



FLINT ENERGY SERVICES LTD.

INTEGRATED. INTEGRAL.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis for Flint Energy Services Ltd. (Flint or the Company) should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars.

Flint provides a full range of integrated midstream services to oil and natural gas producers through 46 locations in Western Canada, and the Southern and Rocky Mountain regions of the United States. These services are offered through two operating segments: Production Services and Facility Infrastructure. Production Services provides mid-stream production and maintenance services to oil and natural gas producers. Facility Infrastructure provides large project planning, fabrication, modularized assembly, mid inch diameter pipeline construction and installation, and field installation services.

Consolidated Annual Financial Results

Flint's net earnings for the year ended December 31, 2005 were \$45.7 million (\$2.70 per common share – diluted) compared to \$14.9 million (\$0.90 per common share – diluted) in 2004. The increase in net earnings resulted from a 38.6% increase in revenue to \$1,031.1 million from \$743.8 million in 2004, while gross margins were maintained at levels similar to 2004.

In the fourth quarter of 2005 Flint's Production Service operating segment purchased a 49% interest in Mackenzie Valley Construction Ltd. (MVC), a construction and oil and gas production and maintenance service company in Inuvik, Northwest Territories. The acquisition aligns Flint's interest with the Gwich'in Development Corporation, which owns the remaining 51% interest in MVC and strategically positions Flint to perform work in conjunction with Aboriginal people in the Mackenzie Delta, an area that the Mackenzie Valley pipeline is anticipated to be constructed. The effective date of the acquisition was October 31, 2005. MVC is a joint venture and proportionally consolidated into Flint's financial statements. The impact of the proportionate consolidation of MVC is described in the notes to the 2005 fiscal year consolidated financial statements. The impact of the proportionate consolidation of MVC does not have a material impact on the Company's consolidated financial statements.

Summary of Consolidated Financial Results

(\$ millions, except per share data)

	2005		2004		2003	
					Restated ¹	
Revenue	\$1031.1	100.0%	\$743.8	100.0%	\$651.2	100.0%
Direct costs	829.2	80.4	596.5	80.2	513.4	78.8
Gross profit	201.9	19.6	147.3	19.8	137.8	21.2
General & administrative expense	87.0	8.4	77.5	10.4	69.4	10.6
Stock based compensation expense	2.8	0.3	2.0	0.3	1.7	0.3
Amortization	28.5	2.8	32.2	4.3	28.1	4.3
Earnings from operations	83.6	8.1	35.6	4.8	38.6	5.9
Interest	14.9	1.4	13.3	1.8	10.6	1.6
Debt restructuring costs	-	-	2.1	0.3	-	0.0
Earnings before income taxes	68.7	6.7	20.2	2.7	28.0	4.3
Income taxes	23.0	2.2	5.3	0.7	7.8	1.2
Net earnings	45.7	4.5%	14.9	2.0%	20.2	3.1%
per common share – basic	2.73		0.90		1.24	
per common share – diluted	2.70		0.90		1.23	
Total assets	734.5		629.7		554.0	
Total long-term liabilities	239.3		245.5		182.2	

¹ Restated to reflect adoption of accounting policy to expense stock-based compensation as disclosed in the Company's Note 2 to the Consolidated Financial Statements.

Revenue

Revenue for the year ended December 31, 2005 was \$1,031.1 million compared to \$743.8 million in 2004. The Facility Infrastructure operating segment contributed 68.8% of the \$287.3 million increase in revenue as a result of the successful execution of the backlog of work related to oilsands development, an increase in mid-inch pipeline projects derived from customers with whom the Company has preferred contract arrangements, and increases in the sale of natural gas processing units in the United States. The remaining 31.2% increase in revenue was due to increases from both Canadian and United States Production Services activity levels, as customer demand increased in both geographic segments.

