earnings and Retained Earnings

Years Ended December 31, 2006 and 2005 *(In thousands of dollars, except per share data)*	**2006** **$**	2005 $
Revenue		
Sales and services	**247,082**	132,794
Expenses		
Operating	**148,687**	84,026
General and administrative	**11,141**	6,177
Stock-based compensation	**4,233**	1,599
Depreciation and amortization	**17,486**	9,046
	181,547	100,848
Earnings from Continuing Operations	**65,535**	31,946
Interest on long-term debt and capital leases	**(5,197)**	(2,348)
Interest and other income (expense)	**(48)**	17
	(5,245)	(2,331)
Earnings From Continuing Operations Before Income Taxes	**60,290**	29,615
Income Taxes, Continuing Operations (Note 16(a))		
Current	**6,064**	940
Future	**12,942**	11,330
	19,006	12,270
Net Earnings from Continuing Operations Before Non-controlling Interest	**41,284**	17,345
Non-controlling interest (Note 14)	**326**	–
Net Earnings from Continuing Operations	**41,610**	17,345
Net Earnings from Discontinued Operations, Net of Tax of $5,059 (2005 – $5,771) (Notes 16(a) and 22)	**12,988**	14,382
Net Earnings	**54,598**	31,727
Retained Earnings, Beginning of Year	**60,167**	28,440
Retained Earnings, End of Year	**114,765**	60,167
Earnings Per Share (Note 15(g))		
Basic earnings per share from continuing operations	**1.06**	0.60
Diluted earnings per share from continuing operations	**1.05**	0.59
Basic earnings per share from discontinued operations	**0.33**	0.50
Diluted earnings per share from discontinued operations	**0.32**	0.49
Basic earnings per share – net income	**1.39**	1.10
Diluted earnings per share – net income	**1.37**	1.08

Consolidated Balance Sheets

December 31, 2006 and 2005 *(In thousands of dollars)*	**2006** **$**	2005 $
Assets		
Current		
Cash	**8,259**	–
Accounts receivable	**88,856**	33,013
Inventory (Note 5)	**4,783**	1,984
Prepaid expenses and deposits	**1,766**	631
Current portion of notes receivable (Note 6)	**2,250**	–
Current assets held for sale (Note 22)	**18,720**	19,394
	124,634	55,022
Notes receivable (Note 6)	**6,575**	–
Capital assets (Note 7)	**590,132**	188,942
Goodwill (Note 4)	**424,003**	2,677
Intangibles and other assets (Note 8)	**26,856**	322
Non-current assets held for sale (Note 22)	**33,739**	30,366
	1,205,939	277,329
Liabilities		
Current		
Bank indebtedness	**25,260**	7,114
Operating loans (Note 9)	**337**	–
Accounts payable and accrued liabilities	**50,970**	17,264
Income taxes payable	**5,599**	407
Current portion of deferred drilling advance (Note 10)	**1,127**	–
Current portion of obligations under capital leases (Note 11)	**3,156**	639
Current portion of long-term debt (Note 13)	**15,615**	6,835
Current liabilities held for sale (Note 22)	**5,937**	10,666
	108,001	42,925
Deferred drilling advance (Note 10)	**3,333**	–
Deferred net revenue (Note 6)	**1,647**	–
Obligations under capital leases (Note 11)	**5,330**	666
Long-term debt (Note 13)	**130,951**	41,365
Future income taxes (Note 16(c))	**55,995**	21,976
Non-current liabilities held for sale (Note 22)	**5,374**	5,111
	310,631	112,043
Non-controlling interest (Note 14)	**3,214**	–
Shareholders' Equity		
Share capital (Note 15(b))	**771,495**	103,049
Contributed surplus (Note 15(d))	**5,834**	2,070
Retained earnings	**114,765**	60,167
	892,094	165,286
	1,205,939	277,329

Approved by the Board

"Signed" "Signed"

