

CONSOLIDATED FINANCIAL STATEMENTS OF



FLINT ENERGY SERVICES LTD.

Year Ended December 31, 2005



FLINT ENERGY SERVICES LTD.

INTEGRATED. INTEGRAL.

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FLINT ENERGY SERVICES LTD.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of Flint Energy Services Ltd. is responsible for the preparation of all the information included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

KPMG LLP, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required under Canadian generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements. The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee reviews the financial content of the Annual Report and meets regularly with management and KPMG LLP to discuss internal controls, accounting and auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.

February 28, 2006

W.J. (Bill) Lingard

President and Chief Executive Officer

Terry Freeman

Chief Financial Officer

FLINT ENERGY SERVICES LTD.
AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Flint Energy Services Ltd. as at December 31, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Edmonton, Canada
February 28, 2006

FLINT ENERGY SERVICES LTD.

CONSOLIDATED BALANCE SHEETS

As At December 31	2005	2004
(in thousands of Canadian dollars)		
ASSETS		
Current assets:		
Cash	\$ 10,474	\$ 3,223
Accounts receivable	205,305	170,537
Revenue in excess of billings	104,391	48,292
Inventories (Note 5)	22,797	21,751
Income taxes receivable	244	6,139
Future income tax assets (Note 9(a))	2,464	661
Prepays and other current assets	7,433	6,066
	353,108	256,669
Property, plant and equipment (Note 7)	180,021	170,871
Goodwill	198,176	198,420
Intangible assets, net of accumulated amortization of \$2,978 (2004 - \$2,082)	1,749	2,618
Future income tax assets (Note 9(a))	818	415
Other assets	584	725
	\$ 734,456	\$ 629,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 114,985	\$ 73,873
Billings in excess of revenue	3,134	1,241
Income taxes payable	10,986	-
Future income tax liabilities (Note 9(a))	5,893	1,125
Current portion of long-term debt (Note 8)	5,408	5,770
	140,406	82,009
Long-term debt (Note 8)	211,471	217,506
Future income tax liabilities (Note 9(a))	27,875	28,006
	239,346	245,512
Shareholders' equity:		
Capital stock (Note 10(a))	203,250	195,929
Contributed surplus (Note 11)	5,478	4,256
Retained earnings	160,062	114,318
Cumulative translation account (Note 12)	(14,086)	(12,306)
	354,704	302,197
Commitments and contingencies (Note 14)		
	\$ 734,456	\$ 629,718

See accompanying notes to consolidated financial statements.

Approved by the Board:

"John Geddes"

Director

"William Lingard"

Director

FLINT ENERGY SERVICES LTD.**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS**

Years Ended December 31	2005		2004	
(in thousands of Canadian dollars, except share data)				
Revenue	\$	1,031,145	\$	743,841
Direct costs		829,207		596,541
Gross profit		201,938		147,300
General and administrative expenses		87,049		77,518
Stock based compensation expense (Note 2)		2,801		1,957
Amortization		28,494		32,195
Earnings from operations		83,594		35,630
Interest (Note 8(a))		14,889		13,358
Debt restructuring costs (Note 8(a))		-		2,062
Earnings before income taxes		68,705		20,210
Income taxes (Note 9(b)):				
Current		21,639		5,975
Future (recovery)		1,322		(666)
		22,961		5,309
Net earnings		45,744		14,901
Retained earnings, beginning of year		114,318		99,417
Retained earnings, end of year	\$	160,062	\$	114,318
Earnings per share:				
Basic	\$	2.73	\$	0.90
Diluted	\$	2.70	\$	0.90
Weighted average common shares:				
Basic		16,726,763		16,526,468
Diluted (Note 10(a))		16,932,389		16,568,018

See accompanying notes to consolidated financial statements.