Direct Costs

Direct costs for the year ended December 31, 2005 were \$829.2 million compared to \$596.5 million in 2004. The increase is a direct result of higher activity, which resulted in higher revenue in 2005. Gross margin remained relatively constant at 19.6% in 2005 against 19.8% in 2004. Increases in Production Services' gross margins achieved through price increases throughout the year were offset by a larger percentage of revenue being derived from cost-plus oilsands development projects, which receive lower overall gross margins due to the lower risk for the Company operating under this type of contractual arrangement. In 2005, cost-plus oilsands revenue accounted for 28.1% of total revenues compared to 20.0% in 2004. Included in direct costs in 2005 is \$0.5 million related to the Company's 49% interest in MVC for the last two months of 2005.

General and Administrative

General and administrative expenses for the year ended December 31, 2005 were \$87.0 million compared to \$77.5 million in 2004. The \$9.5 million increase resulted from increasing support personnel required to manage the 38.6% increase in revenue, the start up and incremental cost of opening new field service locations in Hobbs, New Mexico, Bridgeport and Cleburne, Texas, Strathmore, Alberta, and a Safety Services office in Fort St. John, British Columbia. In addition, most performance targets contained in the Company's incentive compensation programs were exceeded in the fourth quarter of 2005, resulting in additional bonus accruals. The Company also incurred the cost of expanded employee retention programs to assist in attracting and retaining employees in a very competitive market place. As well, an incremental increase in compliance costs was incurred as the Company established a full time internal audit program and entered into the initial phases of compliance work to meet the requirements of Bill C-198 with respect to disclosure and internal controls.

Stock Based Compensation Expenses

Stock based compensation increased in 2005 to \$2.8 million from \$2.0 million in 2004 due to the issuance of 290,000 options through the year.

Amortization

Amortization expense for the year ended December 31, 2005 was \$28.5 million compared to \$32.2 million in 2004 as a result of the Company continuing to dispose of older equipment that bore a high rate of amortization, particularly assets secured through business acquisitions made in prior years. The disposal of the older equipment was driven by the Company's plan to reduce the Company's repair and maintenance costs and to increase productivity in the field.

Interest Expense

Interest expense for the year ended December 31, 2005 was \$14.9 million compared to \$13.3 million in 2004. Most of the company's interest bearing debt is at fixed rates and had limited reductions in principal year-over-year. The \$1.6 million annual increase in interest is due to, on average, a higher utilization of operating line facilities required to support a higher net working capital balance needed for the Company's increased level of activity.

Income Taxes

Income tax expense for the year ended December 31, 2005 was \$23.0 million compared to \$5.3 million in 2004. The increase is reflective of the higher level of earnings before income tax, as the average income tax rate incurred by the Company did not significantly change year-over-year.

Consolidated Financial Position

Consolidated total assets increased in 2005 to \$734.5 million at December 31, 2005 from \$629.7 million at December 31, 2004. The primary increase in assets was due to an increase in unbilled revenue and accounts receivable, which have grown in conjunction with the increase in revenue from all of the Company's operating segments.

Consolidated total liabilities increased by \$52.3 million to \$379.8 million at December 31, 2005 from \$327.5 million at December 31, 2004, primarily as a result of an increase in accounts payable relating to the increase in overall business activity and an increase in corporate income taxes payable.

Cash increased by \$7.3 million to \$10.5 million at December 31, 2005 from \$3.2 million at the end of 2004 due to the timing of drawing down operating lines. Cash receipts received in the last business days of 2005 were not used to draw down operating lines until the first week of 2006, as a notice period is required to facilitate drawdown.

Accounts receivable increased by \$34.8 million to \$205.3 million at December 31, 2005 from \$170.5 million at the end of the prior year. The increase primarily resulted from higher revenues in the fourth quarter of 2005 as compared to the fourth quarter of 2004.

Revenue in excess of billings and work-in-progress increased by \$56.1 million to \$104.4 million at December 31, 2005 from \$48.3 million at the end of the prior year. The increase primarily resulted from higher activity levels in the fourth quarter relative to last year, and the timing of project billings on oilsands related work.

Inventory levels increased by \$1.0 million to \$22.8 million at December 31, 2005 from \$21.8 million at the end of the prior year to due working capital requirements of the Company's United States facility Infrastructure division. The United States Facility Infrastructure division primary business is the manufacture and sale of oil and gas production equipment. This division held 82.3% of the inventory as at December 31, 2005.

