

Management's Discussion and Analysis

Summary of Consolidated Financial Results

The following table sets forth selected consolidated financial and operating data for each of our three most recently completed financial years. This information has been derived from our audited consolidated financial statements and should be read in connection with, and is qualified in its entirety by, the more detailed information in our audited consolidated financial statements and the related notes.

(\$ millions, except per share data)

	2004		2003		2002	
				Restated ¹		Restated ¹
Revenue	\$ 743.8	100.0 %	\$ 651.2	100.0 %	\$ 697.1	100.0 %
Direct costs	596.5	80.2	513.4	78.8	554.1	79.5
Gross profit	147.3	19.8	137.8	21.2	143.0	20.5
General & administrative and stock based compensation expenses	79.5	10.7	71.1	10.9	67.4	9.7
Amortization	32.2	4.3	28.1	4.3	27.1	3.8
Earnings from operations	35.6	4.8	38.6	5.9	48.5	7.0
Interest	13.3	1.8	10.6	1.6	11.8	1.7
Debt restructuring costs	2.1	0.3	–	0	–	0
Earnings before income taxes	20.2	2.7	28.0	4.3	36.7	5.3
Income taxes	5.3	0.7	7.8	1.2	10.2	1.5
Net earnings	\$ 14.9	2.0 %	\$ 20.2	3.1 %	\$ 26.5	3.8 %
per common share – basic	\$ 0.90		\$ 1.24		\$ 1.64	
per common share – diluted	0.90		1.23		1.63	
Total assets	\$ 628.6		\$ 554.0		\$ 555.7	
Total long-term liabilities	245.1		182.2		202.8	

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.

This Management's Discussion and Analysis for Flint Energy Services Ltd. (Flint or the Company) contains management's assessment of Flint's financial condition and results of operations for the year ended December 31, 2004 and should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes. This discussion and analysis has been prepared on the basis of information available up to and as at February 24, 2005 and has been prepared with reference to known risks and uncertainties relating to the oilfield services industry in Western Canada where the Company operates. It does not, however, address general economic, political and environmental conditions. Unless otherwise disclosed, all financial information in this section has 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 43 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 equipment installation services.

Consolidated Annual Financial Results

Flint's net earnings for the year ended December 31, 2004 were \$14.9 million (\$0.90 per common share – diluted) compared to \$20.2 million (\$1.23 per common share – diluted) in 2003. The decrease in net earnings resulted from a combination of lower gross margins, higher general and administrative expenses, higher interest costs incurred to finance growth in working capital and accelerated amortization of deferred finance charges on the restructuring of the Company's term debt.

Revenue

Revenue for the year ended December 31, 2004 was \$743.8 million compared to \$651.2 million in 2003. The \$92.6 million increase was a result of Alberta oilsands projects in the Facility Infrastructure segment and from increased Production Services segment activity. Customers' accelerated development of natural gas resources, particularly in the United States, drove the demand for Production Services.

Direct Costs

Direct costs for the year ended December 31, 2004 were \$596.5 million compared to \$513.4 million in 2003. The increase resulted from higher activity levels year-over-year and a number of other factors including losses on several mid-inch diameter pipeline projects and significant equipment repair costs incurred in the second quarter of 2004, the loss of a counterclaim on a lawsuit in the United States in the third quarter and a negative adjustment to inventory carrying values in the fourth quarter in the Company's production equipment subsidiary. The circumstances leading to the mid-diameter pipeline, counterclaim and inventory adjustment items are non-recurring in nature.

A greater percentage of the Company's revenues in 2004 were generated by cost-plus contracts related to oilsands work where the mark-up over cost is less than realized in service business lines. In 2004 this type of work represented 20.0 percent of revenues as compared to 15.2 percent in 2003. While attracting a lower gross margin, this type of work yields EBITDA margins similar to other aspects of the Company's business, as general and administrative expenses are lower as a percentage of revenues.

General and Administrative and Stock Based Compensation Expenses

General and administrative and stock-based compensation expenses for the year ended December 31, 2004 were \$79.5 million compared to \$71.1 million in 2003. The increase resulted from the final recording of incentive compensation expenses related to 2003 in the first and second quarters, the requirement to book stock-based compensation for the first time, the need to ramp up the support structure in the Facilities Infrastructure group for work levels anticipated in 2005 and beyond, and the addition of offices in Rifle, Colorado and Pinedale, Wyoming.

General and administrative and stock-based compensation expenses in 2004 were 10.7 percent of revenues compared to 10.9 percent of revenues in 2003. General and administrative expenses declined for transportation systems in the Facility Infrastructure segment in response to lower pipeline sale volumes.

Amortization

Amortization expense for the year ended December 31, 2004 was \$32.2 million compared to \$28.1 million in 2003. The Company maintains a program to continually replace its old equipment when it becomes uneconomical due to high maintenance costs. The old equipment is often fully amortized at the time it is replaced with new equipment and the new equipment is subject to being amortized, therefore increasing amortization expense. Overall the Company receives a net benefit from replacing the old equipment by reducing its equipment operating and maintenance costs, which are included in direct costs. In 2004 the Company began amortizing its new enterprise resource planning information system and related hardware.