Elson McDougald, Director Ken Mullen, Director

Consolidated Statement of Cash Flows

Years Ended December 31, 2006 and 2005 *(In thousands of dollars)*	**2006** **$**	2005 $
Cash Flows from Operating Activities		
Net earnings from continuing operations	**41,610**	17,345
Items not affecting cash:		
Depreciation and amortization	**17,788**	9,137
Future income taxes	**12,942**	11,330
Stock-based compensation	**4,233**	1,599
Loss on disposal of assets	**28**	1
Non-controlling interest	**(326)**	–
	76,275	39,412
Change in non-cash working capital from continued operations (Note 18(b))	**4,366**	(10,806)
Cash flows from continuing operations	**80,641**	28,606
Net earnings from discontinued operations	**12,988**	14,382
Items not affecting cash:		
Depreciation and amortization	**4,407**	3,466
Future income taxes	**50**	(152)
Stock-based compensation	**572**	316
Gain on disposal of assets	**(130)**	(18)
	17,887	17,994
Change in non-cash working capital from discontinued operations (Note 18(b))	**(477)**	(3,479)
Cash flows from discontinued operations	**17,410**	14,515
Cash Flows from Financial Activities		
Shares issued on exercise of stock options (Note 15(b))	**4,896**	2,187
Cash distribution in subsidiary	**(68)**	–
Deferred financing costs incurred	**(75)**	(2)
Advances on operating loans	**337**	–
Repayments on operating loans	**(16,100)**	–
Repayment of capital lease obligations	**(1,780)**	(785)
Issuance of long-term debt	**123,000**	30,375
Repayment of long-term debt	**(71,929)**	(19,960)
Cash flow from continuing financing activities	**38,281**	11,815
Repayment of capital lease obligations	**(1,372)**	(978)
Cash flow from discontinued financing activities	**(1,372)**	(978)
Cash Flows from Investing Activities		
Purchase of capital assets	**(128,145)**	(59,140)
Proceeds on disposal of assets	**206**	541
Cash acquired on acquisition, net of costs (Note 4(a))	**(2,240)**	–
Change in working capital related to investing activities (Note 18(b))	**(5,862)**	1,771
Purchase of other assets	**–**	(56)
Cash flows from continuing investing activities	**(136,041)**	(56,884)
Purchase of capital assets	**(5,796)**	(4,524)
Proceeds on disposal of assets	**603**	507
Change in working capital related to investing activities (Note 18(b))	**(4)**	395
Change in cash held for disposal	**(3,609)**	3,264
Cash flows from discontinued investing activities	**(8,806)**	(358)
Decrease in Cash, Net of Bank Indebtedness	**(9,887)**	(3,284)
Cash, Net of Bank Indebtedness, Beginning of Year	**(7,114)**	(3,830)
Cash, Net of Bank Indebtedness, End of Year	**(17,001)**	(7,114)

Notes to the Consolidated Financial Statements

Years Ended December 31, 2006 and 2005
(In thousands, except per share amounts)

1. DESCRIPTION OF BUSINESS

Savanna Energy Services Corp. ("Savanna" or the "Company") 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 primarily operates through three main operating companies, all of which are 100% owned subsidiaries of Savanna, including: Great Plains Well Servicing Corp ("Great Plains"), Trailblazer Drilling Corp. ("Trailblazer") and Western Lakota Energy Services Inc. ("Western Lakota"). The well servicing division is operated through Great Plains and the drilling division is operated through Trailblazer and Western Lakota. Western Lakota operates through a number of subsidiaries and limited partnerships.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement 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 well servicing 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 drilling division will build and sell interests in drilling 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 and other oilfield services is recognized upon delivery of service to customers and is calculated on a daily, hourly, or job basis. 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 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 virtual certainty regarding the collection of the related receivable exists. All other sales of drilling rigs are recognized upon completion of the transaction and transfer of beneficial ownership to the acquirer. Any income earned from drilling rigs held for sale in inventory is recognized when the drilling rig is sold.

Net profits on the sale of the Company's interest in drilling rigs and related equipment sold to the partnerships are eliminated on consolidation.

c) INVENTORY

The Company's inventory includes drilling 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.

d) CAPITAL ASSETS AND DEPRECIATION

Capital assets 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
Equipment 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 the assets are substantially complete and ready for use.

e) 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.

f) DEFERRED FINANCING COSTS

Deferred financing costs have been included in intangibles and other assets in the consolidated financial statements and are amortized on a straight-line basis over the term of the related long-term debt.

g) INTANGIBLE ASSETS

Intangible assets consist of costs associated with securing Savanna's intellectual property rights as well as the value attributed to Aboriginal relationships, customer relationships, lease agreements and construction commitments arising on acquisitions completed by the Company (Note 4(a)). Intangible assets are amortized on a straight line basis over the expected period 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.

h) FINANCIAL INSTRUMENTS

The Company enters into interest rate swaps to manage the impact of floating interest rates. Hedge accounting is used when there is a high degree of correlation between changes in cash flows of the swap instrument and the cash flows relating to the interest on the long-term debt. The Company assesses, both at inception of the hedge and on a quarterly basis, the effectiveness of the hedging relationship.

