BLAST ENERGY SERVICES, INC.
Form 10KSB/A
June 05, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-KSB/A

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2005**

TRANSITIONAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________to ________

Commission file number: 333-64122

Blast Energy Services, Inc.
(Name of small business issuer in its charter)

California	**22-3755993**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

14550 Torrey Chase Blvd, Suite 330
Houston, Texas 77014
(Address of principal executive offices)

(281) 453-2888
(Telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: None

Check whether issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB or any amendments to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Issuer's revenues for the most recent fiscal year: $1,159,458

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on February 28, 2006 is $33,569,923.

The number of shares outstanding of each of the issuer's classes of common equity, as of December 31, 2005:

Common Stock: 42,060,477 shares

No (1) annual report to security holders; (2) proxy or information statement; or (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933; are incorporated by reference into any part of this Form 10-KSB.
Transitional Small Business Disclosure Format: Yes No

Explanatory Note

Blast Energy Services, Inc. is filing this amended Annual Report on Form 10-KSB/A for the period ended December 31, 2005 (the “Amended Annual Report”), to amend its Report on Form 10-KSB for the period ended December 31, 2005 (the “Original Annual Report”), which was filed with the Securities and Exchange Commission on March 31, 2006.

The Amended Annual Report amends the Company’s financial statements to reflect the proper classification of the cash received from the sale of the Landers license, revisions to the language describing notes payable, warrants issued in 2005 and subsequent events, including the associated footnotes to the financial statements and disclosures under Part I, Item 1 “Financial Statements,” I, and Part II, Item 8a “Controls and Procedures.” Except for these items no other information in the original Report is amended hereby.

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Item 1. Description of Business

Forward-Looking Statements

Certain statements concerning our plans and intentions included herein may constitute forward-looking statements, including, but not limited to, statements identified by the words “anticipate”, “believe”, “expect” and similar expressions and statements regarding our business strategy, plans, beliefs and objectives for future operations. Although management believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. There are a number of factors that may affect our future results, including, but not limited to, (a) our ability to obtain additional funding for development and operations, (b) the continued availability of management to execute the business plan, (c) successful deployment and market acceptance of our products, and (d) the resolution of legal matters that may inhibit the execution of the business plan.

This annual report may contain both historical facts and forward-looking statements. Any forward-looking statements involve risks and uncertainties. Moreover, future revenue and margin trends cannot be reliably predicted.

Business Development

In September 2000 we were incorporated as Rocker & Spike Entertainment, Inc, a California corporation. Until December 31, 2000, operations consisted of organizational matters and the search for an operating company with which to perform a merger or acquisition. Effective January 1, 2001, we purchased the assets and web domain of Accident Reconstruction Communications Network from its sole proprietor. Following the acquisition, we changed our name from Rocker & Spike Entertainment, Inc. to Reconstruction Data Group, Inc. At that time, we provided research, communication and marketing exposure to the accident reconstruction industry through our website and seminars.

In April 2003, we entered into a merger agreement with Verdisys, Inc. (“Verdisys”). Verdisys was initially incorporated as TheAgZone Inc. in 1999 as a California corporation. Its purpose was to provide e-Commerce satellite services to agribusiness. They changed their name to Verdisys in 2001, and in 2003, with the acquisition of exclusive rights to a proprietary lateral drilling process throughout most of the U.S. and Canada, they changed their market focus to concentrate on services to the oil and natural gas (“oil and gas”) industry.

The merger agreement with Verdisys called for us to be the surviving company. In connection with the merger, our name changed to Verdisys, our articles of incorporation and bylaws remained in effect, the officers and directors of Verdisys became our officers and directors, each share of Verdisys’ common stock was converted into one share of our common stock, and our accident reconstruction assets were sold.

Effective June 6, 2005, we formally changed our name to Blast Energy Services, Inc. (“Blast” or “Blast Energy”) from Verdisys in part to reflect our focus on the energy service business. We have shifted our business strategy away from an agricultural related business toward energy services. We believe such a name change creates better name recognition related to the types of service that we intend to provide and the ability to trademark new applications and services in a way to uniquely identify them with our company.

Business of Issuer

Our mission is to substantially improve the economics of existing oil and gas operations through the application of our licensed and proprietary technologies.

We expect our primary segment will be our down-hole energy services business. We have been striving to develop a commercially viable lateral drilling technology with the potential to penetrate through well casing and into reservoir formations to stimulate oil and gas production using abrasive fluid jetting (AFJ) and the principles gained from the non-abrasive process used in the Landers lateral drilling technology. In 2003, with the acquisition of exclusive rights to a proprietary Landers horizontal drilling process we began to deploy this non-abrasive, lateral drilling service in the field. During 2004, it became apparent that this process was limited and was not able to succeed in a wide variety of oil and gas formations. After redesigning and improving the existing process and designing and testing some newer technologies, including abrasive fluid jetting, we now believe that we can deliver a valuable and cost effective production enhancement service to onshore oil and gas producers, particularly operators of marginal wells. We believe we have now made this new service more reliably predictable and consistently dependable for our customers than our old technology. We have recently delivered our first new generation lateral drilling rig with the AFJ capability which utilizes high-pressure fluid mixed with a small volume of abrasive materials, such as fine garnet sand, to cut through surfaces as tough as four inches of steel as well as granite rock. During this period of development and construction in late 2004 and all of 2005, we have conducted no drilling operations. If accepted by the market, the capabilities of this new generation AFJ rig will allow us to expand to a wider range of well services, including specialty casing cutting, long reach and large bore perforating, lateral jetting and specialty completions. Should we achieve favorable results for our customers with this initial rig’s capabilities, we intend to order the construction of up to three additional rigs in 2006 and significantly grow the deployment of our abrasive jetting service.

Our secondary business segment is providing satellite communication services to energy companies. This service allows them to remotely monitor and control well head, pipeline, drilling, and other operations through low cost broadband data and voice services to remote operations where terrestrial or cellular communication networks do not exist or are too costly to install to meet customers commercial requirements. Longer term, our broader vision is to introduce additional early stage technologies to the energy services sector, all of which would fit our mission of helping energy companies produce oil and gas more economically.

Industry

We operate in the energy services industry which services the broader energy industry, where companies explore, develop, produce, transport, and market oil and gas. This industry is comprised of a diversity of operators, ranging from the very small to the extremely large. While the major portion of oil and gas production is provided by very large international oil companies, there are also a large number of smaller independent companies who own the vast majority of existing wells.

As a smaller firm with a specialized service, we intend to provide down-hole solutions and satellite communication services to both small and large operators in the energy industry. Initially, the down-hole business will be focused toward North American onshore-based independent producers while the satellite business already has several of the large oil and gas operators as customers. As we grow, we intend to cater to all segments of the industry in situations where the application of our services can add value to our customers.

Demand for our services depends on our ability to demonstrate improved economics, primarily to the oil and gas production sector we serve. We believe that they will use our abrasive jetting service where it costs less than alternative services and/or when they perceive it enhances production. It will also be driven by macro-economic factors driving oil and gas fundamentals. The report of the Energy Information Administration of the U.S. Department of Energy entitled "International Energy Outlook 2006" forecasts that world oil consumption will increase at an average annual rate of approximately 1.1% from 2004 to 2030 and that world natural gas consumption will increase at an average annual rate of approximately 0.7% over the same period. The projected increase in demand for oil is based on growth in the transportation and industry sectors in particular, and primarily in Asian emerging economies, such as China and India, as well as North America. The projected increase in gas consumption over this period is expected to result from higher demand across the electrical power, industrial and commercial sectors, as well as from the increasing use of gas as a source of fuel for electric power generation, particularly in North and South America, as well as other regions. We also believe that reliance on traditional sources of oil and gas will be limited due to the inadequate delivery infrastructure and political unrest in major supplying countries.

There are 1,337 trillion cubic feet ("Tcf ") of recoverable gas resources in the U.S. - enough to last decades - but some of it is off-limits to recover because of restrictive environmental rules and lawsuits. This is particularly the case with drilling moratoriums on the East and West Coasts of America, parts of the Rocky Mountain Area and Alaska. On its website, www.naturalgasfacts.org, the American Petroleum Institute advocates "A multi-pronged approach is essential for meeting future U.S. gas demand: (1) wiser energy use and conservation, where possible; (2) development of more U.S. supplies - both offshore and in the Mountain West; (3) construction of pipelines to bring Arctic gas to consumers; and (4) tapping into global markets through liquefied natural gas from a diverse array of suppliers." We believe a more immediate impact can be made by exploiting existing U.S. supplies. Developing such supplies is dependent on drilling new wells in existing fields, or new reserves in expensive less accessible fields. We believe our lateral drilling technology can access previously uneconomic reserves and bring them to market cost effectively thereby helping to resolve this supply/demand imbalance.

The Office of Fossil Energy, U.S. Department of Energy, estimates there are over 400,000 oil wells and 260,000 gas wells that are marginal or classified as "stripper" wells in the United States. These stripper wells produce 10 to 15 barrels or less of oil a day or 60 thousand cubic feet of gas or less a day. According to the Office of Fossil Energy "together (stripper wells) account for over 1.4 Tcf of gas, or about 7% of the natural gas produced in the lower 48 states." Such wells are potentially considered uneconomic or marginal with the strong potential of being abandoned due to poor production economics. Indeed approximately 142,000 marginal wells were abandoned between 1994 and 2003 "costing the U.S. more than $3.0 billion in lost oil revenue" according to the Office of Fossil Energy. In seeking to revitalize marginal and stripper wells both the Department of Energy and American Petroleum Institute have emphasized the need for new technologies to access more of the reserves available. We believe we have the ability to generate new business by re-entering existing wells rather than being dependent on the production companies drilling new wells. With our unique abrasive jetting drilling technology, we believe we can provide potentially improved recovery rates rather than abandoning a field because of the depletion of its oil or gas reserves.

We believe that producing companies will react to the combination of the increased demand and the decreased supply of oil and gas in a manner that requires them to utilize both segments of our business. We believe that oil and gas producers have great economic incentive to recover additional production and reserves from known reservoirs rather than pursuing a more risky exploration approach. Our extraction methods may permit producers to add value by potentially recovering a significant additional percentage of the oil and gas from a reservoir. We believe that there exists a large potential market in North America that comprises logical candidates to apply our abrasive jetting stimulation methods.