Prepaid expenses and other current assets increased by \$1.4 million to \$7.4 million at December 31, 2005 as compared to December 31, 2004 due to the Company electing to make a lump sum payment for insurance premiums for the policy year beginning in November 2005. In 2004 a portion of the premiums were paid on a quarterly basis.

Property, plant and equipment increased by \$9.1 million to \$180.0 million at December 31, 2005 from \$170.9 million at the end of the prior year. The increase is due to the purchase of construction related equipment in 2005 and due to the proportionate consolidation of MVC, which adds \$6.2 million of property, plant and equipment. Amortization was lower than the net addition of capital assets in 2005.

Accounts payable and accrued liabilities increased by \$41.1 million to \$115.0 million at December 31, 2005 from \$73.9 million at the end of the prior year. The increase primarily resulted from increased activity in the fourth quarter of the fiscal year relative to last year.

At December 31, 2005 the Company's income taxes payable is \$11.0 million and income taxes receivable is \$0.2 million compared to no income taxes payable and an income tax receivable of \$6.1 million at December 31, 2004. The income tax receivable related to 2004 was collected during 2005 and the income taxes receivable balance at the end of 2005 relates to higher than required tax installments for the Company's 49% interest in Mackenzie Valley Construction Ltd., which was acquired on October 31, 2005. The income taxes payable balance at the end of 2005 relates to required tax installments in 2005 being lower than the accrual of current income taxes. The income taxes payable of \$11.0 million is required to be paid by February 28, 2006.

Long-term debt including current portion declined by \$6.4 million to \$216.9 million at December 31, 2005 compared to \$223.3 million at the end of 2004 as a result of lower operating line utilization. Long-term debt includes operating debt as the facility has a 364-day term with an automatic one-year renewal. The operating line is renewed in May of each year.

In 2005, the Company's cumulative translation account increased to \$14.1 million from \$12.3 million in 2004 due to unrealized foreign exchange losses resulting from translation of the financial statements of the Company's self-sustaining United States operations to Canadian dollars.

Consolidated Fourth Quarter Financial Results

Net earnings for the quarter ended December 31, 2005 were \$11.6 million on revenue of \$292.8 million compared to net earnings of \$5.2 million on revenue of \$205.4 million for the comparative quarter in 2004. Funds provided by operations before changes in non-cash working capital for the three-month period were \$21.1 million compared to \$19.7 million for the comparative period in 2004. Diluted earnings per share for the fourth quarter of 2005 increased to \$0.68 from \$0.31 for the comparative quarter in 2004.

The primary reason for the quarter's higher net earnings is an \$87.4 million or 42.6% fourth quarter year-over-year increase in revenue. The Company's Facility Infrastructure business segment contributed 58.7% of the \$87.4 million increase in revenue with 37.3% of the \$87.4 million increase being derived from oilsands project work due to the continued successful execution of Flint's backlog of work in this area, 14.7% of the \$87.4 million increase is due to an increase in 10 to 24 inch (mid-inch) pipeline installation work and 6.7% of the \$87.4 million increase related to the sale of production equipment in the United States.

The remaining 41.3% of the total increase in revenue relates to increased demand for the Company's Production Services Operating Segment in both Canada and the United States.

Fourth quarter consolidated gross margin of 19.3% is consistent with the prior year's 19.3% gross margin. The impact of price increases in the Production Services operating segment were tempered by an increase in the percentage of work derived from cost plus oilsands projects which receive lower overall gross margins due to the lower risk for the Company operating under this type of contractual arrangement.

The combination of overall fourth quarter margins and higher revenue resulted in gross profit being \$17.0 million or 43.0% higher compared to the fourth quarter of 2004.

Quarterly Information

(\$ millions, except per share data)

	2005				2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	292.8	247.5	237.3	253.5	\$205.4	\$187.8	\$172.0	\$178.6
Net earnings	11.6	11.8	8.7	13.7	5.2	4.7	(1.6)	6.6
per common share-basic	0.69	0.70	0.52	0.82	0.31	0.29	(0.10)	0.40
per common share-diluted	0.68	0.69	0.52	0.82	0.31	0.29	(0.10)	0.40

A number of factors contribute to variations in the Company's results between periods such as weather, customer capital spending affected by oil and natural gas commodity prices, seasonal behaviors in customer spending such as plant shutdown work, the Company's ability to manage its project related business so as to avoid or minimize periods of relative inactivity due to breaks in between projects, and changes within the Company's service offerings as it strives to find the optimum portfolio of services to meet customer needs and maximize shareholder return.