Interest rate swaps that have been designated as hedges are not recognized in the consolidated balance sheet. Gains or losses on these contracts, including realized gains and losses on hedging swap agreements settled prior to maturity, are recognized when the related hedged transaction is recognized. If effectiveness ceases, the Company discontinues hedge accounting and subsequent changes in market value of the interest rate swap, are recognized in the period of change.

i) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are tested for recoverability at least annually at year end, or whenever events or circumstances indicate that carrying value may not be recoverable. Assets are tested internally and/or by independent third parties for recoverability by examining expected discounted future cash flows and benefits to ensure that the fair value is greater than, or equal to, the carrying value.

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 capital asset. 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, 2006 and 2005, 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 has adopted 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.

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 is considered to be used to reacquire shares at an average share price.

m) STOCK-BASED COMPENSATION

The Company has a stock option plan as described in Note 15(f). The Company follows the fair value based method of accounting, using the Black-Scholes option pricing model, for options granted subsequent to January 1, 2002, whereby, compensation expense is recognized for the stock options on the date of granting, and amortized over the options' vesting period.

Stock compensation expense also includes the value of deferred share units ("DSU's") held by directors outside of the Company and outstanding at the end of the year (Note 15(e)). DSU's are recognized when granted and valued on a mark to market basis. DSU's will be settled in cash on the date the director ceases to be a director of the Company.

n) USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 capital assets, the recoverability of capital assets, intangibles 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.

4. BUSINESS ACQUISITIONS

a) On August 25, 2006, Savanna completed the acquisition of all the outstanding shares of Western Lakota for total consideration of $667,903. The shares of Savanna issued on the acquisition were valued at $23.49, being the average closing price of Savanna for the period June 16 to June 22, 2006, which is the two day period before and after the date the acquisition was announced. For each common share of Western Lakota held, 0.64 of a common share of Savanna was received. Upon completion of the merger, Savanna shareholders owned 51.5% and Western Lakota shareholders owned 48.5% of the combined company. The acquisition has been accounted for using the purchase method with the results of operations of Western Lakota being included in the consolidated financial statements from the date of acquisition.

The purchase price allocation is as follows:

	$
Net assets acquired:	
Cash	**3,968**
Non-cash working capital	**(23,868)**
Notes receivable	**1,778**
Capital assets	**289,919**
Intangibles	**27,290**
Goodwill	**421,326**
Long-term debt	**(25,913)**
Future income taxes	**(22,989)**
Non-controlling interest	**(3,608)**
	667,903
Consideration:	
Common shares issued, net of share issue costs	**648,750**
Fair value of options	**12,371**
Cash	**545**
Payable subsequent to closing	**6,237**
Total consideration	**667,903**

The purchase price was funded by issuing 27,861 common shares of Savanna at $23.49 per share net of share issue costs of $5,700 ($3,933 net of tax) plus $12,371 for the fair value of options exchanged. Total consideration also includes $507 for debt restructuring fees and $575 relating to the settlement of employee contracts. Of the $6,782 total share issue costs, debt restructuring fees and settlement of employee contracts, $545 had been paid in cash at the acquisition date and $6,237 was payable subsequent to closing. At December 31, 2006, $6,207 of these costs had been paid in cash and $575 has been included in accounts payable and accrued liabilities.

The purchase price has been adjusted from that disclosed in the third quarter as a result of the Company's ongoing analysis and integration of outstanding information. These adjustments resulted in a $632 increase in the purchase price due to increased acquisition costs, a $4,400 increase in non-cash working capital, a $3,680 increase in intangible assets, a $4,915 decrease in goodwill, and a $2,533 increase in future income taxes payable.

b) On September 29, 2006, the Company acquired a 50% interest in three drilling rigs and related assets for cash consideration of $10,250. These rigs were previously held in a limited partnership that was owned 50% each by Western Lakota and a First Nation community.