Activity in the energy services industry tends to be cyclical with oil and gas prices. In addition to the currently positive industry fundamentals, we believe the following sector-specific trends enhance the growth potential of our business:

• While oil prices are unpredictable, they have remained and are projected to remain relatively high by historic terms for several years. Continuing high consumption and strong growth in Asian demand, limitations in delivery infrastructures and political unrest in major supplying countries are expected to be contributing factors.

• Gas prices are projected to remain high for several years due to the combination of strong demand and major supply constraints The situation is serious enough that Federal Reserve Bank Chairman Greenspan has expressed concern as to its effect as a constraint to US economic growth during his testimony before the Joint Economic Committee of Congress on May 21, 2003 and in updates since that time.

• There is no substitution threat to oil and gas in the foreseeable future. In particular, any significant substitution by hydrogen or any other potential source is believed by management to be some decades away.

Abrasive Jetting Services

Our AFJ service intends to provide casing milling, perforation, well stimulation and lateral drilling services to oil and gas producers. As a co-owner of the intellectual property with Alberta Energy Partners (“Alberta”) formerly known as Alberta Energy Holding, Inc., we also have exclusive worldwide licensing rights for the application of their patent pending Abrasive Fluid Jet (“AFJ”) cutting technique to cut through well casing and formation rock in oil and gas wells. AFJ is being added to, and will enhance the existing principles of lateral jetting and completion techniques utilized by us and the industry. Applications of such abrasive cutting techniques are a proven feature in industries as diverse as munitions disposal in the military, offshore platform dismantlement in the salvage industry and cutting specialty glass and steel in the machining business. We would be among the first to commercially apply the proven abrasive jetting techniques to the energy producing business.

We have recently completed the construction of a new generation specialty rig based upon modifications using existing coiled tubing technology as the primary platform. The capabilities of our new rig include: one-inch coiled tubing with a working depth capability of 8,000 feet; a fluid pressure pumping system; an abrasive slurry system; and a computer-controlled system to guide and control the down-hole formation access tool for precise casing milling and jetting services. The new generation rig is expected to be commercially deployed during April, 2006. After the initial rig establishes a reliable and commercial oilfield service, we intend to begin construction of additional rigs with similar capabilities as the market demands.

Expanded Product Line

Our versatile AFJ product line offerings have been expanded greatly from the single oilfield service offered using the Landers technology. The product line now varies in scope and complexity from the provision of relatively simple services such as coil tubing pumping, tubing cleaning and cutting, window casing milling, and large bore perforations to the more technically challenging services of long reach lateral jetting, with or without well stimulation services, using materials such as propants to ensure integrity of the well bore and acid to stimulate release of hydrocarbons. Most of the services offered currently exist in the marketplace but our goal is to provide them more efficiently and effectively by adding the abrasive cutting capability. For example, the current industry standard for well perforation involves shooting multiple small holes into the well bore and out into the oil and gas formation 3 to 6 feet compared to our approach of blasting 2 to 4 inch diameter tunnels into the formation rock as far as 10 feet or more. Another example is casing milling, where conventional methods take far longer to mechanically cut windows into the casing than the abrasive cutting technique. Management believes that the industry will rapidly embrace such time and cost saving operations.

Our initial rig is configured to provide such services to a working depth of 8,000 feet. Given our current lack of experience in providing these new AFJ services, we are unsure which services will be better received by the market or which will be more profitable to the company. Consequently, 2006 will be a year of learning much more about these markets for us.

Due to our unique and environmentally sound process, we believe that our AFJ product line will offer the ability to access previously uneconomic reserves and bring them to market cost effectively. These services should have appeal for both small independent operators as well as larger energy companies. At our lower comparative costs, we believe we can make it feasible to enhance production from a large potential market in North America and worldwide that would otherwise be cost prohibitive to recover. The existing independent oil and gas producers in North America are leading potential customers of these services. The company’s strategy is to operate in North America as a service company and to accelerate worldwide growth by attempting to deploy the technology overseas via licensing of the technology to energy service companies in their geographic areas of greatest strength.

Lateral Jetting Services
Many of the nation’s mature oil and gas fields contain new infield reservoir compartments and bypassed pockets of productive zones that have not previously been economic to produce. By extending 2 inch or greater diameter channels extended distances in multiple directions from the casing of the well, our lateral jetting service provides an potentially economic way to enhance production levels of existing reservoirs or by reaching new infield reservoirs or untapped reservoirs located near the existing vertical well. Our lateral drilling process uses a high pressure AFJ cutting technique, capable of drilling lateral holes from existing wells extended distances beyond the near well bore damage in wells at working depths as deep as 8,000 feet.

With conventional horizontal drilling, the transition from drilling vertically to horizontal drilling may take 200 feet or more and take many days to accomplish. With our patented technology, we can make this transition in two feet in an immediate fashion. This enables us to be extremely precise in targeting and staying within specific pay zones for a potentially significant enhancement to the production of the well.

We are developing abrasive jetting technology using specially designed deflection shoes, nozzles and hoses to drill 2 inch and larger diameter well bores into the producing formation in multiple directions around the well-bore. By increasing the surface drainage area opened to the producing reservoir, oil or gas production should be increased, which represents a potentially large value-added application in conventional drilling and completion operations. The figure below more precisely illustrates the process.

Our AFJ process is designed to work on both new and existing wells, but may have greater attraction to operators of marginal wells, whose production and basic economic performance could be greatly improved. The strong market potential arises from the realization that our service could negate the continual need for new drilling and denser infield drilling. Any fields that may be ready to be abandoned but have remaining resource potential can have their production re-established and their economic lives significantly extended if our abrasive jetting application is successful.

The figure below demonstrates how drilling multiple lateral wells from existing vertical well bores can drastically expand the production area within a given field. A typical vertical well will only recover petroleum from an area relatively near to the well bore. However, each lateral can extend in multiple directions from the well bore, thus potentially increasing the area of productive capacity several fold. With our lateral drilling process we have the ability to drill multiple laterals in different directions and at multiple depths within the same producing intervals in a matter of days. The average price for our service will range from $25,000 to $40,000 per well depending upon the size of the project. Specialized directional drilling companies typically charge $250,000 or more to drill horizontally in one direction and in only one horizon and may require weeks to drill each well.

Potential Benefits of our AFJ lateral jetting service:
• Increase production rate and recoverable reserves from marginal wells.
• Allows stimulation of wells with acid, steam, CO_2, etc.
• Allows multi-layer application in thicker reservoir zones.
• Provides an economic alternative to conventional infield drilling programs.
• Provides a time efficient and cost effective casing milling process.
• Offers an alternative to high cost well stimulation services such as hydraulic fracturing.
• Limits the time the well is out of production due to rapid jetting times.

Major Customers
We currently have one single active customer as we are in the commercial deployment mode. We have a letter of intent with Oracle Energy to conduct down-hole service testing on several wells located in their fields in Louisiana. Additionally, we have several other potential customers attending our yard and field demonstrations while on location in our contracted Fort Worth fabrication facility and in Sabine Parish, Louisiana with Oracle Energy.

Customer Acceptance
We are encouraged by the level of interest from prior and prospective customers in the abrasive jetting technology as it relates to conventional oil and gas production as well as coal bed methane opportunities.

Our abrasive jetting service directly competes with the need for new wells by laterally drilling from existing wells to extend the pay zone resulting in increased production through existing well bores. Our ability to target new or previously untapped deposits makes our technology potentially very compelling. By cost effectively extending the accessibility of reserves through the existing well bore, our technology can provide an alternative for a customer to add value to an existing field as compared to conventional well fracturing and stimulation techniques or infield drilling programs. The field operator's next best economic alternatives are all more expensive than our service. This has the potential to be not only compelling economically but also very environmentally friendly because it uses previously established well bores rather than building new surface locations to drill new wells.

According to the Department of Energy Report - Natural Gas Fundamentals from Resource to Market, June, 2003, there are "Over 7,000 small independent businesses (that) drill 85% of wells and produce 65% of gas in the U.S. from over 350,000 U.S. wells." These independent producers are potential customers for our abrasive jetting service. In the same report it estimates 10,000 to 15,000 new gas wells are drilled and completed each year costing anywhere from less than $100,000 to several million. These new wells are necessary just to replace depleted supplies from existing wells in an effort to maintain current U.S. production levels.

Recent changes in U.S. tax laws provide for incentives to keep smaller oil and gas wells pumping even at lower energy prices. Operators of the nation's 650,000 marginally producing wells, representing approximately 25% of total U.S. production, receive tax credits of up to $9 per well per day. We believe such credits will be reinvested by the operators toward services such as abrasive jetting in an effort to increase production and the value of their oil and gas fields.

Market
It has become clear in recent years that while the demand of oil and gas in the U.S. continues to grow, its ability to meet this demand from existing and new sources is rapidly declining. This accelerated decline will require producers to seek new extraction methods or technologies to exploit oil and gas production from existing fields and we anticipate that our abrasive jetting process will help satisfy the need for these new technologies. According to the Department of Energy, there have been 2.3 million wells drilled in the US since 1949. "Historically, only some 30% of the total oil in a reservoir - the "original oil-in-place" - was recoverable. As pressure declines in the reservoir, the oil becomes costlier and costlier to produce until further production becomes uneconomic…recent advances now allow greater recovery from old reservoirs."

Emphasis on Gas
The U.S. consumed 22.3 Tcf of gas in 2004 - heating 57% of U.S. households and meeting 23% of the country's energy requirements, according to the U.S. Energy Information Administration (EIA). In that same year, U.S. production of gas totaled 18.8 Tcf, which equates to 84% of the amount consumed. According to the EIA, this gap between demand and supply is estimated to grow over the next decade. Demand will grow because gas is a versatile, clean burning and, historically, an economic fuel. At the same time, the new domestic fields being found are smaller and have shorter productive lives. So, it is management's belief that with legal and political barriers to drilling on new lands, producers will seek alternative to extend the lives from existing fields, utilizing new energy service technologies such as AFJ.