Interest Expense

Interest expense for the year ended December 31, 2004 was \$13.3 million compared to \$10.6 million in 2003. The Company maintained substantially higher operating borrowings during the year due to sales growth and the resulting need for working capital, particularly in oilsands related project work and production equipment inventories.

Income Taxes

Income tax expense for the year ended December 31, 2004 was \$5.3 million compared to \$7.8 million in 2003. The decrease resulted primarily from reduced earnings year-over-year.

Consolidated Financial Position

Consolidated assets increased in 2004 to \$628.6 million at December 31, 2004 from \$554.0 million at December 31, 2003. Assets were greater primarily as a result of increase in working capital in response to higher activity levels in both operating segments. Long-term liabilities increased by \$62.9 million to \$245.1 million at December 31, 2004 from \$182.2 million at December 31, 2003, primarily as a result of the change in debt structure achieved on refinancing in the second quarter. A large component of the Company's term debt does not require principal repayments until 2008 and beyond.

Accounts receivable increased by \$40.4 million to \$170.5 million at December 31, 2004 from \$130.1 million at the end of the prior year. The increase is linked to higher revenues in the fourth quarter of 2004.

Revenue in excess of billings and work-in-progress increased by \$22.9 million to \$48.3 million at December 31, 2004 from \$25.4 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 \$10.1 million to \$21.8 million at December 31, 2004 from \$11.7 million at the end of the prior year as the Company's production equipment subsidiary built up component inventories in order to fill order backlog on hand for early next year.

Property, plant and equipment decreased by \$2.7 million to \$170.9 million at December 31, 2004 from \$173.6 million at the end of the prior year. The decrease relates to the amortization of capital assets, which slightly exceeded net capital expenditures on new equipment.

Accounts payable and accrued liabilities increased by \$16.0 million to \$73.9 million at December 31, 2004 from \$57.9 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 2003.

Income taxes payable decreased by \$10.4 million at December 31, 2004 to a net receivable position of \$6.1 million, due to the ability to recover income tax installments made during the year as well as utilizing income tax losses.

Long-term debt increased by \$65.3 million to \$217.5 million at December 31, 2004 from \$152.2 million at the end of the prior year as a result of the change in amortization periods made on restructuring the Company's debt facilities, and increased use of the two-year term operating facility.

In 2004, the Company's cumulative translation account increased to a \$12.3 million charge from an \$8.6 million charge in 2003 due to unrealized foreign exchange losses resulting from translation of the financial statements of the Company's self-sustaining U.S. operations to Canadian dollars.

Consolidated Fourth Quarter Financial Results

Net earnings for the fourth quarter of 2004 were \$5.2 million on revenue of \$205.4 million compared to net earnings of \$5.6 million on revenue of \$170.7 million in the comparative period. The quarter-over-quarter decrease in fourth quarter net earnings resulted primarily from additional interest costs as a result of higher working capital requirements and increased amortization. The higher working capital requirements are attributable to an increase in sale volumes in the fourth quarter, and a build-up of inventory in the Company's U.S. production equipment business in order to meet the backlog of orders for 2005 and additional receivables and revenue in excess of billings related to oilsands projects. The increase in amortization is due to the addition of Production Service equipment added throughout the year in order to optimize the operating cost effectiveness of this business segment's maintenance programs and the commencement of amortization of the information system and related hardware.

Quarterly Information

(\$ millions, except per share data)

	2004				2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 205.4	\$ 187.8	\$ 172.0	\$ 178.6	\$ 170.7	\$ 158.0	\$ 161.2	\$ 161.3
Net earnings	5.2	4.7	(1.6)	6.6	5.6	5.2	3.7	5.7
per common share-basic	0.31	0.29	(0.10)	0.40	0.35	0.32	0.22	0.35
per common share-diluted	0.31	0.29	(0.10)	0.40	0.34	0.32	0.22	0.35

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

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.

There is a degree of fluctuation in all sources of revenue from period to period. Business lines related to maintenance and operation of oilfield facilities produce generally consistent revenues, while other business lines related to large projects result in fluctuating revenue 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 reactive (or unscheduled) and does not generate a consistent revenue stream between periods.

As Flint has U.S. 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 U.S. operations to Canadian dollars. As approximately only 27 percent of the Company's business activity based on revenues is in the U.S., the fluctuation in the U.S. to Canadian exchange rate in between periods has not had a significant effect on the results of the Company.

Results of Operations

The consolidated revenues and earnings before interest, taxes, depreciation and amortization (EBITDA) of the Company increased in 2004 from 2003. Consolidated revenues increased by 14.2 percent to \$743.8 million for the year ended December 31, 2004 from \$651.2 million for the prior year. Of this increase, 53 percent related to increased levels of oilsands related project work, 27 percent from increased demand for natural gas production equipment manufactured by the Company's U.S. subsidiary, and the remaining 20 percent from increased demand for production-related services.