5. INVENTORY

	2006 $	2005 $
Drilling rigs and equipment built for sale, at cost	**1,344**	–
Parts and operating supplies	**3,439**	1,984
	4,783	1,984

6. NOTES RECEIVABLE AND DEFERRED NET REVENUE

		2006		2005	
	Interest Rate	**Notes Receivable $**	**Deferred Net Revenue $**	Notes Receivable $	Deferred Net Revenue $
Note receivable	**P + 1%**	**575**	**–**	–	–
Note receivable	**P + 10%**	**3,000**	**828**	–	–
Note receivable	**P + 10%**	**3,000**	**819**	–	–
Note receivable	**P + 1%**	**2,250**	**–**	–	–
		8,825	**1,647**	–	–
Current portion		**(2,250)**	**–**	–	–
		6,575	**1,647**	–	–

"P" denotes prime rate, which was 6% at December 31, 2006.

All of the notes receivable arose from the sale of the interests in drilling rigs and related equipment to partners or jointly controlled partnerships. Net profits related to amounts that remain receivable are deferred and recognized once virtual 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. Deferred net revenue is not interest bearing.

7. CAPITAL ASSETS

	2006		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**
Land	**1,612**	**–**	**1,612**
Buildings	**6,723**	**502**	**6,221**
Field equipment	**545,659**	**50,854**	**494,805**
Equipment under construction	**72,071**	**–**	**72,071**
Furniture and office equipment	**2,187**	**937**	**1,250**
Equipment under capital leases	**17,744**	**3,571**	**14,173**
	645,996	**55,864**	**590,132**

	2005		
	Cost $	Accumulated Amortization $	Net Book Value $
Land	1,271	–	1,271
Buildings	1,687	113	1,574
Field equipment	182,538	18,470	164,068
Equipment under construction	20,018	–	20,018
Furniture and office equipment	929	459	470
Equipment under capital leases	2,300	759	1,541
	208,743	19,801	188,942

8. INTANGIBLES AND OTHER ASSETS

	2006			2005		
	Cost $	**Accumulated Amortization $**	**Net Book Value $**	Cost $	Accumulated Amortization $	Net Book Value $
Intangible assets	**27,391**	**535**	**26,856**	95	–	95
Other assets	**–**	**–**	**–**	515	288	227
	27,391	**535**	**26,856**	610	288	322

Included in intangible assets at December 31, 2006, is $27,290 of intangibles assets acquired as part of the Western Lakota business combination (Note 4(a)).

9. OPERATING LOANS

		2006		2005
	Interest Rate	**Authorized $**	**Outstanding $**	Outstanding $
Limited partnership operating loans	**P + 0.5% to 1.0%**	**1,950**	**337**	–

"P" denotes prime rate, which was 6% at December 31, 2006.

These operating loans 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 loans are supported by either a general security agreement covering all assets of each limited partnership, or the accounts receivable of each limited partnership.

10. DEFERRED DRILLING ADVANCE

During 2005, Western Lakota received a $5,000 advance from a customer to help facilitate the construction of five drillings rigs. These five rigs, which are owned by the Company, are to drill for this customer under three-year term contracts and will be credited to the customer at a fixed amount per operating day that each of these five rigs drills for the customer. The estimated current portion of this drilling advance is $1,127 and is based on the anticipated amounts to be credited to the customer in the period. This advance is non-interest-bearing and is secured by a general security agreement charging all present and after-acquired property of the Company; however, it is subordinated to all of the Company's other credit facilities.

11. OBLIGATIONS UNDER CAPITAL LEASES

Minimum lease payments under capital leases are as follows:

	2006 $	2005 $
Year ending December 31, 2006	**–**	706
2007	**3,569**	497
2008	**3,690**	234
2009	**1,408**	18
2010	**484**	–
2011	**63**	–
Total minimum lease payments	**9,214**	1,455
Less amount representing future interest at annual rates between 4.0% and 6.85%	**728**	150
Balance of obligations	**8,486**	1,305
Less current portion	**3,156**	639
	5,330	666

12. COMMITMENTS

The Company has commitments for office and shop premises and various operating vehicles and equipment leases and purchases. As at December 31, 2006, the payments required in each of the next five years are as follows:

	$
2007	5,186
2008	2,973
2009	1,136
2010	630
2011 and thereafter	402
	10,327

13. LONG-TERM DEBT

	2006					2005
	Monthly Principal Payments $	**Interest Rate**	**Maturity Date**	**Authorized $**	**Outstanding $**	Outstanding $
Savanna						
Term loans (a)	80	L+2.75%	Mar-07	480	**240**	1,200
Term revolving credit facility (b)	–	P to P+0.75%	(b)	250,000	**125,000**	47,000
Term non-revolving loans (c)	511	6.0 to 6.56%	May-09–Oct-09	15,534	**15,534**	–
Mortgage (d)	7	6.0%	Oct-09	955	**955**	–
				266,969	**141,729**	48,200
Limited partnership facilities (e)						
Term loans	52	4.7 to 7.25%	Jul-08–Oct-11	2,980	**2,980**	–
Term non-revolving loans	60	P+0.75%	Aug-09	1,857	**1,857**	–
				4,837	**4,837**	–
Total long-term debt				271,806	**146,566**	48,200
Current portion of long-term debt					**15,615**	6,835
					130,951	41,365

"P" denotes prime rate, which was 6% at December 31, 2006.

"L" denotes lenders' borrowing rate.

a) The term loan is secured by a first charge on specific field equipment and a second charge on all other assets of Great Plains Well Servicing, a wholly-owned subsidiary of Savanna.

b) On October 2, 2006, the facility was extended to September 29, 2007 and increased to a total of $250,000 (2005 – $75,000) of which $10,000 ($2005 – $5,000) is committed to the swing-line operating facility included in bank indebtedness. At December 31, 2006, $10,075 (2005 – $4,604) was drawn on the swing-line operating facility. The entire facility, which is with a syndicate of banks, is renewed every 365 days at the bank's discretion; however, if it is not renewed on the annual renewal date (September 29th), the facility reverts to a three year term loan with a four year amortization, requiring quarterly payments of $7,812. 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 bank's prime rate to prime plus 0.75%, bankers' acceptance, letter of credit, or LIBOR rate 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 all its subsidiaries with the exception of Great Plains Well Servicing Corp.

Concurrent with securing the committed revolver facility, the Company fixed the interest rate on $10,000 of the facility at 4.27% plus a stamping fee for a four year period ending on December 16, 2008. As of December 31, 2006, the unrecognized loss on this interest rate swap was $34 (2005 – $42). Subsequent to year end, the interest rate swap was unwound and the loss was recognized.

Subsequent to year end, $125,000 of this facility plus $10,000 of the swing-line facility was repaid with proceeds from the sale of Ultraline Services Corporation (Note 22).

c) These loans were assumed as part of the acquisition described in Note 4(a) and are secured by a general assignment of book debts and a general security agreement charging all present and after-acquired property of a subsidiary.

d) The mortgage was assumed as part of the acquisition described in Note 4(a) and is secured by a building with a net book value of $3,514 at December 31, 2006.

e) The limited partnership facilities are in limited partnerships owned 50% by Western Lakota. 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.

Principal repayments required on long-term debt over the next five years are as follows:

	$
2007	15,615
2008	39,242
2009	35,324
2010	55,318
2011	1,067
	146,566

14. NON-CONTROLLING INTEREST

The non-controlling interest in the consolidated financial statements represents First Nation and Métis organizations' and communities' minority ownership (14%) of Akuna Drilling Trust's assets, liabilities, revenues and expenses. Akuna Drilling Trust is a subsidiary of the Company.

15. SHARE CAPITAL

	Number of Shares	**Amount $**
a) AUTHORIZED		
Unlimited number of common shares		
Unlimited number of Class A common shares		
Unlimited number of preferred shares		
b) ISSUED		
Common shares		
Balance December 31, 2004	28,400	**100,697**
Issued for cash on exercise of stock options	632	**2,187**
Fair value of stock options exercised	–	**165**
Balance December 31, 2005	29,032	**103,049**
Issued for cash on exercise of stock options	1,026	**4,896**
Fair value of stock options exercised	–	**662**
Shares issued and fair value of options exchanged pursuant to Western Lakota acquisition (Note 4(a))	27,861	**666,821**
Share issue costs (net of tax $1,767) (Note 4(a))	–	**(3,933)**
Balance December 31, 2006	57,919	**771,495**

c) RESERVED FOR ISSUE

The Company has 5,542 (2005 – 2,695) common shares reserved for issue upon exercise of stock options.