Competition
Our AFJ business is expected to operate in a niche that lies between the more expensive and higher impact conventional horizontal drilling business and the much cheaper and lower impact casing milling and perforation businesses. Our abrasive jetting service can provide significant reservoir exposure, and therefore greater production potential, similar to horizontal drilling at a cost closer to that of a perforation service.

Conventional horizontal or directional drilling is slow and significantly more expensive to the extent that it is only being used if its much longer drilling radius was required as is necessary in offshore or environmentally sensitive areas. Companies offering this service include Halliburton, Baker Hughes, Schlumberger and other independent service companies. They traditionally drill one lateral through the existing well bore. That lateral can take over 200 feet to achieve the turn to the horizontal and be limited to only one "pay" zone. It usually costs over $250,000 and positive financial returns require very high producing rates or high oil and gas prices.

However, many of our competitors are better financed, equipped and resourced than us.

Satellite Communications
Our second business segment provides satellite communication services to oil and gas producers. It has been common practice to manually gather much of the data for energy management, and communicate using satellite phone or cellular service where available. This is not only expensive but also causes a significant time lag in the availability of critical management information. The Blast Satellite Private Network ("BSPN") services utilize two-way satellite broadband to provide oil and gas companies with a wide variety of remote energy management communications and applications. Satellite's capability to provide secure broadband to any remote location in the world gives it unique capabilities over terrestrial and cellular networks. Technology advancements now facilitate not only data, email and internet traffic but also Voice over Internet ("VoiP") and video streaming. Bandwidth traffic capabilities of base station have also increased significantly allowing larger and faster file and data transfer capabilities to compete with terrestrial systems. Satellites capability to operate off stationary and mobile remote dishes with no supporting infrastructure has proven invaluable in both disaster recovery and remote or continuously moving commercial operations.

Our satellite services can be optimized to provide cost effective applications such as VoIP, Virtual Private Networking "VPN" and Real-time Supervisory Control and Data Acquisition Systems, commonly referred to as SCADA. SCADA permits oil and gas companies to dispense with a manual structure and move to a real-time, automated, energy management program. Utilizing SCADA, a service we currently offer, production levels can be optimized to meet the producer's current market demands and commitments.

At present, we acquire modem hardware from ViaSat, iDirect Technologies and Spacenet and install this equipment on our customers' onshore and offshore platforms. Space segment services are acquired from SES and Loral and hub services from Constellation, Isotropic Networks, Viasat and Spacenet.

Blast uses satellite communications that are low cost and that ensure worldwide availability, even in geographic areas with a poor communications infrastructure. Our satellite services are based on industry standards to lower implementation costs and to simplify the integration into existing systems. Reliability and availability are critical considerations for SCADA. Satellite services are provided 24 hours a day, 7 days a week with 99.9% availability virtually anywhere in the world. There are fewer points of failure than comparable terrestrial services. They provide uniform service levels, are faster and more cost effective to deploy. Our satellite services are also very flexible and easily accommodate site additions, relocations, bandwidth expansion, and network reconfiguration.

Additionally, security, integrity, and reliability have been designed into our satellite services to ensure that information is neither corrupted nor compromised. Satellite communications are more secure than many normal telephone lines.

Major Customers

Our current satellite services customers include Apache Corporation, BP America Production Company, and Noble Energy with 22 remote sites, representing 16%, 23% and 16%, respectively, of our satellite revenues through December 31, 2006. We are also providing satellite services in West Africa to ExxonMobil, Kellogg Brown & Root Inc. and General Electric Power Company. Contracts are usually for hardware, backhaul, and bandwidth. Virtually any oil and gas producer, of which there are thousands, is a potential customer for our satellite services.

Market

There are more than two million oil and gas wells in existence in the U.S. alone, many of which are located in remote or rural areas where communications and monitoring well status can be difficult and expensive. Such well locations could benefit from the economics of our real-time, high speed satellite connectivity services as compared to more conventional monitoring alternatives, such as, the time consuming and costly transportation of personnel to remote well locations, or the equipment and maintenance costs of laying land lines for real-time monitoring of remote well operations. Our focus is serving the needs of oil and gas producers worldwide to control their production effectively and to enhance customer satisfaction by providing worldwide real-time access to information. This market for satellite services is very competitive with increasing pressure on margins our larger competitors offer services at substantially discounted prices. We attempt to compete against such competitors by attempting to target niche markets and offering alternative solutions that solve customers' complex communication problems at more cost effective rates. We utilize satellite, Wi-Fi and other wireless technology for the last mile of wellhead connectivity for these customers and focus almost exclusively on the oil and gas market. The common denominator throughout is Multiple Protocol Label Switching "MPLS/ATM" network transport services.

Competition
The satellite communication industry is intensely competitive due to overcapacity, but the competition is less severe in the oil and gas producing sector. Other satellite services providers in the oil and gas industry include Petrocom, Stratus Global, Tachyon, Schlumberger and Caprock. Caprock, Schlumberger and Stratus are focused on the top 20% of the market, particularly international and offshore platforms, and Petrocom and Stratus Global are focused on the offshore market using a traditional wireless network. Our satellite services offer advantages over those services by:

• Customizing the provided service to better meet the customer's needs;
• Offering superior speed;
• Providing single vendor convenience; and
• Offering lower up-front infrastructure and operating costs.

Insurance
Our operations are subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, implosions, fires and oil spills. These conditions can cause:

a) personal injury or loss of life
b) damage to or destruction of property, equipment and the environment
c) suspension of operations

In addition, claims for loss of oil and gas production and damage to formations can occur in the well service industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in us being named as a defendant in lawsuits asserting large claims.

We maintain insurance coverage that we believe to be customary in the industry against these types of hazards. However, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. In addition, our insurance is subject to coverage limits and some policies exclude coverage for damages resulting from environmental contamination. The occurrence of a significant event or adverse claim in excess of the insurance coverage that we maintain or that is not covered by insurance could have a materially adverse effect on our financial condition and results of operations.

Patents and Licenses
Effective August 25, 2005, Blast entered into a definitive agreement to purchase from Alberta an interest in the AFJ technology that enables Blast the unrestricted right to use the technology and license the technology worldwide to others. Blast expects to utilize the technology as the foundation for its energy services business. Blast has acquired a 20% interest in the technology that can increase to up to a 50% interest as described below. The agreement supersedes the previously existing licensing agreement between the parties.

As part of the agreement, Blast has agreed to issue to Alberta 3,000,000 shares of restricted common stock, with registration rights, and warrants to purchase 750,000 shares of Blast common stock at an exercise price of $0.45 per share. The warrants have a three-year term and are exercisable when Blast receives $225,000 in revenue from its initial rig utilizing the technology. Blast has agreed to pay a royalty payment of $2,000 per well bore or 2% of the gross revenues received, whichever is greater. The parties also agreed to share any revenues received by Blast from licensing the technology, with Alberta receiving 75% of licensing revenues until it receives $2,000,000 and then decreasing to 50% thereafter. Blast's ownership interest in the technology would increase on a sliding scale from 20% up to 50% based on the licensing revenues received by Alberta. Either party has a right of first refusal on any new applications of the technology by the other party, or any sale of the other party's interest in the technology.

In March of 2006, Alberta accelerated the revenue sharing provisions of the Technology Purchase Agreement and assigned the full 50% ownership in the AFJ technology to Blast effective immediately. Blast had previously been awarded only 20% of the ownership and the remaining 30% balance had been contingent upon the sharing of future revenues.

Blast and Alberta also agreed to amend the existing construction agreement between the parties. The amendment increased the construction cost of the rig by $50,000 to $900,000. Under the amendment, the parties agree to share cost overruns, if any, equally up to a rig cost of $1,000,000, with Blast assuming responsibility of any costs above that amount.

On April 24, 2003 we entered into an agreement to license the Landers Horizontal Drilling Process, based on U.S. Patent Nos. 5,413,184, 5,853,056, and 6,125,949 relating to certain oil and gas well production enhancement techniques and devices and related trade secrets with the inventor and holder of the patents and trade secrets, Carl Landers. The license gives us exclusive rights to apply the technology and the related trade secrets in all of the U.S. (except for part of Colorado West of the Rockies, and Utah) and Canada. Mr. Landers also reserves the rights to certain applications in which he has a direct interest but may not compete with us. Any improvements to the technology remain the sole property of the licensor but are provided to us without additional licensing fees. The license terminates upon the expiration of the underlying patents, the earliest date being October 1, 2013.

On March 8, 2005, we entered into an Assignment of License Agreement (“Assignment”) with Maxim TEP (“Maxim”). The President and CEO of Maxim is Dan Williams, our former President and CEO. Under the assignment, we assigned to Maxim our rights in the license of the Landers Horizontal Drilling Process; all current and future negotiations for assignments, sublicenses or territorial royalty pertaining to the license and two lateral drilling rigs. As consideration, Maxim has paid $1,300,000 in principal payments and $500,000 in penalties for extending the payment deadlines and released a $270,000 credit obligation we owed to Maxim. We will retain a non-exclusive sublicense interest in the Landers Horizontal Technology provided we pay all required royalties in utilizing the technology.

The lateral jetting technology and related trade secrets are instrumental to our competitive edge in the oil and gas service industry. We are highly committed to protecting the technology. We cannot assure our investors that the scope of any protection we are able to secure for our license will be adequate to protect it, or that we will have the financial resources to engage in litigation against parties who may infringe on our exclusive license. We also can not provide our investors with any degree of assurance regarding the possible independent development by others of technology similar to that which we have licensed, thereby possibly diminishing our competitive edge.

Governmental Regulations

Once we begin commercial lateral drilling operations, we may be subject to various local, state and federal laws and regulations intended to protect the environment. Such laws may include among others:

- Comprehensive Environmental Response, Compensation and Liability Act;
- Oil Pollution Act of 1990;
- Oil Spill Prevention and Response Act;
- The Clean Air Act;
- The Federal Water Pollution Control Act; and
- Texas Railroad Commission Regulations.