FLINT ENERGY SERVICES LTD. CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31	2005	2004
(in thousands of Canadian dollars)		
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 45,744	\$ 14,901
Items not affecting cash:		
Amortization on property, plant and equipment	27,595	31,094
Amortization on intangible assets	899	1,101
Gain on disposal of property, plant and equipment	(124)	(1,682)
Stock based compensation expense (Note 2)	2,801	1,957
Debt restructuring costs	-	533
Future income taxes	1,322	(666)
Funds provided by operations before changes in non-cash working capital	78,237	47,238
Change in non-cash balances relating to operations (Note 16)	(32,872)	(67,948)
	45,365	(20,710)
Investing activities:		
Business acquisitions, net of cash acquired (Note 3)	(5,530)	(1,899)
Purchase of property, plant and equipment	(37,612)	(35,651)
Proceeds from disposal of property, plant and equipment	6,249	7,917
	(36,893)	(29,633)
Financing activities:		
Proceeds from long-term debt	71,083	179,451
Repayments of long-term debt	(77,981)	(131,665)
Deferred financing costs	(65)	(304)
Proceeds from issue of capital stock (Note 10(a))	5,742	2,679
	(1,221)	50,161
Increase (decrease) in cash	7,251	(182)
Cash, beginning of year	3,223	3,405
Cash, end of year	\$ 10,474	\$ 3,223
Supplemental cash flow information:		
Net cash paid during the year for:		
Interest	\$ 14,877	\$ 12,740
Income taxes	4,045	15,822

See accompanying notes to consolidated financial statements.

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

General

Flint Energy Services Ltd. (the "Company") was incorporated in Canada under the Business Corporations Act (Alberta) and commenced operations on April 1, 1998. The Company is a fully-integrated provider of midstream production services to the energy industry, with manufacturing and field services centers in 46 locations across Canada and the United States. The Company's common stock is traded on the Toronto Stock Exchange (TSX).

1. Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of Flint Energy Services Ltd. and all subsidiary companies. All subsidiary companies are wholly owned and all material intercompany accounts and transactions have been eliminated. The Company proportionately consolidates its interests in joint ventures.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results may differ from those estimates and assumptions.

(b) Principles of Consolidation

These consolidated financial statements include the financial statements of Flint Energy Services Ltd. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

(c) Cash

Cash consists of cash, cash equivalents and cheques issued in excess of cash on deposit. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

(d) Business Combinations

Business combinations are accounted for using the purchase method of accounting. The purchase price for an acquisition is allocated to the related net assets based on their estimated fair market values. The excess of the purchase price over the fair market value of the net assets acquired is attributed to goodwill.

(e) Inventories

Raw materials inventory is stated at the lower of cost, on a first-in, first-out basis, and net realizable value. Inventories of finished goods and work in progress are stated at the lower of average cost and net realizable value.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at original cost. Amortization is calculated using the straight-line method over the estimated useful lives of the various assets as described below. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term and the estimated useful life of the asset. The estimated useful lives of the various assets are as follows:

Buildings and improvements	20 years
Construction and automotive equipment	3-15 years
Office furniture and equipment	3-5 years

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

(g) *Goodwill*

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combinations to the Company's reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized and is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of the reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(h) *Intangible Assets*

Intangible assets are recorded at cost and amortized using the straight-line method over their estimated useful lives.

(i) *Revenue and Cost Recognition*

The Company performs the majority of its projects under the following types of contracts: time-and-materials; cost-plus-fixed-fee; unit-price; and fixed price or lump sum. For all contract types revenue is recognized using the percentage-of-completion method, measured by the percentage that incurred costs and units produced to date bear to total expected costs and units to be produced. Contract costs include all direct materials and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repair costs. General and administrative costs are charged to expense as incurred. Changes in project performance, project conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income that are recognized in the period in which such adjustments are determined. Provisions for estimated losses on all uncompleted contracts are made in the period in which such losses are determined. Claims for additional contract compensation are only reflected in revenue to the extent that realization is probable and can be reliably estimated.

(j) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement and income tax basis of assets and liabilities. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date.

(k) *Stock Based Compensation Plan*

The Company has a stock based compensation plan. All stock based compensation awards, granted on or before January 1, 2002, are measured and recognized based on the fair value of the awards and expensed in the financial statements. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital. No expense has been recognized for stock options granted prior to January 1, 2002.

(l) *Translation of Foreign Currency*

Foreign currency transactions are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At each reporting period end, monetary assets and liabilities denominated in foreign currencies are converted to Canadian dollars at rates of exchange prevailing at that date. Foreign exchange gains and losses are included in the determination of earnings.

The Company's investments in its self-sustaining United States subsidiaries are translated using the current rate method.

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

(m) Earnings Per Share

Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding during each reporting period. Shares issued during the year and shares reacquired during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(n) Accounting for the Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed by sale are reported at the lower of carrying amount or fair value less costs to sell.