Selected Segmented Annual Information

(\$ millions)	2004		2003		2002	
			Restated ¹		Restated ¹	
Revenue by operating segment						
Production Services	\$ 512.5	68.9 %	\$ 485.4	74.5 %	\$ 419.9	60.2 %
Facility Infrastructure	231.3	31.1	165.8	25.5	277.2	39.8
Total	\$ 743.8	100.0 %	\$ 651.2	100.0 %	\$ 697.1	100.0 %
EBITDA ² by operating segment						
Production Services	\$ 49.5	73.0 %	\$ 49.6	74.4 %	\$ 42.1	55.7 %
Facility Infrastructure	18.3	27.0	17.1	25.6	33.5	44.3
Total	\$ 67.8	100.0 %	\$ 66.7	100.0 %	\$ 75.6	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. This measure assists investors in determining the Company's ability to generate cash from operations. EBITDA is equal to gross profit less general and administrative and stock based compensation expenses. EBITDA is considered to be a non-GAAP measure that does not have a standardized meaning prescribed by GAAP, and therefore may not be comparable to similar measures presented by other issuers.

Production Services

The Production Services operating segment provides smaller-inch diameter 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 the Production Services operating segment for the year ended December 31, 2004 increased 5.6 percent to \$512.5 million from \$485.4 million in the prior year. The increase resulted primarily from well tie-in and other services related to natural gas development, particularly in the United States and southern Alberta. A decrease in revenue was experienced in electrical service revenue relative to 2003, as the market for those services was highly competitive.

EBITDA

Production Services' EBITDA was virtually unchanged at \$49.5 million for the year ended December 31, 2004 against \$49.6 million in 2003. Cost of sales was negatively impacted by charges recorded in the second quarter of 2004 for additional equipment maintenance and in the third quarter by a counterclaim on a lawsuit in the United States, resulting in lower gross and EBITDA margins year-over-year.

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 projects from concept and design to fabrication and installation. Customer capital expenditures for large projects have a significant affect on these activity levels and their financial results.

Revenue

Revenue from the Facility Infrastructure operating segment for the year ended December 31, 2004 increased 39.5 percent to \$231.3 million from \$165.8 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. Despite the increase in Facility Infrastructure activity in 2004, revenue was less than expected due to some producers not meeting Flint's anticipated schedule for completing the planning and engineering phases on schedule. During 2004, the Company successfully completed the Firebag Phase I project and commenced work on the Firebag Phase II and Millennium Vacuum Unit project, all for Suncor Energy Inc. as well as for OPTI-Canada Inc., Nexen Canada Ltd. and Canadian Natural Resources Ltd.

At December 31, 2004, the Facility Infrastructure operating segment had a backlog of work exceeding \$700 million compared to December 31, 2003 when the backlog was approximately \$180 million. The increased backlog is expected to result in higher revenue for the Facility Infrastructure operating segment in 2005 than what was achieved in 2004.

EBITDA

Facility Infrastructure's EBITDA increased by 7.0 percent to \$18.3 million for the year ended December 31, 2004 from \$17.1 million in 2003. The increase primarily resulted from higher activity levels in 2004 compared to 2003, but was tempered by losses incurred on mid-inch diameter pipeline projects in the second quarter.

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 use of cash is for the financing of working capital and capital expenditures.

Selected Cash Flow and Capitalization Data

<i>(\$ millions, except ratios)</i>	2004	2003	2002
Cash provided by operations before changes in non-cash working capital	\$ 47.2	\$ 48.9	\$ 54.5
Cash provided by operating activities	(20.7)	44.6	55.5
Long-term debt, at end of year (including current portion)	223.3	174.8	199.5
Ratios ¹			
Debt to total capitalization (%) ²	42.5	38.0	42.3
Cash flow to interest bearing debt (%) ³	21.1	28.0	27.3

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 cash 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

Cash provided by operations before changes in non-cash working capital for the year ended December 31, 2004 remained relatively constant at \$47.2 million compared to \$48.9 million for the prior year. The decrease primarily resulted from lower net earnings in 2004 than in the prior year. Cash provided by operating activities for the year ended December 31, 2004 decreased by \$65.3 million to a negative \$20.7 million compared to a positive \$44.6 million for the prior year. The decrease was primarily due to lower net earnings in 2004 and an increase in accounts receivable, revenue in excess of billings and inventories from December 31, 2003.

At December 31, 2004 the Company had working capital of \$174.7 million compared to \$91.5 million at December 31, 2003. The most significant factors contributing to the increase were higher accounts receivable, revenue in excess of billings and inventories at December 31, 2004 compared to December 31, 2003 as a result of sales growth, a build-up of inventories to meet demand for production equipment in 2005 and slower than anticipated billing and collection periods on oilsands-related projects.