d) CONTRIBUTED SURPLUS

	2006 $	2005 $
Balance, beginning of year	**2,070**	320
Stock-based compensation expense – continued operations	**3,854**	1,599
Stock-based compensation expense – discontinued operations	**572**	316
Fair value of options exercised (reclassified to share capital)	**(662)**	(165)
Balance, end of year	**5,834**	2,070

e) DEFERRED SHARE UNIT PLAN

In 2006, the Company implemented a deferred share unit ("DSU") plan for directors outside of the Company. The DSU's are granted annually and represent rights to share value based on the number of deferred share units issued. Under the terms of the plan, DSU's awarded will vest immediately and will be settled with cash in the amount equal to the closing price of the Company's common shares on the date the director ceases to be a director of the Company. The Company has recorded $379 (2005 – Nil) in stock compensation expense relating to DSU's and there were 20 units outstanding at the end of the current year (2005 – Nil).

f) STOCK OPTION PLAN

The Company has a stock option plan for the purpose of developing the interest of directors, 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 proprietary interest in the Company.

	2006		2005	
	Share Options	**Weighted Average Exercise Price (per share) $**	Share Options	Weighted Average Exercise Price (per share) $
Outstanding, beginning of year	**1,659**	**11.67**	1,757	5.28
Granted	**332**	**24.91**	545	22.72
Converted on acquisition (Note 4(a))	**1,206**	**12.76**	–	–
Exercised	**(1,026)**	**4.77**	(632)	3.46
Cancelled	**(225)**	**18.88**	(11)	10.98
Outstanding, end of year	**1,946**	**17.41**	1,659	11.67

At December 31, 2006, 1,946 (2005 – 1,659) options were outstanding at exercise prices between $3.00 and $28.60 per share. The options expire from October 31, 2007 to August 10, 2011 and vest in equal amounts on their anniversary over three to five years. At December 31, 2006, 715 (2005 – 837) options were exercisable at a weighted average exercise price of $11.47 (2005 – $4.22). The following table summarizes these details:

	At December 31, 2006		
Exercise Price (per share)	**Number of Options Outstanding**	**Weighted Average Contractual Life (years)**	**Number of Options Exercisable**
$3.00 – $4.50	**159**	**0.8**	**159**
$4.51 – $6.75	**144**	**0.9**	**144**
$6.76 – $10.00	**159**	**1.0**	**50**
$10.01 – $15.00	**137**	**2.5**	**78**
$15.01 – $22.50	**611**	**2.8**	**196**
$22.51 – $28.60	**736**	**3.7**	**88**
	1,946		**715**

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 the year ended December 31, 2006, the Company used the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.25%, expected life of four years, no annual dividends paid, and expected volatility of 33%.

Compensation expense from continuing operations amounting to, $3,854 (2005 – $1,599) has been recognized in the consolidated statement of earnings to reflect the fair value of 332 (2005 – 545) stock options granted during 2006. The weighted average fair value of stock options granted during the year was $8.34 per share (2005 – $8.28) at the date of grant.

g) RECONCILIATION OF WEIGHTED AVERAGE SHARES OUTSTANDING

	Number of Shares	
	2006	2005
Basic weighted average shares outstanding	**39,320**	28,749
Effect of dilutive securities:		
Stock options	**456**	742
Diluted weighted average shares outstanding	**39,776**	29,491

The effect of dilutive securities with respect to stock options is that 1,394 options are assumed exercised (2005 – 1,361 options) and 938 share are assumed purchased (2005 – 619 shares).

16. 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 32.1% (2005 – 33.6%) to the earnings before income taxes. This difference results from the following items:

	2006 **$**	2005 $
Earnings from continuing operations before income taxes	**60,290**	29,615
Earnings from discontinued operations before income taxes	**18,047**	20,153
	78,337	49,768
Computed income tax expense at statutory rate	**25,162**	16,732
Increase (decrease) resulting from:		
Large corporate tax	**–**	464
Non-deductible expenses	**1,729**	837
Permanent differences relating to dispositions of capital assets	**(884)**	(4)
Permanent differences relating to acquisition costs	**(207)**	–
Reduction in future tax rates	**(1,683)**	–
Other	**(52)**	12
Income tax expense	**24,065**	18,041
Represented by:		
Current income taxes on continuing operations	**6,064**	940
Future income taxes on continuing operations	**12,942**	11,330
Current income taxes on discontinued operations	**5,009**	5,923
Future income taxes on discontinued operations	**50**	(152)
Income tax expense	**24,065**	18,041

b) NON-CAPITAL LOSSES, SCIENTIFIC RESEARCH AND DEVELOPMENT EXPENDITURES AND INVESTMENT TAX CREDITS

The Company has non-capital losses available for carry forward totaling $881 (2005 – $115), unused scientific and research and development expenditures of $162 (2005 – nil), and unused scientific and research development investment tax credits of $41 (2005 – $291). The unused tax pools may be applied to reduce future taxable income and future income taxes payable. All of the tax pools begin to expire in 2009.