Certain of the Company's business lines relate to the maintenance and operation of oilfield facilities, producing generally consistent revenues, while other business lines relate to large projects, potentially resulting in inconsistent revenue streams over a period of time. While a significant amount of the business activity related to the maintenance and operation of oilfield facilities is under long-term contract, the work is still primarily call-out related and provided on an as needed basis and therefore does not generate a perfectly consistent revenue stream between periods.

As Flint has United States operations, the Company's consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of its United States operations to Canadian dollars. In 2005 26.3% (2004 – 27.4%) of the Company's business activity is in the United States. The fluctuation in the United States to Canadian exchange rate between periods has not had a significant effect on the results of the Company.

Increases in revenue, in the most recent quarters, are primarily due to securing contracts related to oilsands development and from increased demand for the Company's services from customers who are developing natural gas reserves. All four quarters of 2005 had the highest revenue for those respective quarters since the Company became publicly traded. The diluted earnings per share figures for each of the four quarters of 2005 were also the highest levels achieved by the Company. The loss incurred in the second quarter of 2004 was primarily a result of underperformance on certain mid-inch pipeline projects, and expensing of deferred finance charges upon the renegotiation of the Company's credit facilities.

Results of Operations

The 2005 consolidated revenue for the Company increased by 38.6% to \$1,031.1 million as compared to the \$743.8 million of revenue earned in the 2004 fiscal year. As a direct result of the higher revenue, earnings before interest, taxes, depreciation, amortization and stock based compensation (EBITDA) increased by 69.5% to \$114.9 million in 2005 from the \$67.8 million earned in 2004, as general and administrative expenses were not required to increase at the same rate as revenue and margins earned.

Of the \$287.3 million increase in revenue in 2005 from 2004, 68.8% was from the Facility Infrastructure business segment. The increase was derived from the successful execution of the backlog of work related to oilsands development, an increase in mid-inch pipeline projects derived from customers with whom the Company has preferred contract arrangements, and increases in the sale of natural gas processing units in the United States. The remaining 31.2% increase in revenue was due to increases from both Canadian and United States Production Services activity levels, as customer demand increased in both geographic segments.

Selected Segmented Annual Information

(\$ millions)

	2005		2004		2003	
					Restated ¹	
Revenue by operating segment						
Production Services	\$ 602.0	58.4%	\$512.5	68.9%	\$ 485.4	74.5%
Facility Infrastructure	429.1	41.6	231.3	31.1	165.8	25.5
Total	\$1,031.1	100.0%	\$743.8	100.0%	\$ 651.2	100.0%
EBITDA² by operating segment						
Production Services	\$ 71.9	62.6%	\$51.0	73.1%	\$50.9	74.4%
Facility Infrastructure	43.0	37.4	18.8	26.9	17.5	25.6
Total	\$ 114.9	100.0%	\$69.8	100.0%	\$68.4	100.0%

¹ Restated to reflect adoption of accounting policy to expense stock-based compensation as disclosed in the Company's Note 2 to the Consolidated Financial Statements.

² 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.

Production Services

The Production Services operating segment 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.

Revenue

Revenue from Production Services operating segment for the year ended December 31, 2005 increased 17.5% to \$602.0 million from \$512.5 million in the prior year. Canadian small-inch pipeline work, safety, and shutdown and turnaround services, and Canadian and United States field facility installation and maintenance work contributed most of the year-over-year increase in revenue for this operating segment. In the United States, a significant increase in right-away clearing, access road building, and well pad construction and tie-ins revenue was also earned. Increases in these service lines were partially offset by decreases in electrical, instrumentation, pressure and vacuum and fluid hauling. Electrical and instrumentation work declined as the Company shifted focus for these service lines to concentrate more on oil and gas customers and away from lower margin commercial work. Customers with heavy oil production reduced their demand for the Company's pressure and vacuum and fluid hauling services.