The Company increased its long-term debt position (including current portion) by \$48.4 million as at December 31, 2004 as compared to the balance at December 31, 2003. The additional long-term debt financed equipment purchases and an increase in working capital. In connection with the Company's new credit agreement on May 11, 2004, it drew upon its new credit facility in the second quarter of 2004, utilizing the proceeds to retire its existing senior term-debt. The majority of the proceeds from long-term debt and repayments of long-term debt relate to this event.

In 2004, the Company incurred net capital expenditures totaling \$27.7 million, to expand its fleet and replace aging equipment, compared to \$24.3 million in 2003. Included in net capital expenditures in 2004 were \$7.9 million of proceeds on disposal of property, plant and equipment compared to \$9.9 million of proceeds in 2003.

On July 10, 2003, the Company filed a notice of intention to make a normal course issuer bid with the Toronto Stock Exchange. Under the bid, the Company could purchase for cancellation up to 816,904 Class A common voting shares, representing 5 percent of its 16,338,080 Class A common voting shares outstanding as at that date. The program terminated on July 13, 2004. At December 31, 2004, the Company had purchased and cancelled 52,601 Class A common voting shares pursuant to the bid at an average price of \$18.35 per Class A common voting share.

Capital Requirements and Capitalization

At December 31, 2004 the Company had obligations to repay, within one year, \$5.8 million (2003 - \$22.6 million) of long-term debt and fulfill \$10.2 million (2003 - \$7.1 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 2005 to be in the same range as 2004. Capital expenditures are necessary to replace construction equipment, heavy trucks and vehicles at 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 obligation 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	\$ 5.8	\$ 85.0	\$ 20.2	\$ 112.3	\$ 223.3
Operating leases	10.2	16.0	1.8	0.1	28.1
Total contractual obligations	\$ 16.0	\$ 101.0	\$ 22.0	\$ 112.4	\$ 251.4

The Company has a senior credit facility that provides available credit totaling CDN\$210 million and US\$45 million under revolving lines and committed term lines. At December 31, 2004, the Company's debt position, including the current portion of long-term debt, drawn against the credit facility totaled \$213.0 million compared to \$163.1 million at the end of 2003.

In 2004, 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, 2004, 16,586,957 of Class A common voting shares were outstanding compared to 16,311,477 as at December 31, 2003. 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).

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 new Canadian accounting rules. The new accounting standard 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. The previous standard provided the option of disclosing the effect on a pro-forma basis rather than expensing the award. The change in accounting policy was applied retroactively with restatement of prior periods, resulting in \$2.4 million of opening retained earnings being appropriated to contributed surplus, as outlined in

Notes 9 and 10 of the Company's December 31, 2004 audited financial statements. Stock-based compensation expense for the year ended December 31, 2004 was \$2.0 million compared to \$1.7 million for the year ended December 31, 2003. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital.

Segment Disclosure

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.

Critical Accounting Estimates

In preparing the consolidated financial statements, various accounting estimates are made in applying the Company's accounting policies. The estimates require significant judgment on the part of management and are considered critical 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.

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 sum of a reporting unit's discounted, estimated future operating cash flows, is less than the carrying amount of the related reporting unit's goodwill.

Judgment is applied in estimating the future operating cash flows of the 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

Accounting standards require revenue from long-term contracts to be recognized using either the completed contract method or the percentage-of-completion method. The percentage-of-completion method is more conducive to appropriately reflecting the extent of work accomplished on a long-term contract. The Company relies upon the direct costs as being the best measure of performance in determining

the extent of work accomplished related to a long-term contract. The Company applies the percentage-of-completion method whereby the revenue, direct costs, and gross profit related to a long-term contract are recognized by measuring the incurred direct contract costs to date as a percentage of the estimated total contract costs.

In determining the percentage-of-completion of a contract, judgment is applied in estimating the total contract costs. Any misjudgment in estimating the total contract costs could result in a misstatement of consolidated revenue, direct costs and gross profit generated from long-term contracts.

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 revenue by financing the segment 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 U.S. 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 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 events causing significant losses.

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 employees and contractors.

Outlook

Oil and natural gas producer capital spending related to the development of oil and natural gas fields in Western Canada, the Southern and Rocky Mountain regions of the United States, and heavy oil developments in Alberta can significantly affect Flint's results as this capital spending drives the demand for Flint's various production and midstream and large heavy oil project related services.

Industry projections for 2005 predict a continuation of high levels of producer capital spending in North America, with continued strong drilling activity driven by global demand for oil and natural gas, and high commodity prices. The Company expects these factors to drive demand for its production and midstream services throughout 2005 with the expectation of another strong year from the Company's Production Services operating segment. With greater schedule certainty and an even higher backlog of heavy oil-related project work going into 2005 than existed going into 2004, the Company anticipates improved results from its Facility Infrastructure segment, as additional revenues on cost plus contracts produce a bigger bottom line.

In 2005, the Company's first priority is to execute on the significant backlog of work and improve on results delivered in 2004, particularly at the gross margin level. Expansion of geographical coverage, and service offerings will be evaluated on a selective basis.

