



**RIDGELINE ENERGY SERVICES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2008 AND 2007**

(Unaudited)

**NOTICE**

These financial statements have not been reviewed by an auditor.

# Ridgeline Energy Services Inc.

## Consolidated Balance Sheets

<b>As at</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
	(unaudited)	(audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 260,358	\$ 817,602
Accounts receivable	4,964,321	1,427,763
Prepaid expenses	<u>32,600</u>	<u>30,078</u>
	5,257,279	2,275,443
<b>Restricted cash</b> (Note 6)	53,500	140,785
<b>Equipment</b> (Note 7)	763,557	823,299
<b>Future income taxes</b> (Note 11)	26,000	51,000
<b>Goodwill</b> (Note 4)	<u>1,198,881</u>	<u>1,198,881</u>
	<u>\$ 7,299,217</u>	<u>\$ 4,489,408</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 5)	\$ -	\$ 131,818
Accounts payable and accrued liabilities	3,445,915	773,850
Current portion of long term debt (Note 9)	5,481	10,807
Current portion of obligations under capital lease (Note 10)	<u>1,918</u>	<u>10,866</u>
	3,453,315	927,341
<b>Long term debt</b> (Note 9)	13,976	17,723
<b>Obligations under capital lease</b> (Note 10)	<u>-</u>	<u>887</u>
	<u>3,467,291</u>	<u>945,951</u>
<b>Shareholders' equity</b>		
Share capital (Note 13(b))	3,638,984	3,612,984
Contributed surplus (Note 13(d))	242,149	217,248
Deficit	<u>(49,206)</u>	<u>(286,775)</u>
	<u>3,831,926</u>	<u>3,543,457</u>
	<u>\$ 7,299,217</u>	<u>\$ 4,489,408</u>

Approved on behalf of the Board:

Signed "*Tony Ker*" \_\_\_\_\_ Director

Signed "*Brad Shybunka*" \_\_\_\_\_ Director

# Ridgeline Energy Services Inc.

Consolidated Statements of Income (Loss), Comprehensive Income, and Deficit

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenue</b>	\$ 4,269,669	\$ 1,532,976	\$ 8,900,749	\$ 4,411,755
<b>Cost of services</b>				
Contract services	2,225,366	422,276	4,043,121	1,352,463
Salaries and benefits	662,042	429,497	1,708,977	1,162,274
Equipment rental	73,247	17,440	211,793	67,702
Automotive	188,432	90,785	497,935	281,220
Travel	113,769	59,283	267,423	175,706
Supplies & materials	48,449	19,731	87,044	44,974
	<u>3,311,305</u>	<u>1,039,011</u>	<u>6,816,294</u>	<u>3,084,338</u>
	<u>958,363</u>	<u>493,964</u>	<u>2,084,455</u>	<u>1,327,417</u>
<b>Selling, General and Administrative Expenses</b>				
Salaries and benefits	268,887	182,521	695,295	510,795
Office and miscellaneous	129,149	84,454	326,385	216,460
Amortization	42,905	43,724	129,146	139,803
Rent	23,893	29,323	102,709	79,547
Advertising and promotion	29,110	40,401	82,459	90,553
Automotive	20,193	14,571	33,389	33,422
Professional fees	95,998	11,322	218,467	81,180
Equipment lease	16,009	16,009	48,028	42,691
Stock-based compensation	8,008	9,152	24,901	27,455
Interest & bank charges	3,618	4,238	14,389	17,284
Bad debts (Recovery)	28,197	-	28,197	-
Travel	7,661	3,653	12,149	6,182
	<u>673,629</u>	<u>439,368</u>	<u>1,715,514</u>	<u>1,245,374</u>
	<u>284,734</u>	<u>54,596</u>	<u>368,941</u>	<u>82,043</u>
<b>Other Expenses</b>				
Non-recurring item	-	-	-	39,209
Loss (Gain) on sale of assets	3,637	(8,069)	11,374	(15,167)
<b>Income (loss) before income taxes</b>	281,097	62,665	357,567	58,001
Income taxes – Current	81,000	-	95,000	-
Income taxes – Future	10,000	-	25,000	-
Income tax provision	91,000	-	120,000	-
<b>Net income (loss) and comprehensive income</b>	<b>\$ 190,097</b>	<b>\$ 62,665</b>	<b>\$ 237,567</b>	<b>\$ 58,001</b>

## Ridgeline Energy Services Inc.

Consolidated Statements of Income (Loss), Comprehensive Income, and Deficit, cont'd