EBITDA

Production Services' EBITDA increased by 41.0% to \$71.9 million in 2005 from \$51.0 million in 2004 as a result of the higher revenue achieved. Gross margins remained relatively constant year-over-year with increased margins earned by the Canadian Production Services' operating segment due to increasing pricing throughout 2005 and better utilization of equipment and personnel while the United States Production Services operating segment experienced a decline in margins due to a larger component of work coming from lower margin service lines as compared to the prior year and not being able to pass cost increases to customers as quickly as they were incurred. General and administration costs, although increased to support the higher activity in 2005 did not increase on an equivalent percentage basis when compared to revenue.

Facility Infrastructure

The Facility Infrastructure operating segment provides major facility project development services to the energy and natural resources sector, providing a full-cycle approach to all phases of project development from concept and design to fabrication and installation. Customer capital expenditure programs related to large projects have a significant effect on the results of this operating segment by impacting activity levels.

Revenue

Revenue from the Facility Infrastructure operating segment for the year ended December 31, 2005 increased 85.5% to \$429.1 million from \$231.3 million in the prior year. The year-over-year increase in revenue was primarily due to a higher volume of project related work associated with the development of Alberta's heavy oil deposits. Revenue from oilsands projects was higher than anticipated at the beginning of the year as the scope of some projects increased, and progress on other large projects have been ahead of what was initially anticipated, most notably certain segments of the Long Lake project for Opti Canada Inc. and Nexen Inc.

The manufacture and sale of processing equipment from the Company's United States Facility Infrastructure operations also contributed to the year-over-year increase in revenue as customers from the Southern and Rocky Mountain regions of the United States increased their orders for this segment's products. Facility Infrastructure also performed more mid-inch pipeline work in 2005 as compared to 2004 primarily due to increased projects being initiated by customers for which the Company has established strategic relationships.

Despite the higher revenues in 2005 for Facility Infrastructure at December 31, 2005, the backlog of work for this operating segment did not significantly change from the approximate \$700 million backlog held at December 31, 2004. The 2005 backlog of work is anticipated to further increase revenues for the Company in 2006 given the scope of work will primarily relate to projects that are mid-way through existing projects and schedules are more clearly established by the customer. As a percentage, not as large an increase in revenue is anticipated in 2006 as the Company's existing capacity to manage additional projects is approaching peak levels. The Company is looking at alternatives to increase its capacity.

EBITDA

Facility Infrastructure's EBITDA increased by 128.7% to \$43.0 million for the year ended December 31, 2005 from \$18.8 million in 2004. The increase is a result of higher activity levels in 2005 compared to 2004. Gross margins decreased year-over-year as a higher proportion of this operating segment's revenue was derived from cost plus type contracts, that although have typically lower margins also have lower inherent risk for the Company. Although general and administrative costs for this operating segment increased, as a percentage of sales these costs are lower as compared to the prior year and therefore did not result in as significant an erosion in EBITDA as in the prior year. In 2004 EBITDA was also negatively impacted by losses on a number of mid-inch pipeline projects. In 2005 no mid-inch pipeline project losses were incurred.

Liquidity and Capital Resources

The Company's principal sources of capital are cash flows from operations and borrowings under its senior credit facility. The Company's principal uses of cash are for the financing of working capital and capital expenditures.

Selected Cash Flow and Capitalization Data

(\$ millions, except ratios)

	2005	2004	2003
Funds provided by operations before changes in non-cash working capital	\$78.2	\$47.2	\$48.9
Cash provided by operating activities	45.4	(20.7)	44.6
Long-term debt, at end of year (including current portion)	216.9	223.3	174.8
Ratios¹			
Debt to total capitalization (%) ²	37.9	42.5	38.0
Cash flow to interest bearing debt (%) ³	36.1	21.1	28.0

¹ Ratios contained in this table do not have any standard meaning under GAAP and may not be comparable to similar statistics published by other companies. The ratios are presented since they are commonly referred to by lenders and other interested parties in evaluating the Company's financial position.