February 24, 2005



Terry Freeman
Chief Financial Officer

This report contains forward-looking statements under the heading "Outlook" and elsewhere concerning the Company's projected operating results for 2005, 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, 2004 and other documents filed with Canadian provincial securities authorities and available to the public at www.sedar.com.

Management's Responsibility for the Financial Statements

The management of Flint Energy Service 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 judgements and estimates. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

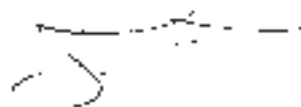
Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements. In addition, programs of 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, auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.



W.J. (Bill) Lingard
President and Chief Executive Officer

February 11, 2005



Terry Freeman
Chief Financial Officer

Auditors' Report To The Shareholders

We have audited the consolidated balance sheets of Flint Energy Services Ltd. as at December 31, 2004 and 2003 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, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada

February 11, 2005



Chartered Accountants

Consolidated Balance Sheets

As At December 31

2004

2003

(in thousands of Canadian dollars, except share data)

(Restated - Note 2)

Assets

Current assets:

Cash	\$ 3,223	\$ 3,405
Accounts receivable	170,537	130,081
Revenue in excess of billings	48,292	25,394
Inventories (Note 4)	21,751	11,696
Income taxes receivable	6,139	—
Future income tax assets (Note 8(a))	—	1,021
Prepays and other current assets	6,066	5,906
	256,008	177,503

Property, plant and equipment (Note 6)	170,871	173,595
Goodwill	198,420	198,488
Intangible assets, net of accumulated amortization of \$2,082 (2003 - \$2,938)	2,618	3,655
Other assets	725	728
	\$ 628,642	\$ 553,969

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 73,873	\$ 57,920
Billings in excess of revenue	1,241	1,151
Income taxes payable	—	4,314
Future income tax liabilities (Note 8(a))	464	—
Current portion of long-term debt (Note 7)	5,770	22,612
	81,348	85,997

Long-term debt (Note 7)	217,506	152,235
Future income tax liabilities (Note 8(a))	27,591	29,999
	245,097	182,234

Shareholders' equity:

Capital stock (Note 9(a))	195,929	192,531
Contributed surplus (Note 10)	4,256	2,375
Retained earnings	114,318	99,417
Cumulative translation account (Note 11)	(12,306)	(8,585)
	302,197	285,738

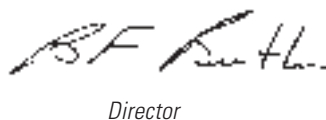
Commitments and contingencies (Note 12)

\$ 628,642 **\$ 553,969**

See accompanying notes to consolidated financial statements.

Approved by the Board:


Director


Director

Consolidated Statements of Earnings and Retained Earnings

Years Ended December 31 <i>(in thousands of Canadian dollars, except share data)</i>	2004	2003 <i>(Restated - Note 2)</i>
Revenue	\$ 743,841	\$ 651,203
Direct costs	596,541	513,422
Gross profit	147,300	137,781
General and administrative expenses	77,518	69,406
Stock based compensation expense (Note 2)	1,957	1,665
Amortization	32,195	28,080
Earnings from operations	35,630	38,630
Interest (Note 7(a))	13,358	10,650
Debt restructuring costs (Note 7(a))	2,062	-
Earnings before income taxes	20,210	27,980
Income taxes (Note 8(b)):		
Current	5,975	8,462
Future (recovery)	(666)	(702)
	5,309	7,760
Net earnings	14,901	20,220
Retained earnings, beginning of year:		
As previously reported	99,417	80,251
Adjustment to reflect changes in accounting policy for stock-based compensation (Note 2)	-	(710)
As restated	99,417	79,541
Premium paid to redeem common shares (Note 9(a))	-	(344)
Retained earnings, end of year	\$ 114,318	\$ 99,417
Earnings per share:		
Basic	\$ 0.90	\$ 1.24
Diluted	\$ 0.90	\$ 1.23
Weighted average common shares:		
Basic	16,526,468	16,323,093
Diluted (Note 9 (a))	16,568,018	16,406,679

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31

2004

2003

(in thousands of Canadian dollars, except share data)

(Restated - Note 2)

Cash provided by (used in):

Operating activities:

Net earnings	\$ 14,901	\$ 20,220
Items not affecting cash:		
Amortization	32,195	28,080
Gain on disposal of property, plant and equipment	(1,682)	(336)
Stock based compensation expense (Note 2)	1,957	1,665
Debt restructuring costs	533	-
Future income taxes	(666)	(702)
Cash provided by operations before changes in non-cash working capital	<u>47,238</u>	<u>48,927</u>
Change in non-cash balances relating to operations (Note 14)	<u>(67,948)</u>	<u>(4,367)</u>
	(20,710)	44,560

Investing activities:

Acquisition of subsidiary, net of cash acquired (Note 3)	(1,899)	-
Purchase of property, plant and equipment	(35,651)	(34,256)
Proceeds from disposal of property, plant and equipment	<u>7,917</u>	<u>9,916</u>
	(29,633)	(24,340)

Financing activities:

Proceeds from long-term debt	179,451	32,946
Repayments of long-term debt	(131,665)	(57,568)
Deferred financing costs	(304)	(775)
Proceeds from issue of capital stock	2,679	923
Redemption of capital stock	-	(621)
Premium paid on redemption of capital stock	-	(344)
	<u>50,161</u>	<u>(25,439)</u>

Decrease in cash	(182)	(5,219)
Cash, beginning of year	<u>3,405</u>	<u>8,624</u>
Cash, end of year	\$ 3,223	\$ 3,405

Supplemental cash flow information:

Net cash paid during the year for:		
Interest	\$ 12,740	\$ 10,650
Income taxes	15,822	3,858

See accompanying notes to consolidated financial statements.