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Net income (loss) and comprehensive income</b>	<b>\$ 190,097</b>	<b>\$ 62,665</b>	<b>\$ 237,567</b>	<b>\$ 58,001</b>
<b>(Deficit), beginning of period</b>	<b>\$ (239,305)</b>	<b>(392,975)</b>	<b>\$ (286,775)</b>	<b>(388,311)</b>
<b>(Deficit), end of period</b>	<b>(49,208)</b>	<b>(330,310)</b>	<b>(49,208)</b>	<b>(330,310)</b>
<b>Income (loss) per share – basic and diluted</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>

# Ridgeline Energy Services Inc.

## Consolidated Statements of Cash Flows

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
<b>Operating Activities</b>				
Net income (loss)	\$ 190,097	\$ 62,655	\$ 237,567	\$ 58,001
Items not affecting cash:				
Amortization	42,905	43,724	129,146	139,803
Stock-based compensation	8,008	9,152	24,901	27,455
Future income tax	10,000	-	25,000	
Gain on sale of assets	3,637	(8,069)	11,374	(15,167)
	<u>254,647</u>	<u>107,472</u>	<u>427,988</u>	<u>210,092</u>
Changes in non-cash working capital items:				
Accounts receivable	(1,568,942)	523,261	(3,536,557)	16,620
Accounts payable	1,565,470	(268,594)	2,672,064	29,821
Prepaid expenses	(155)	-	(2,523)	
	<u>251,021</u>	<u>362,140</u>	<u>(439,027)</u>	<u>256,534</u>
<b>Investing Activities</b>				
Purchase of equipment, net	<u>(43,582)</u>	<u>14,193</u>	<u>(80,777)</u>	<u>(36,884)</u>
<b>Financing Activities</b>				
Issue of share capital	-	-	26,000	-
Deferred transaction costs	-	-	-	(25,603)
Repayment of long-term debt	(1,250)	(5,236)	(9,131)	1,733
Repayments under capital lease	(1,834)	(2,925)	(9,776)	(32,272)
Restricted cash	-	-	87,285	-
	<u>3,084</u>	<u>(8,160)</u>	<u>94,378</u>	<u>(56,141)</u>
<b>Increase (decrease) in cash</b>	<b>204,356</b>	<b>368,173</b>	<b>(425,426)</b>	<b>163,509</b>
Cash, beginning of period	<u>56,002</u>	<u>536,643</u>	<u>685,784</u>	<u>741,307</u>
<b>Cash, end of period</b>	<b>\$ 260,358</b>	<b>\$ 904,816</b>	<b>\$ 260,358</b>	<b>\$ 904,816</b>

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

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## 1. Nature of operations

Ridgeline Energy Services Inc. (“Ridgeline”) operates two business segments. Ridgeline Production Services Inc. (“RPS”) (formerly SDA Technologies Ltd.) provides oil and gas well surface and downhole production testing services and underground utility locate services to the western Canadian energy industry. Bio-Synergy Resources Inc. (“Bio-Synergy”) provides environmental consulting, project management and soil remediation services to the western Canadian energy industry.

Ridgeline’s operations can be subject to seasonal fluctuations, with increased levels of activity in the summer and winter months and reduced levels of activity in the spring. The timing and amount of these seasonal fluctuations vary depending on weather and general energy industry activity levels.

## 2. Changes in accounting policies

On April 1, 2008, Ridgeline adopted CICA Sections 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. These new standards require that Ridgeline disclose information about the significance of financial instruments to its financial position, performance and cash flows, as well as information about its exposure to risks arising from financial instruments and how those risks are managed. The disclosures required by adoption of these sections are presented in Note 16.

On April 1, 2008, Ridgeline adopted CICA Section 1535 “Capital Disclosures”, which requires disclosure of Ridgeline’s objectives, policies and processes for managing capital, what it regards as capital, and whether it is in compliance with any externally imposed capital requirements. The disclosures required by adoption of this section are presented in Note 17.

On April 1, 2008, Ridgeline adopted the additional requirements of CICA Section 1400 “General Standards of Financial Statement Presentation”. The additional requirements require assessment of Ridgeline’s ability to continue as a going concern, and disclosure of any material uncertainties related to events or conditions that may cast significant doubt upon Ridgeline’s ability to continue as a going concern. Currently, the adoption of the additional requirements of this section has no impact on the financial statements or disclosures of Ridgeline.

## 3. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized below:

### (a) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
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expenses during the reported period. Actual results could differ from those estimates. Amortization rates, future income taxes, stock-based compensation and impairment of goodwill are the more significant items subject to significant estimates in these financial statements.