c) FUTURE INCOME TAX ASSETS AND LIABILITIES

The components of the Company's future income tax assets and liabilities are recognized at 32.1% (2005 – 33.6%), are a result of the origination and reversal of temporary differences, and are comprised of the following:

	2006 **$**	2005 $
Future income tax assets		
Unused non-capital losses	**283**	39
Unused scientific research and experimental development expenditures and investment tax credits	**65**	192
Share issue costs and deferred financing costs	**3,230**	436
Deferred share unit plan	**117**	–
Other	**–**	8
	3,695	675
Future income tax liabilities		
Capital assets	**49,233**	22,640
Intangible assets	**3,592**	–
Future taxes on income from limited partnerships	**6,861**	–
Other	**4**	11
	59,690	22,651
Net future income tax liability	**55,995**	21,976

17. SEGMENTED INFORMATION

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

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

The *service rig* segment provides well servicing services 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.

	2006			
	Corporate $	Service Rigs $	Drilling $	**Total $**
Revenue				
Rig sales	–	–	5,703	**5,703**
Oilfield services	–	36,881	204,498	**241,379**
	–	36,881	210,201	**247,082**
Operating costs				
Rig sales	–	–	3,848	**3,848**
Oilfield services	–	21,373	123,466	**144,839**
	–	21,373	127,314	**148,687**
Operating margin	–	15,508	82,887	**98,395**
Expenses				
General and administrative				**11,141**
Stock-based compensation				**4,233**
Depreciation and amortization				**17,486**
Earnings from continuing operations				**65,535**
Goodwill	–	6,272	417,731	**424,003**
Capital assets	4,825	52,181	533,126	**590,132**
Capital expenditures	2,282	16,899	109,187	**128,368**

	2005			
	Corporate $	Service Rigs $	Drilling $	Total $
Revenue				
Oilfield services	–	31,789	101,005	132,794
	–	31,789	101,005	132,794
Operating costs				
Oilfield services	79	19,629	64,318	84,026
	79	19,629	64,318	84,026
Operating margin	(79)	12,160	36,687	48,768
Expenses				
General and administrative				6,177
Stock-based compensation				1,599
Depreciation and amortization				9,046
Earnings from continuing operations				31,946
Goodwill	–	2,677	–	2,677
Capital assets	3,202	34,529	151,211	188,942
Capital expenditures	2,311	2,971	53,968	59,250

18. SUPPLEMENTARY CASH INFORMATION

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

	2006 $	2005 $
Cash interest paid	**4,878**	2,285
Cash interest received	**242**	13
Cash income taxes paid	**6,035**	742
Cash income taxes received	**110**	6

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

	2006 $	2005 $
Accounts receivable	**1,533**	(19,666)
Inventory	**2,363**	(1,150)
Prepaid expenses and deposits	**648**	(312)
Current portion of notes receivable	**(6,045)**	–
Accounts payable and accrued liabilities	**155**	7,346
Income taxes payable	**(631)**	1,663
	(1,977)	(12,119)
Cash flows from continuing operating activities	**4,366**	(10,806)
Cash flows from discontinued operating activities	**(477)**	(3,479)
Cash flows from continuing investing activities	**(5,862)**	1,771
Cash flows from discontinued investing activities	**(4)**	395
	(1,977)	(12,119)

19. CONTINGENCIES

At December 31, 2006, the Company was subject to legal claims and although the outcome of these matters are not determinable at this time, the Company believes the claims will not have any material adverse effect on the Company's financial position or results of its operations.

20. RELATED PARTY TRANSACTIONS

The following transactions with related parties and jointly-controlled partnerships occurred during the year ended December 31, 2006:

a) management and other fees in the amount of $519 (2005 – Nil), net of inter-company eliminations were received from the partnerships that are owned 50% by the Company.

b) management and other fees in the amount of $136 (2005 – Nil) were paid to a partnership that is owned 50% by the Company.

c) the Company sold its 50% interest in two drilling rigs (total cost $7,618) to limited partnerships. The rigs were sold in exchange for promissory notes plus 50% of the previously unissued partnership units of the limited partnerships.