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 43 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 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. Depreciation 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

(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.

Notes to the Consolidated Financial Statements (continued)

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

(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

Revenues from long-term construction contracts are recognized using the percentage-of-completion method, measured by the percentage that incurred costs to date bear to total estimated costs. Revenues from short-term contracts are recognized as the work is performed and related costs are incurred. 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. 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. 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, which is described in Note 9 (b). 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.

(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.

Notes to the Consolidated Financial Statements (continued)

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

2. Accounting Policy Changes

Effective January 1, 2004, the Company changed its accounting policy related to stock-based compensation and other stock-based payments as required by the new related Canadian accounting standard requiring expense treatment of stock-based compensation awards and other stock-based payments. The new accounting standard 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. The previous standard provided the option of disclosing the effect on a pro-forma basis rather than expensing the award. The change in accounting policy was applied retroactively with restatement of prior periods, resulting in \$2,375 of opening retained earnings being appropriated to contributed surplus, as outlined in Notes 9 and 10. Stock-based compensation expense for the year ended December 31, 2004 was \$1,957 compared to \$1,665 for year ended December 31, 2003. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital.

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.

3. Business Combinations

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)
	\$	<u>3,537</u>

Consideration given was comprised of the following:

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

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, 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. Inventories

	2004	2003
Raw materials	\$ 12,418	\$ 4,997
Work in progress	4,460	3,899
Finished goods	4,873	2,800
	<u>\$ 21,751</u>	<u>\$ 11,696</u>

Notes to the Consolidated Financial Statements (continued)

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

5. 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 \$2,396 for the year ended December 31, 2004 (2003 - \$2,030).

6. Property, Plant and Equipment

December 31, 2004	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>
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

<i>December 31, 2003</i>	<i>Cost</i>	<i>Accumulated Amortization</i>	<i>Net Book Value</i>
Land	\$ 8,576	\$ —	\$ 8,576
Buildings and improvements	38,455	7,844	30,611
Construction and automotive equipment	194,052	77,180	116,872
Office furniture and equipment	24,032	6,496	17,536
	\$ 265,115	\$ 91,520	\$ 173,595

7. Long-Term Debt

	2004	<i>2003</i>
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	\$ 49,000
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	6,198	7,779
Term loans, interest at Cdn. bank prime plus 0.25% to 1.25% depending upon certain financial ratios, payable monthly in arrears, principal payable in quarterly installments of \$3,281 with the balance due November 15, 2006	—	56,950
U.S. dollar term loans, interest at U.S. bank prime plus 0.50% to 1.25% or LIBOR plus 1.75% to 2.50% depending on certain financial ratios, payable monthly in arrears, principal payable in quarterly installments of U.S. \$357, with the balance due November 15, 2006	—	8,618
U.S. dollar term loans, interest at 7.88%, payable monthly in arrears, principal payable in quarterly installments of U.S. \$500, with balance due November 15, 2008	—	20,744

Notes to the Consolidated Financial Statements (continued)

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

<i>Long Term Debt (continued)</i>	2004	2003
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	–
Term loans, interest at 7.57%, payable monthly in arrears, no principal payments, with the balance due April 30, 2011	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	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	11,720	–
Finance contracts, secured by construction and automotive equipment with an aggregate carrying value of \$15,931, interest varying from 0.00% to 9.20%, with terms varying up to 36 months	9,707	10,540
Other debt	601	1,216
	223,276	174,847
Less current portion	5,770	22,612
	\$ 217,506	\$ 152,235

(a) Terms and Security:

During the second quarter of 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.

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, 2004 and 2003.

The term loans under the previous credit facilities were repaid in full with the funds from the new credit facilities. In connection with the debt restructuring, the Company recorded a \$2,062 charge including 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 \$13,358 for the year ended December 31, 2004 (2003 - \$10,650).