2. Accounting Policy Changes

Accounting guideline AcG-15, Consolidation of Variable Interest Entities, has been reviewed and determined to have no material impact on the Company's consolidated financial statements. AcG-15 became effective on January 1, 2005.

Effective March 31, 2004, the Company changed its accounting policy relating to segment disclosures such that the previously reported Facility Infrastructure and Transportation Systems operating segments were aggregated into the Facility Infrastructure operating segment, due to the similar nature and manner in which the two segments are managed. The Company now reports operations under two operating segments, Production Services and Facility Infrastructure. The policy was applied retroactively with restatement of prior periods.

Effective January 1, 2004, the Company changed its accounting policy related to stock-based compensation and other stock-based payments as required by Section 3870 of the CICA Handbook. Section 3870 requires all stock-based compensation awards granted after January 1, 2002 to be measured and recognized based on the fair value of the awards and expensed in the financial statements. No expense is recognized for stock options granted prior to January 1, 2002. This change in accounting policy was applied retroactively with restatement of prior periods, resulting in \$2,375 of retained earnings as at December 31, 2003 being appropriated to contributed surplus.

3. Business Combinations

On October 31, 2005, the Company acquired 49% of the outstanding common stock of Mackenzie Valley Construction Ltd., a construction and oil and gas production and maintenance services company in Inuvik, Northwest Territories. These financial statements include the results of operations of this investment since the date of acquisition. This investment is being accounted for as a joint venture.

The table below details the purchase price and the Company's share of net assets and goodwill related to the acquisition.

Net assets acquired:	
Cash	\$ 1,089
Working capital	514
Property, plant and equipment	6,240
Goodwill	420
Long-term debt	(501)
Future income taxes	(1,349)
Cash consideration provided	\$ 6,413

The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets, thus the allocation of the purchase price is subject to refinement.

Goodwill resulting from the Mackenzie Valley Construction Ltd. acquisition is not deductible for income tax purposes.

In 2005, based on the completion of meeting targets contained in a performance agreement, an additional \$206 payment was paid to the former owners of Western Slope Oilfield, Inc. The \$206 payment has been accounted for as an addition to Goodwill in 2005.

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

Summary of net cash consideration paid in 2005 is as follows:

Mackenzie Valley Construction Ltd.	\$	6,413
Western Slope Oilfield, Inc.		206
		6,619
Cash acquired		(1,089)
	\$	5,530

During the year ended December 31, 2004, the Company's United States subsidiary, Flint Energy Services, Inc., acquired all of the outstanding common stock of Western Slope Oilfield, Inc. (Western Slope), an oil and gas production and maintenance services company in Colorado.

The table below details the purchase price, net assets and goodwill related to the acquisition.

Net assets acquired:		
Cash	\$	30
Working Capital		606
Property, plant and equipment		1,407
Goodwill		2,024
Long-term debt		(319)
Future income taxes		(211)
	\$	3,537

Consideration given was comprised of the following:

Cash	\$	1,929
Common Shares (30,726 common shares)		643
Seller's Notes		965
	\$	3,537

Goodwill resulting from the Western Slope acquisition is deductible for income tax purposes in the Company's United States subsidiary, Flint Energy Services, Inc.

During the year ended December 31, 2004, 42,016 common shares were issued related to the 2002 acquisition of Cantu Lease, Inc. (Cantu). The full cost of the acquisition was recorded in 2002 and no additional acquisition costs were recorded as a result of the issuance of these shares.

4. Investment in joint venture

A financial summary of the Company's investment in Mackenzie Valley Construction Ltd. as at December 31, 2005 on a proportionately consolidated basis is as follows:

Current assets	\$	2,184
Long-term assets		6,527
Current liabilities		984
Long-term liabilities		1,470
Revenue		550
Direct costs, general and administrative, amortization, interest, income taxes		726
Net loss		176
Cash used by operating activities		321
Cash used by investing activities		4
Cash used by financing activities		69

5. Inventories

	2005	2004
Raw materials	\$ 12,080	\$ 12,418
Work in progress	5,436	4,460
Finished goods	5,281	4,873
	\$ 22,797	\$ 21,751

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

6. Pension Plan

The Company has a defined contribution pension plan for salaried employees, which provides for a guaranteed contribution of 5% of participant earnings. The Company funded contributions of \$2,155 for the year ended December 31, 2005 (2004 - \$2,396).