² Debt to total capitalization, expressed as a percentage, is equal to debt divided by total capitalization. Debt is equal to long-term debt including the current portion. Total capitalization is equal to long-term debt including the current portion plus shareholders' equity.

³ Cash flow to interest bearing debt, expressed as a percentage, is equal to cash flow divided by interest bearing debt. Cash flow is equal to funds provided by operations before changes in non-cash working capital. Interest bearing debt is equal to long-term debt including the current portion.

Cash Flow and Liquidity

Funds provided by operations before changes in non-cash working capital for the year ended December 31, 2005 increased by \$31.0 to \$78.2 compared to \$47.2 million for the prior year. The increase primarily resulted from higher net earnings in 2005 as compared to the prior year. Cash provided by operating activities for the year ended December 31, 2005 increased by \$66.1 million to a positive \$45.4 million compared to a negative \$20.7 million for the prior year. The increase is due to net earnings being \$30.8 million higher in 2005 than the prior year net of increases in receivable and unbilled revenue which was partially offset by an increase in the source of cash from increases in accounts payable and accrued liabilities and income taxes payable from December 31, 2004.

At December 31, 2005, the Company's net working capital position was \$212.7 million compared to \$174.7 million at December 31, 2004. The primary increase in net working capital was due to an increase in unbilled revenue and accounts receivable, which have grown in conjunction with the increase in revenue from the Company's operating segments.

The Company decreased its long-term debt position (including current portion) by \$6.4 million as at December 31, 2005 as compared to the balance at December 31, 2004 as a result of lower operating line utilization. Long-term debt includes operating debt as the facility has a 364-day term with an automatic one-year renewal. The operating line is renewed in May of each year.

In 2005, the Company incurred net capital expenditures totaling \$31.4 million, to expand its fleet and replace aging equipment, compared to \$27.7 million in 2004. Included in net capital expenditures in 2005 were \$6.2 million of proceeds on disposal of property, plant and equipment compared to \$7.9 million of proceeds in 2004.

Capital Requirements and Capitalization

At December 31, 2005 the Company has obligations to repay within one year \$5.4 million (2004 - \$5.8 million) of long-term debt and fulfill \$18.0 million (2004 - \$10.2 million) of minimum operating lease payments for vehicles, office equipment, premises and construction equipment required for short durations of time. The Company projects capital expenditures in 2006 to be \$40 million net of proceeds from the sale of equipment being replaced by newer equipment. Capital expenditures are necessary to replace construction equipment, heavy trucks and vehicles as they near the end of their useful lives when it becomes less economical to continue operating the units due to increasing maintenance costs. Although these capital expenditures may be necessary to achieve operating efficiencies, the Company has no obligations to incur them.

The following table presents the Company's future payment obligations:

Contractual Obligations (\$ millions)	Maturity				Total
	Less than 1 year	2 – 3 years	4 – 5 years	In excess of 5 years	
Long-term debt	\$ 5.4	\$ 87.8	\$ 21.1	\$ 102.6	\$ 216.9
Operating leases	18.0	24.4	7.9	-	50.3
Total contractual obligations	\$ 23.4	\$ 112.2	\$ 29.0	\$ 102.6	\$ 267.2

The Company has a senior credit facility that provides available credit totaling \$210 million Canadian and \$45 million U.S. under revolving lines and committed term lines. At December 31, 2005, the Company's debt position, including the current portion of long-term debt, drawn against the credit facility totaled \$207.5 million compared to \$213.0 million at the end of 2004.

In 2006, operating cash flows are expected to be the major source of funds from which the Company's debt repayment obligations, operating lease payment obligations and capital expenditure program will be funded.

Outstanding Share Data

The Company is authorized to issue an unlimited number of Class A common voting shares, an unlimited number of Class B common voting shares and an unlimited number of redeemable convertible preferred shares. As at December 31, 2005, 16,867,426 of Class A common voting shares were outstanding compared to 16,586,957 as at December 31, 2004. No Class B common voting shares or redeemable convertible preferred shares were outstanding during or at the end of either of these periods

Accounting Policies

The Company applies numerous accounting policies in preparing the Consolidated Financial Statements. From time to time, the Company may either revise its existing accounting policies or adopt new ones as a result of changes to how the Company conducts its business or due to either new or amended accounting standards as required by the Canadian Institute of Chartered Accountants (CICA).