These operations may involve the handling of non-hazardous oil-field wastes such as sediment, sand and water. Consequently, the environmental regulations applicable to our operations pertain to the storage, handling and disposal of oil-field wastes. State and federal laws make us responsible for the proper use and disposal of waste materials while we are conducting operations. We do not believe we are currently required under any environmental laws to obtain permits to conduct our lateral drilling operations as proposed. We believe we conduct our operations in compliance with all applicable environmental laws, however, there has been a trend toward more stringent regulation of oil and gas exploration and production in recent years and future modifications of the environmental laws could require us to obtain permits or could negatively impact our operations.

We depend on the demand for our products and services from oil and natural gas companies. This demand is affected by changing taxes, price controls and other laws relating to the oil and gas industry generally, including those specifically directed to oilfield operations. The adoption of laws curtailing exploration and development drilling for oil and natural gas in our areas of operation could also adversely affect our operations by limiting demand for our products and services. We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing legislation regulations or enforcement.

Our satellite services utilize products that are incorporated into wireless communications systems that must comply with various government regulations, including those of the Federal Communications Commission (FCC). In addition, we provide services to customers through the use of several satellite earth hub stations, which are licensed by the FCC. Regulatory changes, including changes in the allocation of available frequency spectrum and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by (1) restricting development efforts by us and our customers, (2) making our current products less attractive or obsolete, or (3) increasing the opportunity for additional competition. Changes in, or our failure to comply with, applicable regulations could materially harm our business and impair the value of our common stock. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards for these products and services, generally following extensive investigation of and deliberation over competing technologies. The delays inherent in this government approval process have caused and may continue to cause our customers to cancel, postpone or reschedule their installation of communications systems. This, in turn, may have a material adverse effect on our sales of products to our customers.

Research and Development Activities
During 2005 and 2004, we incurred an insignificant amount of research and development costs as it relates to our abrasive jetting process. We incurred no research and development costs in our satellite business.

Employees
As of December 31, 2005, we had a total of seven full time employees. We also utilize independent contractors and consultants to assist us conducting the drilling operations, installing the satellite equipment, maintaining and supervising such services in order to complement our existing work force, as needed. Our agreements with these independent contractors and consultants are usually short-term. We are not a party to any collective bargaining agreement with any employees, and believe relations with our employees, independent contractors and consultants are good.

Item 2. Description of Property

Office Facilities
We lease approximately 3,000 square feet of office space in Houston, Texas for our principal executive office at a cost of $4,000 per month. Our lease expires in August of 2007.

Equipment
As of December 31, 2005, our primary equipment consisted of one new generation AFJ mobile drilling unit, which was under construction. The unit is expected to be deployed during April 2006. We also maintain certain satellite communication equipment, computer equipment, and furniture at our principal executive office.

On March 8, 2005, Blast assigned its rights in the license of the Landers Horizontal Drilling Process to Maxim along with all current and future assignments, sublicenses or territorial royalty pertaining to the license. In connection with the assignment, Blast sold two of its three drilling rigs for the release of a customer deposit obligation that we owed Maxim. Maxim has taken delivery of both rigs. The other rig was transferred to Edge Capital, as part of the settlement agreement. As a result, Blast no longer owns any of the older generation non-abrasive drilling rigs.

We believe that our facilities and equipment are in good operating condition and that they are adequate for their present use.

Item 3. Legal Proceedings

Securities and Exchange Commission Investigation
We received notice in January 2004 that the Securities and Exchange Commission has initiated a formal investigation into our reporting practices and our public statements in 2003.

The SEC has requested substantiation and documentary evidence from us concerning the performance of certain lateral drilling services by subcontractors in the period from May, 2003 to September 2003, supervision of such services by our executive management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to our acquisition of certain assets of Quikview, Inc., a related party company, in June, 2003.

Since December 2003, we have taken several steps to address issues related to the SEC's inquiries, including the termination and replacement of the previous CEO and COO. Two directors have resigned from our board and we have appointed a new CFO. Internal controls have been strengthened overall, particularly with respect to the public release of information and the recognition of revenue. We had also initiated an internal investigation of the matters of concern to the SEC. Consequently, we restated our second and third quarter financial statements from fiscal year 2003 to reverse all revenue related to the aforementioned period.

We are cooperating fully with the SEC, including the provision of numerous documents and voluntary testimony by our current executives. In December 2004, the staff of the SEC notified us that it was considering recommending that the SEC bring a civil injunction (including a possible permanent injunction and a civil penalty) against us alleging violations of provisions of the Sections 10(b), 13(b)(2)(A), 13(b)(2)(B) and 15(d) of the Securities Exchange Act of 1934 and rules promulgated there under in connection with the purchase and sale of our securities, recordkeeping, internal controls, certification and disclosure obligations. We were notified of our right to make a Wells submission. We have provided information to the SEC setting forth the specific steps we have taken to upgrade the quality and effectiveness of our board of directors, replace the previous management team with industry experts, improve our recordkeeping, internal and disclosure controls, and revenue recognition procedures. Although we are working to bring the matter to a prompt conclusion and have been engaged in settlement discussions with the SEC, we cannot make any assurance that the investigation will be resolved positively or that it will not have negative effects on our limited resources or our ability to raise capital and use its stock as acquisition currency during the period of the investigation.

Claims by Investor (Partially Settled)
In February 2005, Blast entered into an Agreed Judgment and Order of Severance with Gryphon Master Fund, L.P. ("Gryphon") as to all breach of contract claims related to Blast Energy's delay in registering common stock acquired by Gryphon in October 2003. Under the terms of the Agreed Judgment, Blast agreed to pay liquidated damages of $500,000 to Gryphon and has satisfied this obligation. In the portion of the lawsuit which was severed from the breach of contract and liquidated damages claims, filed in state court in Dallas County, Texas. Gryphon has also claimed against us that it has sustained actual damages in excess of $2.1 million. The suit alleges a claim, among other things, of securities fraud by us. In connection with the lawsuit, Gryphon requested liquidated damages, actual damages, punitive damages, interest, cost and attorneys' fees among other claims. Gryphon has made a settlement demand on the Company for $2.1 million, which it purports to represent the actual damages it has sustained. We intend to vigorously defend ourselves in this matter with respect to the remaining claims of Gryphon. If Gryphon prevails on the remaining claims, it may obtain significant damages that may have a material adverse effect on our financial condition.

Concluding Statement
We have never been in bankruptcy, receivership or any similar legal proceeding. Other than described above, we are not aware of any other threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years. As part of its regular operations, we may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning our commercial operations, products, employees and other matters. Although we can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the company, except as described above, we believe that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

Part II

Item 5. Market for Common Equity and Related Stockholder Matters

The common stock of Blast Energy Services, formerly known as Verdisys, Inc., commenced trading on the OTC Bulletin Board on July 18, 2003 under the symbol "VDYS". Effective June 6, 2005, the symbol for our stock became "BESV". The following table sets forth, for the periods indicated, the high and low bid prices of a share of our common stock as reported on the OTC Bulletin Board since active trading began on May 2, 2003. The quotations provided are for the over the counter market which reflect interdealer prices without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	HIGH	**LOW**
2004		
First Quarter	$ 9.54	$ 3.35
Second Quarter	$ 4.75	$ 1.50
Third Quarter	$ 1.95	$ 0.25
Fourth Quarter	$ 1.00	$ 0.40
2005		

First Quarter	$ 0.59	$ 0.35
Second Quarter	$ 0.52	$ 0.30
Third Quarter	$ 0.61	$ 0.31
Fourth Quarter	$ 1.08	$ 0.34

Holders

As of February 28, 2006, we had 42,954,507 shares of common stock issued and outstanding held by approximately 420 shareholders of record, including 1,150,000 shares approved for issue under the class action settlement.

Dividends

We have never paid cash dividends. At present, we do not anticipate paying any dividends on our common stock in the foreseeable future and intend to devote any earnings to the development of our business.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2005 regarding compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities available for future issuance under equity compensation plans (excluding securities shown in first column)
Equity compensation plans approved by shareholders			
Equity compensation plans not approved by shareholders	4,749,847	$1.27	3,250,153
Total	4,749,847	$1.27	3,250,153

Recent Sales of Unregistered Securities
The following table details shares issued under transactions that were a private offering we believe to be exempt from registration under Regulation D promulgated under Section 4(2) of the Securities Act. The sales of stock were to individuals or entities, each of whom was an accredited investor, as that term is defined in Rule 501 of Regulation D promulgated under Section 4(2) of the Securities Act and had adequate access to information pertaining to us. Furthermore, no advertisements were made and the securities are restricted pursuant to Rule 144.

December 2005	**Shares**	**Value**
Linden Capital Partners	900,000	$ 540,000

Offering Costs: A commission of $27,000 was earned by Chadbourn Securities
Other Terms: None

February 2005	**Shares**	**Value**
Nick Gorenc	13,000	$ 6,500
John & Cecelia Colgate	30,000	$ 15,000
Lakshmana Madala Defined Benefits Plan	20,000	$ 10,000
Flavio & Veronica Parigi	15,000	$ 7,500
Henry Rasmussen	10,000	$ 5,000
Nyla Rasmussen	20,000	$ 10,000
Steven E. Berglund	20,000	$ 10,000
Martin Hagenson	10,000	$ 5,000
Michael J. Paveloff	20,000	$ 10,000
Total	158,000	$ 79,000

Offering Costs: 15,800 shares of common stock and warrants to purchase 15,800 shares of our common stock at $1.00 per share were issued as a finders fee to Prima Capital Group.
Other Terms: Two year warrants to purchase 433,000 shares of our common stock at a price of $1.00 per share were issued in connection with the private placement. The proceeds will be allocated between the common stock and the

warrants based on their respective relative fair values.

January 2005	**Shares**	**Value**
Michael Peterson	100,000	$ 50,000
George Andros	100,000	$ 50,000
Osvaldo Diaz-Christians, Jr.	25,000	12,500
Jack St. Arnold	50,000	$ 25,000
Total	275,000	$ 137,500

Offering Costs: None

Other Terms: Two year warrants to purchase 433,000 shares of our common stock at a price of $1.00 per share were issued in connection with the private placement. The proceeds will be allocated between the common stock and the warrants based on their respective relative fair values.