7. Property, Plant and Equipment

December 31, 2005	Cost	Accumulated Amortization	Net Book Value
Land	\$ 10,575	\$ -	\$ 10,575
Buildings and improvements	41,955	11,098	30,857
Construction and automotive equipment	214,873	99,018	115,855
Office furniture and equipment	31,363	14,316	17,047
Construction and automotive equipment under construction	5,687	-	5,687
	\$ 304,453	\$ 124,432	\$ 180,021

December 31, 2004	Cost	Accumulated Amortization	Net Book Value
Land	\$ 7,519	\$ -	\$ 7,519
Buildings and improvements	38,363	8,588	29,775
Construction and automotive equipment	202,384	87,661	114,723
Office furniture and equipment	29,404	10,550	18,854
	\$ 277,670	\$ 106,799	\$ 170,871

Included in Construction and automotive equipment is \$7,058 (2004 - \$7,364) of assets under capital lease and \$1,342 (2004 - \$770) of accumulated depreciation for a net book value of \$5,716 (2004 - \$6,594).

8. Long-Term Debt

	2005	2004
Revolving operating loan, interest at Cdn. bank prime plus 0.25% to 1.25% depending upon certain financial ratios, payable monthly in arrears, earliest date principal could be due is May 11, 2006	\$ 70,000	\$ 70,000
U.S. dollar revolving operating loan, interest at U.S. bank prime plus 0.25% to 1.25% or LIBOR plus 1.25% to 2.25% depending on certain financial ratios, payable monthly in arrears, earliest date principal could be due is May 11, 2006	3,256	6,198
Term loans, interest at 8.38% to 8.68% depending upon certain financial ratios, payable monthly in arrears, principal payable in quarterly installments of \$938 starting in 2008, with the balance due November 15, 2011	20,000	20,000
Term loans, interest at 7.57%, payable monthly in arrears, principal payable in quarterly installments of \$1,219 starting in 2008, with the balance due April 30, 2011	26,000	26,000
Term loans, interest at 7.57%, payable monthly in arrears, no principal payments, with the balance due April 30, 2011	49,000	49,000
U.S. dollar term loans, interest at 7.77%, payable monthly in arrears, no principal payments, with the balance due April 30, 2011	29,075	30,050
U.S. dollar term loans, interest at U.S. bank prime plus 0.50% to 1.50% or LIBOR plus 1.75% to 2.75% depending on certain financial ratios, payable monthly in arrears, principal payable in quarterly installments of U.S. \$250, with the balance due July 30, 2009	10,176	11,720
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$12,671, interest varying from 0.00% to 7.75%, with terms varying up to 36 months	9,081	9,707
Other debt	291	601
	216,879	223,276
Less current portion	5,408	5,770
	\$ 211,471	\$ 217,506

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

(a) *Terms and Security:*

Maximum available credit under the Canadian and United States revolving operating loans is \$115,000 Cdn. and \$10,000 U.S., respectively (subject to accounts receivable margining) and \$95,000 Cdn. and \$35,000 U.S. under the term loans. Revolving loans are renewed in May of each year for the following year and an additional one-year period.

The Company has provided a first charge over all assets under a General Security Agreement as security for the revolving operating loans and the term loans. The Company has also provided a general assignment of book debts, a first charge over all real property assets, pledged all shares of its subsidiaries and an assignment of insurance. The credit facilities require the Company to meet certain covenants. The Company was in compliance with these covenants at December 31, 2005 and 2004.

During 2004, the Company entered into a new credit agreement with its existing syndicate of Canadian and United States financial institutions and three new financial institutions to provide the revolving and term loans described above. Under the terms of the credit agreement, the Canadian financial institutions provide the Canadian dollar denominated funds with the United States financial institutions providing the United States dollar denominated funds.

In 2004 the company entered into a new credit agreement and repaid in full previous term facilities with the funds from the new credit facilities. In connection with the debt restructuring, the Company recorded a \$2,062 charge in 2004, which included expensing the remaining balance of any deferred costs and early repayment fees incurred relative to the term-debt under the previous credit agreement in addition to certain fees incurred relative to the term-debt under the new credit agreement.