Variable Interest Entities

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.

Segmented Information

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.

Stock Based Compensation

The Company has a stock-based compensation plan that provides directors, officers and certain employees the option of purchasing common shares of the Company. 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.

Critical Accounting Estimates

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. These estimates require significant judgment on the part of management and are considered critical in that they are important to the Company's financial condition and results. The following represents the estimates that management considers most critical to the application of the Company's significant accounting policies.

Amortization of Property Plant and Equipment

The Company's Production Services segment and the Transportation Division of the Facility Infrastructure segment require a significant investment in construction equipment. In accordance with the Company's accounting policy related to the amortization of property, plant and equipment, the cost of construction equipment is amortized over its estimated useful life.

Judgment is involved in determining the useful life of the equipment, the estimated residual value and the appropriate method of amortization. Factors considered in estimating the useful life of an item of construction equipment include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the effectiveness of the Company's maintenance program and historical information of similar items retired. The same factors are considered in estimating the residual value of an item of construction equipment. The accuracy in estimating the residual value of an item of construction equipment becomes increasingly more difficult the further the estimated useful life extends into the future.

The Company's investment in construction equipment results in amortization expense being a significant operating cost to the Company and any misjudgment in estimating the useful life or the residual value of the equipment could result in a misstatement of consolidated amortization expense.

Allowance for Doubtful Accounts Receivable

The Company performs ongoing credit evaluations of its customers and grants credit based upon the customer's past payment history and financial condition, taking into consideration anticipated changes in industry and economic conditions. Customer payments are regularly monitored and a provision for doubtful accounts is established based upon specific situations. The Company's experience with respect to the incurrence of bad debt losses has been within expectations and has generally been limited to a select number of specific customer situations. Given the cyclical nature of the North American oil and natural gas services industry and the risk associated with finding and producing hydrocarbons, a customer's ability to fulfill its obligations can change without notice.

Goodwill Impairment

A judgmental aspect of accounting for goodwill involves determining whether an impairment of the goodwill exists. This assessment is critical due to the potential impact on earnings if an impairment of goodwill exists. GAAP requires that a charge to earnings be recorded when the implied fair value of goodwill is less than its carrying amount.

Judgment is applied in estimating the future operating cash flows of the associated reporting unit. Factors that influence these cash flow estimates include industry related long-term forecasts and trends, general long-term economic forecasts, known and anticipated future oil and natural gas related construction projects, and historical results of the reporting unit. As required by accounting standards, the Company tests goodwill for impairment at least annually.

Revenue 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.

Business Risks

The Company's results are affected by a number of external factors including commodity prices which drive producer capital spending levels and the demand for Flint's project related services, foreign currency, interest rates, and operational, credit and safety risks.

Producer Capital Spending Levels

Projected commodity prices drive oil and natural gas producer capital expenditures, which in turn impacts the Company's activity levels. Producer capital spending levels have a relatively significant impact on the results of the Company's Facility Infrastructure operating segment compared to the Production Services operating segment, which performs services more related to the ongoing operation and maintenance of producers' physical plants and production. As it is difficult for the Company to effectively manage the fluctuations in activity levels resulting from the peaks and troughs in producer spending related to large capital projects, the Company strives to operate these two operating segments in such a manner so as to maximize their scalability relative to activity levels. In addition, the Company continues to grow its Production Services operating segment, with its relatively steady field operation and maintenance activity, therefore decreasing the impact on the Company of peaks and troughs in producer capital spending levels.

Foreign Currency

The Company minimizes its exposure to unrealized translation gains and losses on U.S. denominated monetary items related to the translation of its net United States investment by financing the investment with U.S. dollar denominated debt. The Company does not manage the exposure to fluctuations in the U.S. to Canadian exchange rate related to translating the results of its United States operations.

Interest Rates

In order to minimize the Company's exposure to fluctuating interest rates, the Company has structured its senior credit facility such that a significant amount of its long-term debt has fixed interest rates.