May - June 2004	**Shares**	**Value**
Venkata Kollipara	62,500	$ 125,000
D.L. Dunbar, Trustee & Ruth Anne Dunbar, Trustee	5,000	$ 10,000
George C. Koutures	14,000	$ 28,000
John Burke Trustee	12,500	$ 25,000
Robert E. & Rosalie T. Dettle Living Trust	12,500	$ 25,000
Joseph W. Brown	13,000	$ 26,000
James & Bernice Campbell	12,500	$ 25,000
Edwards Family Trust	12,500	$ 25,000
Prima Capital Group	35,000	$ 70,000
Total	179,500	$ 137,500

Offering Costs: 17,950 shares of common stock and warrants to purchase 7,180 shares of our common stock at $2.00 per share were issued as a finders fee to Prima Capital Group.
Other Terms: Two year warrants to purchase 71,800 shares of our common stock at a price of $2.00 per share were issued in connection with the private placement. The proceeds were allocated between the common stock and the warrants based on their respective relative fair values.

July - August 2003	**Shares**	**Value**
Elizabeth A. Reed	12,500	$ 25,000
Peter A. Massaniso	40,000	$ 80,000
Ponte Vedra Partners	60,000	$ 120,000
Nick Gorenc	37,000	$ 74,000
Ernest Telford	25,000	$ 50,000
Venkata Kollipara	12,500	$ 25,000
George Shirahama Maggay	12,500	$ 25,000
Gregg Mullery	12,500	$ 25,000
David Newton	10,000	$ 10,000
Vivanis Kaplanis	8,000	$ 16,000
Mahi-Niki Loumidis	7,500	$ 15,000
Louis Lyras	7,000	$ 14,000
Elizabeth A. Reed	6,250	$ 12,500
Michael A. Frangopolous	7,000	$ 14,000
Jerome Dreyfuss	6,250	$ 12,500
Howard Kaplan	5,000	$ 10,000
Peter Skafte	5,000	$ 10,000
R.V. Edwards, Jr.	2,500	$ 5,000
Navid Eskandari	6,250	$ 12,500
David Eskandari	6,250	$ 12,500
Total	609,000	$ 1,218,000

Offering Costs: 59,400 shares of common stock and warrants to purchase 9,501 shares of our common stock at $2.00 per share were issued as a finders fee to Prima Capital Group.
Other Terms: None

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The following table details sales of stock we believe to be exempt from registration under Section 4(2) of the Securities Act. Each of the recipients of our stock was an accredited investor, as that term is defined in Rule 501 of Regulation D promulgated under Section 4(2) of the Securities Act and had access to information concerning us and our business prospects. Furthermore, no advertisements were made and the securities are restricted pursuant to Rule 144.

Date	Number of Shares of Common Stock	Value	Comment
Fourth Quarter of 2005	30,000	$ 11,100	Shares issued to Clayton & McEvoy P.C. for legal services.
Third Quarter of 2005	35,000	$ 14,000	Shares issued to BlausenLisi for design services.
	60,000	$ 24,500	Shares issued to Prima Capital for investor relations services.
Second Quarter of 2005	63,000	$ 22,050	Shares issued to Jeffrey MacKay in payment of legal fees for SEC filing
	20,000	$ 10,000	Shares issued to Clayton McEvoy P.C. for legal services
First Quarter of 2005	83,333	$ 25,000	Shares issued to settle a dispute with Mr. Pimentel, a former consultant.
First Quarter of 2004	60,000	$ 30,000	Shares issued to Jeffery MacKay in payment of legal fees for SEC filing.
	44,000	$ 22,000	Shares issued to the Strickland Group for engineering consulting services
	250,000	$ 75,000	Shares issued to settle a dispute with Mr. John Pimentel, a former consultant
	400,000	$ 200,000	Shares to Berg McAfee Companies for cash
Third Quarter of 2004	30,000	$ 15,000	Shares issued to Amerifund Capital Group in payment of a future fundraising effort
	300,000	$ 213,000	Shares issued in lawsuit settlement with Scooter's Convenience, Inc.
First Quarter of 2004	300,000	$ 1,920,000	Shares issued in payment of outstanding obligations to Mr. Landers for technology fees.

Third Quarter 2003	500,000	$ 2,275,000	Shares issued to Mr. Landers in exchange for amendment to Landers licensing agreement
	125,000	$ 250,000	Shares issued in payment of note payable to Mr. Landers.

<u>Other Sales</u>

In August 2005, Blast entered into a definitive agreement to purchase from Alberta an interest in the abrasive fluid jetting technology. Blast issued to Alberta 3,000,000 shares of restricted common stock valued at $1,170,000, with registration rights, and warrants to purchase 750,000 shares of Blast common stock at an exercise price of $0.45 per share. The warrants have a three-year term and are exercisable when Blast receives $225,000 in revenue from its initial rig utilizing the technology.

In June 2005, Blast issued 592,000 shares of common stock to a group of lenders composed principally of management and directors for the payment of $ 199,800 in notes payable and accrued interest that matured on May 15, 2005.

In March 2005, the Board of Directors awarded to certain employees and officers a total of 560,000 shares of company stock as a bonus payment in lieu of cash for 2004 performance. These shares were issued in September 2005 with a value of $196,000.

In early 2005, we issued 403,340 shares of our common stock under a program to compensate our directors, employees, contractors and former employees for $201,670 of unpaid wages, commissions and director fees incurred in 2004.

In January 2005, we issued 16,000 shares of our common stock for the payment of leasing fees valued at approximately $8,000 and 10,666 shares of our common stock with a value of $4,626 to settle unpaid compensation with two former AgZone employees. Additionally, 500,000 shares of common stock with a value of $215,000 were issued to Edge under the final terms of the lawsuit settlement agreement.

In October 2004, we issued 750,000 shares of our common stock valued at $240,000 in a move to settle outstanding litigation matters. In a Settlement Agreement and Mutual Release ("Agreement") between Edge, Eric McAfee and us, the parties would release each other from any claims upon the completion of the terms of the Agreement. As a part of this Agreement, 250,000 shares of our common stock were placed in escrow for the benefit of Edge. In October 2004, we entered into an agreement with Berg McAfee Companies, Energy 2000 and Eric McAfee (collectively, "McAfee Group") to settle several outstanding legal issues. Under this agreement, 500,000 shares of our common stock were placed in escrow for the benefit of the McAfee Group. In return, the McAfee Group contributed 875,000 shares of NGS. Further detail on these agreements can be found in the "litigation" section of this Form 10-KSB. The shares of stock were issued in transactions we believe to be exempt from registration under Section 4(2) of the Securities Act. The recipient of our stock was an accredited investor as defined in Rule 501 of Regulation D promulgated under Section 4(2) of the Securities Act and had access to information concerning us and our business prospects.

Furthermore, no advertisements were made and the securities are restricted pursuant to Rule 144.

Common Stock Issued Upon Exercise of Options

Date	Shares Issued Upon Exercise	Value	Comment
Second Quarter of 2004	344,583	$ 34,458	
First Quarter of 2004	25,000	$ 2,500	
Fourth Quarter of 2003	100,000	$ 10,000	
Second Quarter of 2003	2,409,291	$ 240,929	In lieu of cash, we agreed to expense the exercise price.

Common Stock Issued Upon Exercise of Warrants

Date	Shares Issued Upon Exercise	Value	Comment
Third Quarter of 2005	50,000	$ 50	
First Quarter of 2005	25,000	$ 250	
Second Quarter of 2004	57,658	$ 5,766	
	779,597	$ 38,494	

First Quarter of 2004			Includes cashless exercise of 400,000 warrants for 395,022 shares of common stock.
Fourth Quarter of 2003	245,631	$ 29,564	
Third Quarter of 2003	269,547	$ 177,751	
Second Quarter of 2003	430,000	$ 56,500	
Second Quarter of 2003	950,000	$ 95,000	Accounts payable reduced in lieu of cash exercise.
Second Quarter of 2003	200,000	$ 20,000	Note payable reduced in lieu of cash for exercise.

Options
The following table summarizes option grants for the last three years:

Date	Number of Shares	Exercise Price	Market Price	Vesting	Term (years)	Fair Value	To Whom Issued
Dec 2005	1,000,000	$ 0.80	$ 0.79	Quarterly over 2.5 years	10	$ 800,000	Officers
	170,000	$ 0.80	$ 0.79	Quarterly over 3 years	10	$ 136,000	Employees
Aug 2005	900,000	$0.10	$ 0.40	Subject to terms of settlement agreement	2	$ 360,000	Former Officer
Aug 2005	140,000	$ 0.40	$ 0.40	Quarterly over 3 years	10	$ 56,000	Employees
June 2005	72,000	$ 0.38	$ 0.38	Quarterly over 1 year	10	$ 27,360	Non-employee directors
March 2005	100,000	$ 0.40	$ 0.40	Quarterly over 3 years	10	$ 39,990	Officers
Jan 2005	30,000	$ 0.50	$ 0.50	Quarterly over 3 years	10	$ 14,996	Officers
July 2004	770,000	$ 0.90	$ 0.90	Quarterly over 3 years	10	$ 689,232	Officers
May 2004	72,000	$ 2.20	$ 2.20	Quarterly over 1 year	10	$ 156,913	Non-employee directors
Jan 2004	230,000	$ 4.28	$ 4.28	Quarterly over 1 year	10	$ 890,785	Officers
Jan 2004	80,000	$ 4.28	$ 4.28	Immediate	10	$ 309,840	Non-employee directors
Dec 2003	500,000	$ 9.55	$ 9.55	10% immediate, 80% over 12 months, 10% on performance	10	$ 4,061,703	Officer/director
Aug 2003	100,000	$ 4.10	$ 4.10	Quarterly over 1 year	5	$ 321,024	Employee
April 2003	750,000	$ 0.10	$ 0.50	Quarterly over 3 years	10	N/A	Officer
April 2003	250,000	$ 0.10	$ 0.50	Quarterly over 1 year	10	N/A	Non-employee directors
April 2003	250,000	$ 0.10	$ 0.50	Quarterly over 1 year	10	N/A	Officer/director
April 2003	30,000	$ 0.10	$ 0.50	Over 4 months	10	N/A	Officer

We recorded expense of $0 and $245,829 for the intrinsic value associated with the options vesting in 2005 and 2004, respectively. The expense is included in selling, general & administrative expense on the statement of operations.