Interest expense on long-term debt was \$14,889 for the year ended December 31, 2005 (2004 - \$13,358).

(b) *Principal payments are due as follows:*

2006	\$	5,408
2007 – term debt		3,560
2007 – revolving debt		73,257
2008		11,061
2009		10,773
2010		10,259
Thereafter		102,561
	\$	216,879

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

9. Income Taxes

- (a) The tax effects that give rise to significant portions of the future income tax assets and liabilities are presented below:

	2005	2004
Future income tax assets:		
Current:		
Contract retentions payable and accrued liabilities	\$ 1,394	\$ 230
Billings in excess of revenue	1,054	344
Losses and surtaxes carried forward	16	87
Total current future income tax assets	2,464	661
Non-current:		
Property, plant and equipment principally due to differences in cost and depreciation	334	361
Intangible assets	484	54
Total non-current future income tax assets	818	415
Future income tax liabilities:		
Current:		
Contract retentions receivable	493	522
Deferred partnership income	5,400	603
Total current future income tax liabilities	5,893	1,125
Non-current:		
Property, plant and equipment principally due to differences in cost and depreciation	26,427	27,125
Intangible assets	1,304	760
Other assets	144	121
Total non-current future income tax liabilities	27,875	28,006
Net future income tax liabilities	30,486	28,055

In assessing whether the future tax assets are realizable, management considers whether it is more likely than not that some portion or all the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon projections for future taxable income, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the future tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

- (b) Actual income tax expense differs from the "expected" income tax expense that would have been computed by applying the statutory income tax rates as follows:

Years ended December 31	2005	2004
Federal, provincial and state statutory income tax rates	33.6%	33.6%
Expected income tax expense	\$ 23,085	\$ 6,791
Changes in income tax expense resulting from:		
Jurisdictional tax rate differences	(1,103)	(1,362)
Non-deductible items	975	1,340
Changes in tax rates impacting future income tax balances	132	(1,054)
Other	(128)	(406)
Actual income tax expense	\$ 22,961	\$ 5,309

FLINT ENERGY SERVICES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts stated in thousands of Canadian dollars, except share data)

10. Capital Stock

(a) Issued Capital Stock:

Authorized:

- Unlimited Class A common voting shares
- Unlimited Class B common voting shares
- Unlimited number of redeemable convertible preferred shares

Issued:

	Class A Common Shares	Amount
Balances at December 31, 2003	16,311,477	\$ 192,531
Shares issued in conjunction with:		
Exercised employee stock options	202,738	2,679
Transfer from contributed surplus for stock options exercised (Note 11)	-	76
Completion of Cantu 's performance agreement (Note 3)	42,016	-
Acquisition of Western Slope (Note 3)	30,726	643
Balances at December 31, 2004	16,586,957	\$ 195,929
Shares issued in conjunction with:		
Exercised employee stock options	280,469	5,742
Transfer from contributed surplus for stock options exercised (Note 11)	-	1,579
Balances at December 31, 2005	16,867,426	\$ 203,250

In computing diluted earnings per share, there were 205,626 stock options included in the diluted number of common shares for the year ended December 31, 2005 (41,550 stock options were included in 2004).

(b) Stock Based Compensation Plan:

The Company has an incentive stock option plan for certain employees, officers and directors. Options issued under the plan vest at a rate of 1/3 on the 3 subsequent award date anniversaries, except for 150,000 options which vest 1 year after their award date. All the options must be exercised over specified periods not to exceed 5 years from the date granted. At December 31, 2005 170,120 common shares remained reserved for issuance under the option plan.

Options	Shares	2005		2004	
		Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Outstanding at beginning of year	832,207	\$ 21.74	781,900	\$ 19.12	-
Granted	290,000	\$ 25.27	307,000	\$ 22.93	-
Cancelled	(30,336)	\$ 22.75	(53,955)	\$ 22.69	-
Exercised	(280,469)	\$ 20.48	(202,738)	\$ 13.21	-
Outstanding at end of year	811,402	\$ 23.40	832,207	\$ 21.74	-
Options exercisable at end of year	339,893	\$ 22.38	340,862	\$ 20.71	-