**(b) Consolidation**

These consolidated financial statements include the accounts of Ridgeline and its wholly owned subsidiaries, RPS and Bio-Synergy. All significant intercompany transactions and balances have been eliminated upon consolidation.

**(c) Joint venture**

Activities performed by Bio-Synergy in accordance with certain long-term projects are conducted jointly with others, and accordingly, these financial statements reflect only Ridgeline's proportionate interest in such activities.

**(d) Cash equivalents**

Ridgeline considers all investments with maturities of three months or less and demand bank loans that are utilized periodically for day-to-day operations to be cash equivalents.

**(e) Equipment**

Equipment is recorded at cost. Ridgeline provides for amortization using the following methods at rates designed to amortize the cost of the equipment over its estimated useful life. One half of the year's amortization is recorded in the year of acquisition for all assets except for computer hardware where full amortization is taken. No amortization is recorded in the year of disposal. The annual amortization rates and methods are as follows:

Equipment	20% Declining balance
Leasehold improvements	20% Declining balance
Vehicles	30% Declining balance
Computer hardware	30% Declining balance
Computer software	30% Declining balance

**(f) Impairment of long-lived assets**

Ridgeline tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the long-lived assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
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**(g) Goodwill**

Goodwill represents the excess of the purchase price over the value attributed to net assets acquired. Goodwill is assessed for impairment at least annually or when circumstances change. The impairment test is based on management's best estimate of the fair value of the relevant business unit compared to the carrying amounts.

**(h) Leases**

Leases are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and inherent risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under capital leases is amortized on the same basis as described above. Payments under operating leases are expensed as incurred.

**(i) Revenue recognition**

Revenues for surface and downhole data recorder rental and other production services and environmental consulting, project management and soil remediation services are recognized as the services are delivered. Any of the above services that are performed under fixed price contracts are recognized on the percentage of completion basis based on an estimate of the remaining units of work to be provided.

**(j) Stock-based compensation**

Ridgeline accounts for its grants of options in accordance with the fair value based method of accounting for stock-based compensation. As such, compensation expense and contributed surplus are recorded over the vesting period based on the fair value of the option on the date of grant using the Black-Scholes option pricing model.

**(k) Future income taxes**

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the consolidated balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that Ridgeline does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

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**(l) Income (loss) per share**

The income (loss) per share calculation is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method to determine the dilutive effect from the exercise of stock options. This assumes that any proceeds received from in-the-money options would be used to buy back common shares at the average market price for the period.

**(m) Financial instruments**

Financial instruments are recognized on the balance sheet initially at fair market value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available-for-sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Ridgeline's financial assets and financial liabilities are classified and measured as follows:

- Cash and restricted cash is classified as held-for-trading and is measured at fair value.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Accounts payable, accrued liabilities, loans payable and obligations under capital leases are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

Ridgeline did not recognize any items of other comprehensive income (loss) or accumulated other comprehensive income for the period ended December 31, 2008.

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

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## 4. Acquisitions

### Bio-Synergy

On December 28, 2006, Ridgeline completed the acquisition of all of the outstanding shares of Bio-Synergy. A summary of the transaction using the purchase method of accounting is as follows:

Working capital (i)	\$ 578,813
Equipment	874,695
Goodwill (i)	1,198,881
Long-term debt	(56,948)
Obligations under capital leases	(52,787)
Future income taxes	<u>(168,420)</u>
Net assets acquired	<u>\$ 2,374,234</u>
Consideration	
Cash transaction costs (i)	\$ 125,019
11,246,075 common shares at \$0.20 per share	<u>2,249,215</u>
	<u>\$ 2,374,234</u>

(i) Includes \$56,400 of working capital adjustments recorded subsequent to March 31, 2007.

## 5. Bank indebtedness

An operating line of credit has been authorized to a maximum of \$600,000 and bears interest at the bank's prime lending rate plus 1.75%. A general security agreement covering all assets of Ridgeline has been pledged as security. This facility replaces the previous line of credit, which was authorized to a maximum of \$135,000, incurred interest at the bank's prime lending rate plus 2.0%, and was secured by funds on deposit. A balance of \$0 was outstanding at December 31, 2008 (March 31, 2008 – \$131,818).

## 6. Restricted cash

Restricted cash represents a deposit held in trust pending the termination of an agreement with a third party.