Warrants
The following table summarizes warrants granted for the last three years:

Date	Other

	Number of Shares	Exercise Price	Term (years)	
August 2005	750,000	$ 0.45	3	Issued in connection with definitive agreement to purchase from Alberta an interest in the AFJ technology.
April 2005	400,000	$ 1.00	2	Issued in connection with stock sale.
Jan & Feb 2005	433,000	$ 1.00	2	Issued in connection with Private Placement.
Jan & Feb 2005	15,800	$ 1.00	2	Offering costs of Private Placement.
Jan 2005	750,000	$ 1.00	3	Issued in connection with Edge dispute settlement.
October 2004	100,000	$ 0.001	1	Issued in connection with aggregate convertible notes of $200,000 to Berg McAfee and Eric McAfee. The notes have been discounted for the relative fair value of the warrants.
October 2004	250,000	$ 0.50	3	Issued to Alberta as part of a licensing agreement. The fair value of $199,750 was expensed in 2004.
August 2004	140,000	$ 0.80	2	Issued to certain subcontractors and the fair value of $98,000 was expensed in 2004. 20% of the warrants vest immediately and the balance vest 20% every 90 days thereafter.

July 2004	100,000	$ 0.001	1	Issued in connection with $200,000 in convertible notes to third party lenders. The notes have been discounted for the relative fair value of the warrants.
July 2004	75,000	$ 0.01	2	Issued in connection with $150,000 in convertible notes to third party lenders. The notes have been discounted for the relative fair value of the warrants.
May & June 2004	71,800	$ 2.00	2	Issued in connection with Private Placement.
June 2004	7,180	$ 2.00	2	Offering costs of Private Placement.
May 2004	37,000	$ 2.00	1	Issued in connection with $185,000 in promissory notes to third party lenders. The notes have been discounted for the relative fair value of the warrants.
Fall 2003	92,835	$ 6.00	5	Issued in connection with raising $5,000,000 from Gryphon and the fair value of $822,738 has been treated as a cost of fundraising.
Fall 2003	9,501	$ 2.00	5	
Summer 2003	150,000	$ 0.10	1	Part of settlement, along with $28,000 in cash, with the two original founders for various debts recorded on the books at $576,000. The warrants were valued at $0.40 per share or $60,000, resulting in a contribution to capital of $488,000.
May 2003	2,644,438	$ 0.10	Var	Issued to former employees and the fair value of $1,050,687 were expensed in 2003.
April 2003	200,000	$ 0.10	4	Issued to consultants and the fair value of $800,000 was expensed in 2003.
April 2003	232,334	$ 0.75	1	Previously expired warrants were extended.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the Financial Statements and Notes thereto included in this report. All statements that are included in this Report, other than statements of historical fact, are forward-looking statements. You can identify forward-looking statements by words such as "anticipate", "believe" and similar expressions and statements regarding our business strategy, plans and objectives for future operations. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The forward-looking statements in this filing involve known risks and uncertainties, which may cause our actual results in future periods to be materially different from any future performance suggested in this report. Such factors may include, but are not limited to, such risk factors as: changes in technology, reservoir or sub-surface conditions, the introduction of new services, commercial acceptance and viability of new services, fluctuations in customer demand and commitments, pricing and competition, reliance upon subcontractors, the ability of our customers to pay for our services, together with such other risk factors as may be included in this report.

We are currently deploying our first new generation lateral drilling rig with the capability of abrasive fluid jetting by use of much higher hydraulic horsepower. During this period of development and construction in late 2004 and all of 2005, we have conducted no drilling operations and the only income provided by our primary segment has been the proceeds from the sale of equipment. We believe our future success depends on the ability to effectively utilize the lateral drilling technology obtained through our purchase of an interest in the intellectual property behind the AFJ technology provided by Alberta. See "Patents and Licenses" in the Description of Business section of this prospectus. Funding for developing this abrasive cutting service has been primarily met by a $1 million loan from Berg McAfee Companies, our major shareholder. The loan has a senior and subordinated structure. The loans carry a combined interest rate of 7.4% and will share in 10% of the future gross revenues from the abrasive jetting rig for a period of ten years. In addition, working capital needs have been through the assignment of our exclusive rights acquired in 2003 for the previous generation technology to Maxim. Maxim has paid $1,300,000 in principal payments and $500,000 in late payment penalties. See "Management's Discussion and Analysis or Plan of Operation - Liquidity and Capital Resources."

<u>*Risk factors*</u>
Investing in our common stock is highly speculative and risky. You should be able to bear a complete loss of your investment. You should carefully consider the following risks and the other information in this Prospectus before investing in the shares. If any of the following risks and uncertainties develops into actual events, the business, financial condition and operating results could be materially adversely affected, and you could lose your entire investment. The risks and uncertainties described below are not the only ones which we face; there may be additional risks and uncertainties not presently known to us or those we currently believe are immaterial which could also have a negative impact on our business, financial condition, and operating results.

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THE RISK FACTORS DESCRIBED BELOW. THE FOLLOWING RISK FACTORS SHOULD BE CONSIDERED CAREFULLY IN ADDITION TO THE OTHER INFORMATION CONTAINED IN THIS ANNUAL REPORT.

GENERAL RISKS RELATING TO OUR COMPANY

1. The deployment of our abrasive jetting rig may be put in jeopardy due to funding issues.

Cash flow from our current operations does not cover overhead expenses and our future financial security depends on the customer acceptance and commercial deployment of our abrasive jetting service. The rig has largely been funded from a loan from our major shareholder, Berg McAfee Companies. In addition, we have received $1.8 million in payments from Maxim from the sale of the Landers Master License. If for any reason, the service is not successfully deployed in a timely manner and accepted by customers, then the company will face a liquidity crisis. If we are unable to generate sufficient revenue from new business arrangements or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

2. We have a limited operating history, and our business and marketing strategies planned are not yet proven, which makes it difficult to evaluate our business performance. An investor could lose some or all of his investment.

We have been in existence for a few years. We conducted drilling operations using a prior generation of a proprietary non-abrasive lateral drilling technology only since June 2003. The principles of the prior technology form the basis for our abrasive jetting technology. We have not commenced any drilling with our abrasive jetting technology and are not conducting operations with the prior technology. Abrasive jetting has been successfully commercialized in several industries but is not yet proven in the energy drilling industry. Also, we have conducted satellite services to the oil and gas industry only since June 2002. We have no established basis to assure investors that our business or marketing strategies will be successful. Because we have a limited operating history, there is little historical financial data upon which an investor may evaluate our business performance. An investor must consider the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies with limited capital in a rapidly evolving market. These risks and difficulties include our ability to develop our infrastructure, reliability in the milling process in our abrasive jetting technology, attract and maintain a base of customers, provide customer support, personnel, and facilities to support our business, and respond effectively to competitive and technological developments. Our business strategy may not be successful or may not successfully address any of these risks or difficulties and we may not be able to realize revenues. If we are unable to generate sufficient revenue from new business arrangements or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

3. We may be unable to raise the additional capital needed to fund our abrasive jetting business, which would prevent us from continuing operations.

We may need to raise additional funds through public or private debt or equity financing or other various means to fund our abrasive jetting business if we are unable to successfully deploy the rig and generate positive cash flow. In such a case, adequate funds may not be available when needed or may not be available on favorable terms. If we need to raise additional funds by issuing equity securities, dilution to existing stockholders will result, and such equity may have rights, preferences and privileges senior to those of our common stock. If we raise additional funds by issuing debt securities, we may be required to agree to covenants that may restrict our ability to expend or raise capital in the future. If funding is insufficient at any time in the future and we are unable to generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

4. Our auditors have expressed doubt as to our ability to continue as a going concern.

As noted in the Independent Auditors Report (See Financial Note 2), our continued substantial operating losses raise substantial doubt as to our ability to continue as a going concern. We are in an early stage of development and are rapidly depleting our cash resources, therefore we have determined that we will need to raise additional financing in the short term to continue in operation and fund future growth. If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

5. We experienced operating losses in 2004 and 2005, and this trend may continue. It is uncertain when, if ever, we will have significant operating income or cash flow from operations sufficient to sustain operations.

We suffered net losses since our inception, including net losses of $8,766,108 and $2,827,231 for the years ended December 31, 2004 and 2005, respectively. These losses are the result of a sporadic revenue stream which has been inadequate to compensate for our operating and overhead costs as well as an impairment of our Landers license. The volatility underlying the early stage nature of our business and our industry prevents us from accurately predicting future operating conditions and results, and we could continue to have losses. It is uncertain when, if ever, we will have significant operating income or cash flow from operations sufficient to sustain operations. If cash needs exceed available resources additional capital may not be available through public or private equity or debt financings. If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

6. We have historically had negative working capital, which will impair our ability to continue operations if we are unable to reverse this trend.

We had negative working capital of $1,249,000 and $644,000 as of December 31, 2004 and 2005, respectively. Due to this situation we have structured payments to vendors in a manner to continue operations. Our vendors may decide to stop providing services and/or materials until we are able to pay them according to their terms. Our vendors may decide to no longer offer credit to us. A large portion of our accounts payable are due to our legal support vendors and they may cease to assist us until we can make satisfactory payment arrangements. If we cannot raise capital, we will need our lenders to extend payment terms or accept stock in lieu of cash, which they may not be willing to do. If we are unable to arrange new financing or convince our lenders to extend payment terms or accept stock in lieu of cash, we may be unable to continue in our current form and be forced to restructure or seek creditor protection.

7. Significant amounts of our outstanding common shares are restricted from immediate resale but will be available for resale into the market in the near future, which could potentially cause the market price of our common stock to drop significantly, even if our business is doing well.

As of February 28, 2006, we had 42,954,507 shares of common stock issued and outstanding held by approximately 420 shareholders of record, including 1,150,000 shares approved for issue under the class action settlement. As restrictions on these outstanding shares end, the market price could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them in an excessive amount relative to the market demand for our shares. An excessive sale of our shares may result in a substantial decline in the price of our common stock, and limit our ability to raise capital, even if our business is doing well.