The related party transactions in (a) and (b) on the previous page were in the normal course of operations and have been measured at their 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 (c) on the previous page were not in the normal course of operations and have been recorded in these financial statements at the carrying amounts of the assets.

21. FINANCIAL INSTRUMENTS

As disclosed in Note 3(h), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to the following:

a) FAIR VALUE

The Company's financial instruments recognized on the consolidated balance sheet include cash, bank indebtedness, operating loans, accounts receivable, notes receivable, accounts payable and accrued liabilities, and deferred drilling advances. The fair values of these financial instruments approximate their carrying amounts due to their short-term nature. Financial instruments also include long-term debt and obligations under capital leases. The fair values of these financial instruments are not significantly different than their carrying amounts as the stated interest rates reflect the current borrowing rates available to the Company.

b) INTEREST RATE RISK

i. The Company's fixed-rate notes receivable are subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. Floating-rate notes receivable are subject to interest rate cash flow risk, as the cash received will fluctuate with changes in market rates.

ii. The Company's fixed-rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market 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 rates.

At December 31, 2006, the Company had fixed the interest rate on 24% (2005 — 26%) of its operating loans, long-term debt and obligations under capital leases.

c) CREDIT RISK

The Company is exposed to credit risk to the extent that its customers in the oil and gas industry experience financial difficulty and would be unable to meet their obligations. One customer comprised 15% of revenue for the year ended December 31, 2006 (2005 — two customers comprised 33% of revenue) and one customer comprised 11% of accounts receivable at December 31, 2006 (2005 — two customers comprised 27% of accounts receivable).

22. DISCONTINUED OPERATIONS

Effective January 31, 2007, the Company closed the sale of all of the shares of its wireline division, Ultraline Services Corporation ("Ultraline"). Since the decision to sell this division was made in December, 2006, as evidenced by a formal letter of intent, all activity relating this division has been considered as held for sale for the year ending December 31, 2006. For comparative purposes, the amounts shown in the financial statements for 2005, have been restated to reflect the discontinuation of this division.

Revenue from discontinued operations for the year ended December 31, 2006 was $58,243 (2005 – $58,820). The carrying amounts of the remaining net assets held for disposal are as follows:

	2006 **$**	2005 $
Working capital	**12,783**	8,728
Capital assets	**32,341**	28,968
Goodwill	**1,398**	1,398
Obligations under capital leases	**(1,249)**	(1,181)
Future income tax liability	**(4,125)**	(3,930)
	41,148	33,983

23. SUBSEQUENT EVENTS

a) Effective January 31, 2007, the Company sold all of the shares of its wireline division, a 100% owned subsidiary of Savanna, for $208,000 in cash. Prior to the sale, Ultraline declared and paid a dividend of $5.5 Million to Savanna as contemplated under the purchase and sale agreement. Also, included in the sale were specific real estate assets and office equipment owned by Savanna.

b) Subsequent to year end, the Company repaid the entire term revolving loan outstanding at December 31, 2006 of $125,000 plus $10,000 on the Company's swing-line operating facility (Note 13(b)).

c) Effective, February 16, 2007, the Company acquired the assets of a privately-held well servicing company, and the shares of a related well servicing and rental business for aggregate proceeds of $67,800. Consideration was comprised of $50,800 in cash and $17,000 of Savanna common shares. The Savanna common shares issued pursuant to the transaction were placed in escrow and will be released over a three year period.

Corporate Information

BOARD OF DIRECTORS
Elson J. McDougald,
Chairman of the Board

Chief Victor Buffalo [3]
Chief, Samson Cree Nation
of Alberta

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

Ken Mullen
President and CEO
Savanna Energy Services Corp.

James Saunders [1,2]
Chairman
Twin Butte Energy Ltd.

Donald R. Seaman [1,2]
President
D.R.S. Resource Investments Ltd.

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

1 Audit Committee
2 Corporate Governance 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
Chief Financial Officer

Dwayne LaMontagne
Vice President, Finance

Lori Connell
Corporate Secretary

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 GE Commercial Finance

National Bank of Canada
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Peace Hills Trust Company
Edmonton, Alberta

TRANSFER AGENT
Computershare Trust Company
of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING
TSX Symbol: SVY

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ANNUAL GENERAL MEETING
May 22, 2007 at 2:00 PM (MDT)
The Metropolitan Centre, Plaza Room
333 – 4th Avenue SW
Calgary, Alberta

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