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

## 7. Equipment

	<b>December 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Equipment	\$ 1,081,650	\$ 477,440	\$ 604,210
Vehicles	64,555	32,540	32,015
Leasehold improvements	83,624	14,788	68,836
Computer hardware	100,568	43,330	57,238
Computer software	2,345	1,087	1,258
	<b>\$ 1,332,742</b>	<b>\$ 569,185</b>	<b>\$ 763,557</b>

  

	<b>March 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Equipment	\$ 1,113,101	\$ 425,418	\$ 687,683
Vehicles	64,555	23,694	40,861
Leasehold improvements	55,532	5,553	49,979
Computer hardware	73,258	30,071	43,187
Computer software	2,345	756	1,589
	<b>\$ 1,308,791</b>	<b>\$ 485,492</b>	<b>\$ 823,299</b>

## 8. Related party transactions

During the three months ended December 31, 2008, Ridgeline paid \$7,702 (2007 – \$9,023) in legal fees to a law firm in which a director of Ridgeline was a partner. The balance owing at December 31, 2008 was \$12,941 (2007 – \$1,529).

During the three months ended December 31, 2008, Bio-Synergy paid \$4,888 (2007 – \$0) for rental of temporary fencing panels from a supplier owned by three Bio-Synergy employees. The balance owing at December 31, 2008 was \$18,295 (2007 – \$0).

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

## 9. Long term debt

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
GMAC – loan bearing interest at 0%, repayable in monthly installments of \$703, due November 2008.	\$ -	\$ 5,625
Toyota Credit – loan bearing interest at 7.85%, repayable in monthly installments of \$548, due April 2012.	19,227	22,905
	<u>19,227</u>	<u>28,530</u>
Less: current portion	5,251	10,807
	<u>13,976</u>	<u>17,723</u>

Estimated annual principal repayments are as follows:

2009	\$ 1,274
2010	5,355
2011	5,791
2012	<u>6,807</u>
	<u>\$ 19,227</u>

## 10. Obligations under capital lease

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
Canada West Corporate Finance – three leases bearing interest at rates ranging from 17.5% to 21.2%, repayable in monthly aggregate installments of \$757, with due dates ranging from October 2008 to September 2009.	\$ 1,958	\$ 7,622
Alliance Funding Corporation – lease bearing interest at 17.4%, repayable in monthly installments of \$470, due January 2009.	154	4,131
	<u>2,112</u>	<u>11,753</u>
Less: current portion	2,112	10,866
	<u>-</u>	<u>887</u>

Estimated annual principal repayments are as follows:

2009	\$ 1,269
2010	<u>843</u>
	<u>\$ 2,112</u>

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

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## 11. Future income taxes

The components of future income tax assets (liabilities) are as follows:

	<b>December 31, 2008</b>	<b>March 31, 2008</b>
Carrying value of equipment in excess of tax basis	\$ (71,000)	(85,000)
Tax basis of capital transaction costs	72,000	86,000
Non-capital loss carryforwards	<u>25,000</u>	<u>50,000</u>
	26,000	51,000
Valuation allowance	<u>-</u>	<u>-</u>
	<u>\$ 26,000</u>	<u>51,000</u>

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 30.50% to the income for the period as follows:

	<b>December 31, 2008</b>
Income (loss) for the period before income taxes	<u>\$ 281,097</u>
Anticipated income tax (recovery)	\$ 85,735
Stock-based compensation	2,442
Other	<u>2,823</u>
	<u>\$ 91,000</u>

## 12. Joint Venture

Ridgeline has a 50% interest in a joint venture with a third party that has certain long-term contracts for soil remediation services.

The assets, liabilities, revenues and expenses of the joint venture are as follows:

As at and for the nine months ended,	<b>December 31, 2008</b>
Current assets	\$ 106,540
Equipment	13,323
Current liabilities	(125,520)
Net assets	(5,657)
Revenue	0

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
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Expenses	88,471
Income before tax	(88,471)

## 13. Share capital

### (a) Authorized

Unlimited number of Common voting shares  
 Unlimited number of Preferred shares

### (b) Issued

	<u>December 31, 2008</u>		<u>March 31, 2008</u>	
	Number	Amount	Number	Amount
Balance, beginning of period	26,996,089	\$ 3,612,984	26,996,089	\$ 3,612,984
Stock options exercised (i)	130,000	26,000	-	-
Balance, end of period	<u>27,126,089</u>	<u>\$ 3,638,984</u>	<u>26,996,089</u>	<u>\$ 3,612,984</u>

(i) On June 26, 2008, 130,000 stock options were exercised for proceeds of \$26,000.