8. One principal stockholder can influence the corporate and management policies of our company.

Berg McAfee Companies, and its affiliates, effectively control approximately 26% of the outstanding common stock. Therefore, Berg McAfee Companies, and its affiliates, may have the ability to substantially influence all decisions made by us. Additionally, Berg McAfee Companies and its affiliates' control could have a negative impact on any future takeover attempts or other acquisition transactions. Furthermore, certain types of equity offerings require stockholder approval depending on the exchange on which shares of a company's common stock are traded. The control by one principal stockholder results in less control by our board of directors, management and the remaining stockholders. Please read 'Certain Relationships and Related Transactions.'

9. SEC investigation and inquiries may continue to draw on our limited financial resources and continue to negatively impact our ability to raise additional capital.

We received notice that the Securities and Exchange Commission initiated an inquiry which became a formal investigation into our reporting practices and public statements about the company in 2003. The SEC has requested substantiation and documentary evidence from us concerning the performance of certain lateral drilling services by subcontractors in the period from May 2003 to September 2003, supervision of such services by our executive management at the time, revenue recognition related to the performance of such services, the third quarter 2003 earnings restatement, public statements concerning the services performed, and related matters. The SEC has also requested information and documentary evidence related to our acquisition of certain assets of QuikView, Inc., a related party company, in June, 2003.

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In December 2004, the staff of the SEC notified us that it was considering recommending that the SEC bring a civil injunction (including a possible permanent injunction and a civil penalty) against us alleging violations of provisions of the Sections 10(b), 13(b)(2)(A), 13(b)(2)(B) and 15(d) of the Securities Exchange Act of 1934 and rules promulgated thereunder in connection with the purchase and sale of our securities, recordkeeping, internal controls, certification and disclosure obligations. We were notified of our right to make a Wells submission. We have provided information to the SEC setting forth the specific steps we have taken to upgrade the quality and effectiveness of our board of directors, replace the previous management team with industry experts, improve our recordkeeping, internal and disclosure controls, and revenue recognition procedures. The investigation or any settlement may not be resolved positively and could strain our limited financial resources and our ability to raise capital and use our stock as acquisition currency during the period of the investigation.

10. We are subject to certain additional lawsuits. If these lawsuits are successful and substantial damages are awarded, these damages would have a material adverse effect on our financial condition.

In February 2005, we entered into an Agreed Judgment and Order of Severance with Gryphon Master Fund, L.P. (“Gryphon”) as to all breach of contract claims related to our delay in registering common stock acquired by Gryphon in October 2003. Under the terms of the Agreed Judgment, we were obligated to pay $500,000 to Gryphon and have paid such obligation in full, resulting in a discharge of the agreed judgment. In the portion of the lawsuit which remains, Gryphon has alleged, among other things, securities fraud by us. In connection with the lawsuit, Gryphon requested actual damages, punitive damages, interest, cost and attorneys’ fees among other claims. Gryphon has made a settlement demand on the company for $2.1 million, which it purports to represent the actual damages it has sustained. If Gryphon prevails on the remaining claims, it may obtain significant damages that may have a material adverse effect on our financial condition.

An adverse outcome in the above litigation or SEC investigation could subject us to additional financial obligations, which our cash position may not be sufficient to meet. If we are unable to meet such obligations through revenue from operations or obtaining additional financing, we may be unable to continue in our current form and be forced to restructure or seek creditor protection.

Please see the section ‘Legal Proceedings.’

11. Our common stock is currently traded over the counter on the OTC Bulletin Board and is considered a “penny stock” resulting in potential illiquidity and high volatility in the market price of our common stock.

The market price of our common stock is likely to be highly volatile, as is the stock market in general, as well as the capital stock of most small cap companies. Our common stock currently trades over the counter on the OTC Bulletin Board, where stocks typically suffer from lower liquidity. This may lead to depressed trading prices, greater price volatility and difficulty in buying or selling shares in large quantities. Currently, there is a limited trading market for our common stock If a fully developed public market for the common stock does not occur, our stock will continue to have reduced liquidity and our shareholders may have difficulty in selling our stock.

12. Because our common stock is considered a “penny stock,” certain rules may impede the development of increased trading activity and could affect the liquidity for stockholders.

Penny stocks generally are equity securities with a price of less than $5.00 per share other than securities registered on certain national securities exchanges or quoted on the NASDAQ stock market, subject to certain exceptions for companies which exceed certain minimum tangle net worth requirements.

Our common stock is subject to the SEC’s “penny stock rules”. The rules impose additional sales practice requirements on broker-dealers who sell penny stock securities to persons other than established customers and accredited investors.

For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of penny stock securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the "penny stock rules" require the delivery, prior to the transaction, of a disclosure schedule relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. And, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These rules may restrict the ability of broker-dealers to sell our securities and may have the effect of reducing the level of trading activity of our common stock in the secondary market. In addition, the penny-stock rules could have an adverse effect on our ability to raise capital in the future from offerings of our common stock.

On July 7, 2005, the SEC approved amendments to the penny stock rules to ensure that investors continue to receive the protections of those rules. The amendments also provide that broker-dealers be required to enhance their disclosure schedule to investors who purchase penny stocks, and that those investors have an explicit "cooling-off period" to rescind the transaction. These amendments could place further constraints on broker-dealers' ability to sell our securities.

13. Our operations are subject to inherent risks that are beyond our control and such risks may not be fully covered under our insurance policies or under our contracts with customers.

We plan to deploy the first drilling rig utilizing high pressure abrasive jetting and the application of the technology does not have a safety history. However, we expect our operations to be subject to hazards inherent in the oil and gas industry, such as accidents, blowouts, explosions, implosions, fires and oil spills. These conditions can cause:

- personal injury or loss of life;
- damage to or destruction of property, equipment and the environment; and
- suspension of operations.

In addition, claims for loss of oil and gas production and damage to formations can occur in the well service industry. Litigation arising from a catastrophic occurrence at a location where our equipment and services are being used may result in us being named as a defendant in lawsuits asserting large claims.

We mandate, in our customer contracts, that our customers indemnify us from operational hazards. We also maintain insurance coverage that we believe to be customary in the industry against these hazards. However, we may not be able to maintain adequate insurance in the future at rates we consider reasonable. In addition, our insurance is subject to coverage limits and our policies typically exclude coverage for damages resulting from environmental contamination, damage to the well bore, blow-outs and other extraordinary events. The occurrence of a significant event or adverse claim excluded by or in excess of the indemnities we receive or the insurance coverage that we maintain or that is not covered by insurance could potentially strain our limited financial resources.

14. We are subject to various operational and performance risks related to projects that we undertake and services that we provide.

We are subject to various operational and performance risks related to projects that we undertake and services that we provide. These risks include:

- changes in the price or the availability of commodities that we use;
- non-performance, default or bankruptcy of key suppliers or subcontractors;
- cost over-runs and operating cost inflation resulting from fixed-price projects; and
- failure by one or more parties to a complex business arrangement for technically demanding projects.

Some of these risks may be beyond our control, or we may be unable to collect on the indemnities we typically ask for to guard against some of these risks.

15. Our markets may be adversely affected by oil and gas industry conditions that are beyond our control.

Oil and gas industry conditions are influenced by numerous factors over which we have no control, such as the supply of and demand for oil and gas, domestic and worldwide economic conditions, political instability in oil producing countries and merger and divestiture activity among oil and gas producers. Those conditions could reduce the level of drilling and workover activity by oil and gas producers. A reduction in activity could increase competition among energy services business such as ours, making it more difficult for us to attract and maintain customers, or could adversely affect the price we could charge for our services.

16. Our success depends on key members of our management, the loss of whom could disrupt our business operations.

We depend to a large extent on the services of some of our executive officers and directors. The loss of the services of either John O'Keefe or David Adams could disrupt our operations. We may not be able to retain our executive officers and may not be able to enforce the non-compete provisions in the employment agreements. We maintain key man insurance against the loss of these individuals. Failure to retain key members of our management may have a material adverse effect on our continued operations.

17. Compliance with Section 404 of the Sarbanes-Oxley Act will strain our limited financial and management resources.

We expect to be required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act ("Sarbanes") for our fiscal year ended 2007, which require annual management assessments of the effectiveness of our internal controls over financial reporting and our auditor's attestation report on management's assessment. During the course of our testing we may identify deficiencies, which we may not be able to remediate in time to meet the deadline imposed. Effective internal controls are necessary for us to produce reliable financial reports and may be important to prevent financial fraud. If we cannot comply with Section 404, our stock price may decrease as investors lose confidence in the accuracy of our reported financial information. Compliance with Section 404 will likely require the Company to expend significant financial and management resources, which are extremely limited at this time and would therefore divert such resources from our day-to-day operations.

RISKS RELATED TO OUR DOWN-HOLE SOLUTIONS BUSINESS

1. We currently have one active customer. If we are unable to attract more permanent and active customers, we will not be able to generate revenue.

We have one customer. The deployment of our rig for such customer is currently in process of being prepared for mobilization. If the rig is not deployed, we will not be able to generate revenue for our abrasive jetting services since we are in the construction and testing mode. Our current indications of interest in the new AFJ drill rig may not convert into customer orders or cash revenue. If we are unable to attract new customers and generate sufficient revenue or arrange new financing, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

2. Our business plan relies on the successful deployment of a new generation drilling rig utilizing abrasive fluid jetting which has been unproven in the energy service industry.

Our abrasive jetting service intends to provide casing milling, well stimulation and lateral drilling services to oil and gas producers. Applications of such abrasive cutting techniques are a proven feature in industries as diverse as munitions disposal in the military, offshore platform dismantlement in the salvage industry and cutting specialty glass and steel in the machining business. We are currently building a custom drilling rig based on the abrasive jetting concept. Since we would be among the first to commercially apply the proven abrasive jetting techniques to the energy producing business, we cannot guarantee that our custom drilling rig design based on the abrasive jetting concept will be adequate, that the rig will be built correctly or timely, or that the abrasive jetting technology will stimulate additional oil and gas production. We may not achieve the designed results for the rig. Customers may not accept the services we offer. Any of these results would have a negative impact on the development of our abrasive jetting business.