Operational Risk

The Company minimizes its exposure to operational risk through comprehensive vehicle and equipment maintenance programs designed to prevent failure and maximize the useful life of the related assets. In addition, the Company follows a complete quality assurance and control program designed to maximize performance in its work and minimize deficiencies potentially leading to failures and remedial re-work. Finally, the Company has a comprehensive insurance program in place designed to protect the Company from significant losses arising from insured events.

Labor Supply Risk

The Company requires a large number of trades personnel to conduct its operations. Recruiting and training these individuals is critical to the Company's ability to continue to meet customer requirements and generate increasing levels of revenue. As there is a very high demand for many of these skilled positions the company devotes significant resources and planning to the recruiting, retaining and training of people in order to secure the required level of staffing and skills necessary to support anticipated levels of work.

Credit Risk

The risk of losses from customer non-payment is minimized through the Company's credit granting policies and other procedures designed to limit the exposure to credit risk. As a result of such practices, the Company's bad debt expense has historically been minimal.

Safety Risk

Safety risks are managed through the application of safety policies and procedures conducive to promoting safe work practices to a standard either complying with or exceeding government regulations and industry requirements. The Company maintains a behavior-based safety program, which uses positive reinforcement to change unsafe behaviors of its employees and contractors.

Controls and Procedures

As of December 31, 2005, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined under *Multilateral Instrument 52-109*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No changes were made in our internal control or financial reporting during the year ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Legal Proceedings

Flint Energy Services Inc., a wholly owned subsidiary with operations in Farmington, New Mexico, has received a subpoena from the United States Department of Justice, Antitrust Division, requiring it to produce documents and other information in connection with an investigation of bidding practices in the Company's Farmington office with one customer.

The Company is cooperating fully in responding to the subpoena and the related investigation with the assistance of legal counsel. In addition, the Company is conducting its own internal investigation in relation to this matter, and also through cooperative discussion with the customer.

The Company is committed to strict compliance with antitrust and other laws applicable to it in all jurisdictions in which it operates. The Company has taken immediate positive steps to implement an enhanced compliance and ethics program in order to better educate its employees on antitrust laws and to strengthen internal procedures designed to prevent and detect non-compliance.

Outlook

The fiscal year of 2006 has started off with a continuation of the strong activity levels experienced in the latter half of 2005. Warm weather may interfere with some projects where cold and dry conditions are a requirement for work to proceed, but weather conditions will generally only result in a delay in earning the revenue as opposed to a cancellation of the work. The challenges for the Company in 2006 will include executing on a large backlog of work and ensuring adequate people resources are retained and attracted.

Over the past several years the Company has increased the number of strategic relationships with oilsand producers as well as conventional oil and gas producers. The plans of these key customers will continue to drive growth for the Company in 2006. Our business development initiatives with customers planning new large oilsands projects in Canada should continue to materialize during 2006. The gas development activity across North America is continuing as our clients find new reserves and need Flint's capabilities to bring the gas to market and maintain their facilities.

The Company sees continued opportunity for growth, both organically, by way of increasing its strategic customer base and the services delivered to those customers, and by selective acquisitions.

We can expect to see some slight improvement in pricing and margins throughout 2006 as we renew contracts with core clients and increase rate schedules and bid margins on our callout work.

February 28, 2006

This report dated as at February 28, 2006 contains forward-looking statements under the heading "Outlook" and elsewhere concerning the Company's projected operating results for 2006 and beyond, and anticipated capital expenditure trends and drilling activity in the oil and gas industry. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of risks, uncertainties and other factors affecting the Company's business and the oil and gas industry generally. These factors, include, but are not limited to, fluctuations in oil and gas prices, fluctuations in the level of oil and gas industry capital expenditures and expenditures on production and remedial work and other factors that affect demand for the Company's services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively in Canada and the United States, political and economic conditions, the Company's ability to attract and retain key personnel, and other risks and uncertainties described under the heading "Risk Factors" and elsewhere in the Company's Annual Information Form for the year ended December 31, 2005 and other documents filed with Canadian provincial securities authorities and available to the public at www.sedar.com. The Company does not undertake to update any forward-looking statement, whether written, or oral, that may be made from time to time by the Company or on the Company's behalf.