### (c) Stock options

The following table summarizes information about stock options outstanding:

	<u>December 31, 2008</u>		<u>March 31, 2008</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of period	2,044,200	\$ 0.20	2,086,700	\$ 0.20
Granted	30,000	-	-	-
Exercised	(130,000)	0.20	-	-
Expired	(91,200)	0.20	-	-
Cancelled	(121,250)	-	(42,500)	0.20
Balance, end of period	<u>1,731,750</u>	<u>\$ 0.20</u>	<u>2,044,200</u>	<u>\$ 0.20</u>

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

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**(d) Contributed surplus**

	<b>December 31,</b> <b><u>2008</u></b>	<b>March 31,</b> <b><u>2008</u></b>
Balance, beginning of period	\$ 217,248	\$ 182,564
Stock-based compensation	24,901	34,684
Balance, end of period	<b><u>\$ 242,149</u></b>	<b><u>\$ 217,248</u></b>

**(e) Per share amounts**

The basic weighted average number of common shares outstanding for the nine months ended December 31, 2008 was 27,056,756 (2007 – 26,996,089). The potential exercise of the stock options outstanding has not been included in the calculation of the diluted weighted average number of common shares for the period, as it is anti-dilutive.

**14. Commitments**

The Company has entered into commitments for the lease of office space and equipment. Minimum annual payments required under the leases are as follows:

2009	\$ 108,147
2010	225,217
2011	204,307
2012	188,304
2013	85,694

**15. Economic dependence**

During the three months ended December 31, 2008, Ridgeline earned \$2,914,226 (2007 - \$1,044,869), which represented 68% (2007 - 68%) of its revenue, from 4 major customers (2007 – 3 customers).

**16. Financial instruments**

Ridgeline's financial instruments are classified and measured as follows:

- Cash and restricted cash is classified as held-for-trading and is measured at fair value.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.
- Accounts payable, accrued liabilities, loans payable and obligations under capital leases are classified as other liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

Fair value

# Ridgeline Energy Services Inc.

Notes to the Consolidated Financial Statements

**As at Dec 31, 2008 and for the three and nine months ended Dec 31, 2008 and 2007 - unaudited**  
**As at March 31, 2008 – audited**

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Ridgeline's carrying value of cash, restricted cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities approximates fair value due to the immediate or short-term maturity of these instruments.

Management has determined that the fair values of long-term debt and obligations under capital lease are not materially different from their carrying values.

## Risk

Ridgeline is exposed to credit risk as a result of its financial instruments. Credit risk arises from the potential that a counter party will fail to perform its obligations. Ridgeline's credit risk is primarily attributable to its accounts receivable with customers. As at December 31, 2008, the Company had \$3,457,160 (2007 - \$751,652) of accounts receivable from 4 customers (2007 - 4 customers), which represented 69% (2007 - 68%) of total accounts receivable. The Company manages credit risk by providing its services to customers based on an evaluation of the customer's financial condition.

## **17. Capital management**

Ridgeline defines capital as shareholders' equity, long-term debt and bank advances, net of cash. The Company's objective for managing capital is to safeguard its ability to continue funding its operations as a going concern, while enabling the pursuit of opportunities for growth.

Ridgeline's policy is to source its liquidity needs through non-dilutive sources when possible. In recent history, the Company has relied almost exclusively on its existing liquidity and cash flow from operations to fund its activities. The Company's operating credit facility arranged during the previous fiscal period provides access to \$600,000 of liquidity to be used to finance the Company's working capital needs and enable continued revenue growth.

Ridgeline manages its capital structure and makes adjustments to it in consideration of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under specific circumstances. Ridgeline is not subject to any externally imposed capital requirements and the Company's overall capital management objective and policies remain unchanged from the previous fiscal period.

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## 18. Segmented information

Ridgeline operates two business segments as described in Note 1. Relative segmented information is as follows:

	<b><u>As at and for the 3 months ended December 31, 2008</u></b>		
	<b>Ridgeline Production Services</b>	<b>Bio-Synergy Resources</b>	<b>Total</b>
Revenue (i)	\$ 182,037	\$ 4,197,007	\$ 4,269,669
Cost of services (i)	97,137	3,323,544	3,311,306
Interest expense	168	3,449	3,618
Amortization	6,376	36,529	42,905
Net income (loss) before tax	(81,754)	362,851	281,097
Capital asset additions	-	43,582	43,582
Goodwill	-	1,198,881	1,198,881

(i) Includes \$109,375 of intercompany transactions eliminated on consolidation.

## 19. Contingencies

Subsequent to December 31, 2008, Ridgeline terminated the employment of one of its executives. The Corporation may incur legal expenses and/or severance liability as a result of this event; however, amounts cannot currently be estimated.