Exercise Prices as at December 31, 2005	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$17.50	5,000	0.01	\$ 17.50	5,000	\$ 17.50
\$20.50	16,667	3.77	\$ 20.50	-	\$ 20.50
\$21.37	171,200	2.15	\$ 21.37	83,031	\$ 21.37
\$22.00	75,000	4.05	\$ 22.00	75,000	\$ 22.00
\$23.00	126,200	1.26	\$ 23.00	126,200	\$ 23.00
\$23.14	211,335	3.15	\$ 23.14	40,662	\$ 23.14
\$25.00	176,000	4.19	\$ 25.00	10,000	\$ 25.00
\$25.50	5,000	4.51	\$ 25.50	-	\$ 25.50
\$37.00	25,000	4.89	\$ 37.00	-	\$ 37.00
	811,402	3.01	\$ 23.40	339,893	\$ 22.38

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The fair value of common share options is estimated as at the grant date using the Black-Scholes option-pricing model, with the following weighted-average assumptions:

	2005	2004
Risk-free interest rate	4.0%	4.8%
Expected life	4.7 years	5 years
Expected volatility	31%	37%
Expected dividends	\$ -	\$ -

11. Contributed Surplus

For stock options granted to employees, officers and directors after January 1, 2002, the Company records compensation expense using the fair value method as outlined in Note 10 (b). Compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital.

	2005	2004
Balance at beginning of year	\$ 4,256	\$ 2,375
Stock-based compensation expense	2,801	1,957
Stock-options exercised	(1,579)	(76)
Balance at end of year	\$ 5,478	\$ 4,256

12. Cumulative Translation Account

Exchange gains and losses arising from the translation of the financial statements of the Company's self-sustaining foreign operations are deferred and included in the cumulative translation account. When there is a reduction in the Company's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation account is included in the determination of consolidated net earnings.

Significant changes in the cumulative translation account are as follows:

	2005	2004
Balance at beginning of year	\$ (12,306)	\$ (8,585)
Effect of exchange rate changes during the year	(1,780)	(3,721)
Balance at end of year	\$ (14,086)	\$ (12,306)

13. Related Party Transactions

All transactions are provided in the normal course of business at exchange amounts agreed upon by the related parties. Related party transactions include transactions with parties that are related by equity investment, parties related by common directors and transactions with other private companies owned or controlled by officers or directors.

	2005	2004
Revenue:		
Transportation and supply of materials	\$ 3	\$ 51
Expenses:		
Transportation and supply of materials reported in direct costs	\$ 174	\$ 118
Information system support reported in general and administrative expenses	404	565
	\$ 578	\$ 683
Accounts payable at end of year	\$ 59	\$ 34

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14. Commitments and Contingencies

Future minimum annual operating lease payments for construction equipment, vehicles, office equipment and premises are as follows:

2006	\$	18,022
2007		14,303
2008		10,141
2009		5,781
2010		2,028
Thereafter		-
	\$	50,275

The vehicle leases are at normal commercial terms. Following the end of the minimum lease terms, the Company has the option to rent the vehicles on a month-to-month basis or return them to the lessors. Under the commercial lease terms, the Company has provided the lessors with residual value guarantees. At December 31, 2005, the undiscounted maximum amount of potential future payments under these guarantees aggregate to approximately \$24,328 (2004 - \$8,421). The Company does not expect these amounts to have a material impact on the financial position or the results of the Company in the future.

At December 31, 2005, the Company was involved in various legal claims related to the normal course of operations. Management believes that it has adequately provided for these legal claims.

15. Financial Instruments

(a) Risk Management

(i) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of accounts receivable. The Company's customer base consists primarily of major international oil and energy transmission companies. The Company provides allowances for credit losses in the period in which anticipated losses become known.

One customer represents 18% (2004 - 21%) of the total balance of the Company's accounts receivable and unbilled revenue. There are no other single customers with a balance greater than 10% of the total of accounts receivable and unbilled revenue.

(ii) Interest Rates

The Company manages its exposure to interest rate risks through a combination of fixed and floating rate borrowings to finance its operations. The Company attempts to further minimize this exposure by purchasing banker's acceptance notes to lower its effective cost of borrowing.

At December 31, 2005, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$819 (2004 - \$879).

(iii) Foreign Currency

The Company is exposed to foreign currency fluctuations in relation to its operations in the United States. Management believes this exposure is not material given that the United States operations are self-sufficient and self-funding since the cash flow from operations is used to settle all debt arising from operations or from the expansion of the United States operations.