Notes to the Consolidated Financial Statements (continued)

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

(b) Principal payments are due as follows:

2005	\$ 5,770
2006 – term debt	3,409
2006 – revolving debt	79,428
2007	2,179
2008	10,355
2009	9,827
Thereafter	112,308
	<u>\$ 223,276</u>

8. Income Taxes

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

	2004	2003
Future income tax assets:		
Current:		
Contract retentions payable and accrued liabilities	\$ 230	\$ 167
Billings in excess of revenue	344	310
Losses and surtaxes carried forward	87	3,166
Total current future income tax assets	<u>661</u>	<u>3,643</u>
Non-current:		
Property, plant and equipment principally due to differences in cost and depreciation	361	339
Intangible assets	54	61
Total non-current future income tax assets	<u>415</u>	<u>400</u>
Future income tax liabilities:		
Current:		
Contract retentions receivable	522	791
Deferred partnership income	603	1,831
Total current future income tax liabilities	<u>1,125</u>	<u>2,622</u>
Non-current:		
Property, plant and equipment principally due to differences in cost and depreciation	27,125	28,979
Intangible assets	760	1,295
Other assets	121	125
Total non-current future income tax liabilities	<u>28,006</u>	<u>30,399</u>
Net future income tax liabilities	<u>28,055</u>	28,978
Total current future income tax liabilities	1,125	2,622
Less current future income tax asset	661	3,643
Net current future income tax liabilities (asset)	<u>464</u>	(1,021)
Total non-current future income tax liabilities	28,006	30,399
Less non-current future income tax asset	415	400
Net long-term future income tax liabilities	<u>\$ 27,591</u>	<u>\$ 29,999</u>

Notes to the Consolidated Financial Statements (continued)

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

In assessing the realizability of future tax assets, 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:

<i>Years ended December 31</i>	2004	<i>2003</i>
Federal, provincial and state statutory income tax rates	26.9%	29.2%
Expected income tax expense	\$ 5,436	\$ 8,656
Changes in income tax expense resulting from:		
Reduction to future tax assets and liabilities for substantively enacted changes in Canadian tax laws and rates	(1,054)	(981)
Non-deductible expenses	1,341	328
Other	(414)	(243)
Actual income tax expense	\$ 5,309	\$ 7,760

9. 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:

	<i>Class A Common Shares</i>	<i>Amount</i>
Balances at December 31, 2002	16,308,079	\$ 192,229
Shares issued in conjunction with:		
Exercised employee stock options	55,999	923
Shares repurchased for cancellation	(52,601)	(621)
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 10)	—	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

Notes to the Consolidated Financial Statements (continued)

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

On July 10, 2003, the TSX accepted the Company's Notice of Intention to make a normal course issuer bid. During the period which commenced July 14, 2003 and ended on July 13, 2004, the Company could acquire up to 816,904 common shares, which represented 5% of the 16,338,080 outstanding common shares on the date the notice was filed. Under the normal course issuer bid, the Company repurchased 52,601 of its common shares for \$621. All common shares purchased pursuant to the normal course issuer bid were cancelled and returned to treasury. The excess of the average carrying value of the shares acquired over the purchase price of the shares repurchased totaled \$344 and was charged to retained earnings. The Company did not repurchase any common shares in 2004.

In computing diluted earnings per share, there were 41,550 stock options included in the diluted number of common shares for the year ended December 31, 2004 (83,586 stock options were included in 2003).

(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 and must be exercised over specified periods not to exceed 5 years from the date granted. At December 31, 2004 429,784 common shares remained reserved for issuance under the option plan.

Options	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	781,900	\$ 19.12	733,303	\$ 18.48
Granted	307,000	\$ 22.93	299,500	\$ 21.30
Cancelled	(53,955)	\$ 22.69	(194,904)	\$ 21.81
Exercised	(202,738)	\$ 13.21	(55,999)	\$ 12.92
Outstanding at end of year	832,207	\$ 21.74	781,900	\$ 19.12
Options exercisable at end of year	340,862	\$ 20.71	338,230	\$ 16.29

Exercise Prices as at December 31, 2004	Options Outstanding			Options Exercisable	
	Number Outstanding	Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$12.50	6,000	0.5	\$ 12.50	6,000	\$ 12.50
\$17.50	108,373	1.0	\$ 17.50	108,373	\$ 17.50
\$20.50	25,000	4.8	\$ 20.50	—	\$ 20.50
\$21.37	224,500	3.2	\$ 21.37	74,828	\$ 21.37
\$23.00	216,334	2.2	\$ 23.00	151,661	\$ 23.00
\$23.14	252,000	4.2	\$ 23.14	—	\$ 23.14
	832,207	3.0	\$ 21.74	340,862	\$ 20.71

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:

	2004	2003
Risk-free interest rate	4.8%	5.0%
Expected life	5 years	5 years
Expected volatility	37%	37%
Expected dividends	\$ —	\$ —

Notes to the Consolidated Financial Statements (continued)

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

10. 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 9 (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. Contributed surplus has been restated as indicated below:

	2004	2003
Balance at beginning of period, as previously reported	\$ -	\$ -
Appropriated from retained earnings (Note 2)	2,375	710
As restated	2,375	710
Stock-based compensation expense	1,957	1,665
Stock-options exercised	(76)	-
Balance at end of period	\$ 4,256	\$ 2,375

11. 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:

	2004	2003
Balance, beginning of year	\$ (8,585)	\$ (414)
Effect of exchange rate changes during the year	(3,721)	(8,171)
Balance, end of year	\$ (12,306)	\$ (8,585)

12. Commitments and Contingencies

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

2005	\$ 10,169
2006	8,063
2007	7,930
2008	1,449
2009	419
Thereafter	91
	\$ 28,121

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, 2004, the undiscounted maximum amount of potential future payments under these guarantees aggregate to approximately \$8,421 (2003 - \$11,224). 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, 2004, 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.