(iv) Market Risk

The Company's customers are primarily engaged in the business of exploring for and producing oil and natural gas in Canada and the United States. The financial well being of these companies is affected by the price of these commodities.

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(b) Fair Value of Financial Instruments

The fair value of financial instruments, other than long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments.

The estimated fair value of long-term debt has been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates that would be available to the Company at year-end. At December 31, 2005 the fair value is determined to be approximately \$214,692 (2004 - \$220,057).

16. Change in Non-Cash Balances Relating to Operations

	2005	2004
Accounts receivable	\$ (34,140)	\$ (40,428)
Revenue in excess of billings	(56,026)	(22,898)
Inventories	(814)	(10,055)
Income taxes receivable	5,895	(6,139)
Prepays and other current assets	(1,070)	(160)
Other assets	277	3
Accounts payable and accrued liabilities	40,127	15,953
Billings in excess of revenue	1,893	90
Income taxes payable	10,986	(4,314)
	\$ (32,872)	\$ (67,948)

17. Segmented Information

The Company operates in two operating segments: Production Services and Facility Infrastructure. Production Services provides smaller-inch pipeline work, day-to-day field facility installation and maintenance services, as well as electrical, instrumentation, mechanical, safety, pressure and vacuum, fluid hauling and plant shutdown and turnaround services. Facility Infrastructure provides services such as the installation of natural gas or heavy oil processing sites, oil and natural gas gathering system and transmission pipeline design and installation services using steel, fiberglass and plastic lines ranging from 10 to 30 inches in diameter, the assembly of oil and natural gas process piping and equipment, design, engineering, and manufacture and distribution of oilfield production equipment. Accounting policies of the segments are the same as those disclosed in Note 1.

	Production Services	Facility Infrastructure	Total
Year ended December 31, 2005			
Revenue	\$ 602,026	\$ 429,119	\$ 1,031,145
EBITDA ¹	71,863	43,026	114,889
Amortization			28,494
Earnings from operations			83,594
Capital expenditures	26,231	11,381	37,612
Additions to goodwill	626	-	626
Goodwill	145,124	53,052	198,176
Total assets	463,029	271,427	734,456
Year ended December 31, 2004			
Revenue	\$ 512,529	\$ 231,312	\$ 743,841
EBITDA ¹	50,963	18,819	69,782
Amortization			32,195
Earnings from operations			35,630
Capital expenditures	25,218	10,433	35,651
Additions to goodwill	2,024	-	2,024
Goodwill	145,168	53,252	198,420
Total assets	402,552	227,166	629,718

Revenue from the Company's two largest customers, including their affiliated entities, accounted for approximately 19.2% and 10.2% of total consolidated revenues for the year ended December 31, 2005 (18.0% and 8.8% for year ended December 31, 2004). Both the Facility Infrastructure and Production Services operating segments performed work for the Company's two largest customers, with the Facility Infrastructure segment earning the majority of the revenue from the Company's largest customer and the Production Services segment earning most of the revenue from the second largest of the Company's customers.

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

	Canada	United States	Total
Year ended December 31, 2005			
Revenue	\$ 760,313	\$ 270,832	\$ 1,031,145
Property, plant and equipment	146,502	33,519	180,021
Goodwill	163,324	34,852	198,176
Total assets	588,025	146,431	734,456
Year ended December 31, 2004			
Revenue	\$ 540,290	\$ 203,551	\$ 743,841
Property, plant and equipment	140,012	30,859	170,871
Goodwill	162,904	35,516	198,420
Total assets	508,367	121,351	629,718

¹ In addition to providing earnings measures in accordance with GAAP, the Company presents EBITDA as a supplemental earnings measure as it is used by the chief operating decision makers of the Company to measure operating segment profitability. EBITDA is equal to earnings before interest, taxes, depreciation, amortization and stock based compensation. In 2004 EBITDA also includes the add back of debt restructuring costs. Management uses EBITDA to establish performance benchmarks for incentive compensation for employees, to evaluate the performance of its operating segments, and in valuing existing operations to determine potential goodwill impairment. EBITDA is a non-GAAP financial measure that does not have any standardized meaning prescribed by GAAP, and may not be comparable to similar measures presented by other issuers.

18. Comparative Information

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