Notes to the Consolidated Financial Statements (continued)

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

13. 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.

Revenue from the Company's two largest customers, including their affiliated entities, accounted for approximately 18.0% and 8.8% of total revenues for the year ended December 31, 2004 (15.5% and 15.1% for year ended December 31, 2003).

(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, 2004, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to \$879 (2003 - \$1,223).

(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.

(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. The fair value is determined to be \$220,057 at December 31, 2004.

14. Change in Non-Cash Balances Relating to Operations

	2004	2003
Accounts receivable	\$ (40,428)	\$ (9,412)
Revenue in excess of billings	(22,898)	(6,238)
Inventories	(10,055)	274
Income taxes receivable	(6,139)	-
Prepays and other current assets	(160)	1,270
Other assets	3	113
Accounts payable and accrued liabilities	15,953	6,772
Billings in excess of revenue	90	(1,405)
Income taxes payable	(4,314)	4,259
	\$ (67,948)	\$ (4,367)

Notes to the Consolidated Financial Statements (continued)

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

15. 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.

	<i>Production Services</i>	<i>Facility Infrastructure</i>	<i>Total</i>
Year ended December 31, 2004			
Revenue	\$ 512,529	\$ 231,312	\$ 743,841
EBITDA	49,517	18,308	67,825
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	401,081	227,561	628,642
Year ended December 31, 2003 (Restated Note 2)			
Revenue	\$ 485,369	\$ 165,834	\$ 651,203
EBITDA	49,584	17,126	66,710
Amortization			28,080
Earnings from operations			38,630
Capital expenditures	26,483	7,773	34,256
Additions to goodwill	–	210	210
Goodwill	145,236	53,252	198,488
Total assets	383,718	170,251	553,969

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

	<i>Canada</i>	<i>United States</i>	<i>Total</i>
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	507,291	121,351	628,642
Year ended December 31, 2003 (Restated Note 2)			
Revenue	\$ 498,960	\$ 152,243	\$ 651,203
Property, plant and equipment	141,414	32,181	173,595
Goodwill	162,904	35,584	198,488
Total assets	451,146	102,823	553,969

EBITDA is equal to gross profit less general and administrative expenses and less stock based compensation expense. EBITDA is the measure of profit utilized for the Company's operating segments.



l to r: Wayne Shaw, Senior Vice President, Infrastructure Services; Tim O'Brien, Senior Vice President, Corporate Services; Paul Boechler, President, Flint Energy Services Inc. (USA); W.J. (Bill) Lingard, President and Chief Executive Officer; Terry Freeman, Chief Financial Officer; Gary Foreman, Senior Vice President, Production Services; Allan Cleiren, Vice President, Finance

Corporate Information

DIRECTORS

John Geddes

Chairman of the Board
Flint Energy Services Ltd.
Calgary, Alberta

Brian Butlin

Vice Chairman of the Board
Flint Energy Services Ltd.
Edmonton, Alberta

David Baldwin

Managing Director
SCF-IV, LP
Houston, Texas

Stuart O'Connor

Director
Flint Energy Services Ltd.
Calgary, Alberta

John Bates

President and Chief Executive Officer
Flint Industries Inc.
Tulsa, Oklahoma

Lyle Reid

Director
Flint Energy Services Ltd.
Sherwood Park, Alberta

OFFICERS

W.J. (Bill) Lingard

President and Chief Executive Officer

Terry Freeman

Chief Financial Officer

Wayne Shaw

Senior Vice President, Infrastructure Services

Gary Foreman

Senior Vice President, Production Services

Tim O'Brien

Senior Vice President, Corporate Services

Paul Boechler

President, Flint Energy Services Inc. (USA)

Allan Cleiren

Vice President, Finance

CORPORATE HEAD OFFICE

700, 300 - 5th Avenue S.W.
Calgary, Alberta, Canada T2P 3C4
Tel: 403-218-7100
Fax: 403-215-5445
Website: www.flintenergy.com

BANKERS

Bank of Montreal
Calgary, Alberta

AUDITORS

KPMG LLP
Edmonton, Alberta

LEGAL COUNSEL

Bennett Jones LLP
Edmonton and Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
600, 530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Tel: 1-888-267-6555
Email: caregistryinfo@computershare.com
Website: www.computershare.com

STOCK EXCHANGE LISTING

Toronto Stock Exchange (TSX)
Common Shares - FES



FLINT ENERGY SERVICES LTD.

INTEGRATED. INTEGRAL.

700, 300 - 5th Avenue S.W.
Calgary, Alberta, Canada T2P 3C4

Tel: 403.218.7100

Fax: 403.215.5445

www.flintenergy.com

TSX:
FES