3. We may not be able to protect our abrasive jetting technology. Providers utilizing an infringing technology may compete with us, which may impair the development of our abrasive jetting business.

The technology purchase agreement between Alberta and Blast allocates joint responsibility for maintaining the status of the patents underlying the technology with the US Patent and Trademark Office to Alberta. In the event that both parties had to assume these responsibilities, additional pressure on our financial resources would result. Competition from infringers of our technology may significantly impair the development of our abrasive jetting business.

4. Our customers may not realize the expected benefits of enhanced production or lower costs from our abrasive jetting technology, which may impair market acceptance of our drilling services.

Our abrasive jetting business will be heavily dependent upon our clients achieving enhanced production, or lower costs, from certain types of existing oil and gas wells. Many of the wells for which the abrasive jetting technology will be used on have been abandoned for some time due to low production volumes or other reasons. In some cases, we have experienced difficulty in having the enhanced production reach the market due to the gathering field pipeline system’s disrepair resulting from the age of the fields and the reliability of the milling process. Our abrasive jetting technology may not achieve enhanced production from every well drilled, or, if enhanced production is achieved initially, it may not continue for the duration necessary to achieve payout or reach the market on a timely basis. The failure to screen adequately and achieve projected enhancements could result in making the application of the technology uneconomic for our clients. Failure to achieve an economic benefit for our clients in the provision of this service would significantly impair the development of our abrasive jetting business and limit our ability to achieve revenue from these operations.

5. Geological uncertainties may negatively impact the effectiveness of abrasive jetting services.

Oil and gas fields may be depleted and zones may not be capable of stimulation by our abrasive jetting technology due to geological uncertainties such as lack of reservoir drive or adequate well pressure. Such shortcomings may not be identifiable. The failure to avoid such shortcomings could have a material adverse effect on our results of operations and financial condition.

6. Competition within the well service industry may adversely affect our ability to market our services.

The well service industry is highly competitive and includes several large companies as well as other independent drilling companies that possess substantially greater financial and other resources than we do. These greater resources could allow those competitors to compete more effectively than we can. Additionally, the number of rigs available continues to exceed demand, resulting in active price competition. Moreover, many contracts are awarded on a bid basis, which further increases competition based on price. Failure to successfully compete within our industry would significantly impair the development of our abrasive jetting business and limit our ability to generate revenue from these operations.

7. The energy service market is currently in tight supply conditions and key equipment items are subject to long lead-times as well as cost escalation.

We depend on the key equipment suppliers for our AFJ rigs to deliver in a timely manner and at a reasonable price, but lead-times in items, such as coiled tubing strings, have lengthened and prices have firmed with the current tightness in the energy service supply industry. If we are unable to source our key equipment in a reasonable period and at a reasonable price, our planned revenues and costs may suffer, which would have a material negative impact on our abrasive jetting business.

8. We may be subject to environmental requirements that may increase our costs or liabilities related to our abrasive jetting operations.

Given the manner in which we currently operate our business, we are not regulated to the extent that an oil and gas company is with respect to environmental laws, rules and regulations in the U.S. and other countries, including those covering hazardous materials, because we generally do not own the properties we service. Also, the materials we use to provide abrasive jetting services consist primarily of water and fine garnet sand, neither of which are hazardous materials. However, environmental requirements generally are becoming increasingly strict. In the future, we may be held liable for certain failures relating to environmental regulations. Sanctions for failure to comply with these requirements, many of which may be applied retroactively, may include:

- administrative, civil and criminal penalties;
- revocation of permits; and
- corrective action orders, including orders to investigate and/or clean up contamination.

Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our results of operations. The liabilities incurred as a result of complying with environmental requirements or failure on our part to comply with applicable environmental requirements may have a material adverse effect on our financial condition. Governmental laws could broaden in scope in the future to cover the types of services that we currently provide. Any changes that might require us to comply with environmental laws could require us to make significant additional expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our results of operations and financial condition.

9. Changes in environmental laws may decrease demand for our services.

Changes in environmental laws may negatively impact demand and reduce potential revenues from our down-hole well services. Activity by exploration and production companies may decline if, for example, the Environmental Protection Agency promulgates more stringent environmental regulations such as land use policies. If exploration and production drilling activity declines, this could have a material adverse effect on our ability to market down-hole services as the number of potential clients and overall market size may decline.

RISKS RELATED TO OUR SATELLITE COMMUNICATIONS BUSINESS

1. Our satellite communications business is highly dependent upon a few key suppliers of satellite networking components, hardware, and technological services.

Our satellite business is heavily dependent on agreements with Spacenet, ViaSat and other equipment and service providers. These strategic relationships provide key network technology, satellite data transport, hardware and software. Failure of Spacenet, ViaSat or other key relationships to meet our expectations or termination of a relationship with one of our key providers could adversely affect our ability to provide customers with our satellite services and could lead to a loss in revenues, which would adversely affect our results of operations and financial condition.

2. We depend upon our vendors and their affiliates to provide services that we require to operate the network we use to provide services to our customers.

We are not and do not plan to become a licensee of the Federal Communications Commission ("FCC") and do not hold any authorization to operate satellite communications facilities. We depend upon licenses held by Spacenet and ViaSat and their subsidiaries for our satellite communications. If the licenses held by Spacenet and ViaSat are limited or revoked, if the FCC limits the number of its customer premises earth stations or if Spacenet or ViaSat fails to operate the earth stations providing service to us and our subscribers in a satisfactory manner, we may not be able to provide our customers with proper service, which could lead to a loss in revenues and could adversely affect our results of operations and financial condition.

3. We rely on third-party independent contractors to install our customer premises equipment at new subscribers' businesses and remote locations.

We do not control the hiring, training, certification and monitoring of the employees of our third-party independent contractors. If growth of our new subscriber base outpaces growth of our installer base or if the installers fail to provide the quality of service that our customers expect, the introduction of our service could be delayed, and which could lead to a deferment or loss in satellite revenues.

4. The service we provide is entirely dependent on the functionality of satellites on which we lease transponders and on our computer and communications hardware and software.

Our ability to provide service is entirely dependent on the functionality of satellites on which we lease transponders. These satellites may experience failure, loss, damage or destruction from a variety of causes, including war, anti-satellite devices and collision with space debris. The ability to provide timely information and services depends also on the efficient and uninterrupted operation of our computer and communications hardware and software systems. These systems and operations are vulnerable to damage or interruption from human error, natural disasters, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. Despite precautions, there is always the danger that human error or sabotage could substantially disrupt the system.

If any of these events occurs, we are likely to suffer:

• permanent loss of service;
• temporary gaps in service availability; or
• decreased quality of service.

Any such failure in the service we provide could lead to a loss in revenues and could adversely affect our results of operations and financial condition.

5. We may be unable to attract or retain subscribers. If we are unable to attract or retain subscribers, our Satellite Communications business will be harmed.

Our success depends upon our ability to rapidly grow our subscriber base and retain our existing customers. Several factors may negatively impact this ability, including:

• loss of our existing sales employees, resulting in our lack of access to potential subscribers;
• failure to establish and maintain the Blast Energy Services brand through advertising and marketing, or erosion of our brand due to misjudgments in service offerings;
• failure to develop or acquire technology for additional value added services that appeals to the evolving preferences of our subscribers;

• failure to meet our expected minimum sales commitments to Spacenet and ViaSat; and
• failure to provide the minimum transmission speeds and quality of service our customers expect.

In addition, our service may require customers to purchase our satellite system equipment and to pay our monthly subscriber fees. The price of the equipment and the subscription fees may be higher than the price of many dial-up, DSL and cable modem internet access services, where available. In some instances, we expect to subsidize our subscribers' customer premises equipment to encourage the purchase of our service and to offset our higher relative costs but such subsidy may not be possible. Failure to attract or retain subscribers would affect our ability to generate satellite revenues.

6. We may fail to manage any potential growth or expansion, negatively impacting our quality of service or overcapacity impacting profitability.

If we fail to manage our potential rapid growth and expansion effectively or expand and allocate our resources efficiently, we may not be able to retain or grow our subscriber base. While we believe that the trend toward satellite broadband information services in the energy market will continue to develop, our future success is highly dependent on increased use of these services within the sector. The number of satellite broadband users willing to pay for online services and information may not continue to increase. If our assumptions regarding the usage patterns of our subscribers are wrong, our subscribers' usage patterns change or the market for satellite broadband services fails to develop as expected, we will have either too little or too much satellite capacity, both of which could harm our business.

If we achieve the substantial subscriber growth that we anticipate, we will need to procure additional satellite capacity. If we are unable to procure this capacity, we may be unable to provide service to our subscribers or the quality of service we provide may not meet their expectations. Failure to manage any potential growth may have a material adverse effect on our business and our ability to generate satellite revenues.

7. Our current services may become obsolete due to the highly competitive and continued advancement of the satellite industry. Larger service providers may provide services reduced pricing.

Intense competition in the internet services market and inherent limitations in existing satellite technology may negatively affect the number of our subscribers. Competition in the market for consumer internet access services is intense, and we expect the level of competition to intensify in the future. We compete with providers of various high-speed communications technologies for local access connections such as cable modem and DSL. We also may face competition from traditional telephone companies, competitive local exchange carriers and wireless communication companies. As our competitors expand their operations to offer high speed internet services, we may no longer be the only high-speed service available in certain markets. We also expect additional competitors with satellite-based networks to begin operations soon. In particular, some satellite companies have announced that in the future they may offer high-speed internet service at the same price or at a lower price than we currently intend to offer and are offering our services. The market for internet services and satellite technology is characterized by rapid change, evolving industry standards and frequent introductions of new technological developments. These new standards and developments could make our existing or future services obsolete. Many of our current and potential competitors have longer operating histories, greater brand name recognition, larger subscriber bases and substantially greater financial, technical, marketing and other resources than we have. Therefore, they may be able to respond more quickly than we can respond to new or changing opportunities, technologies, standards or subscriber requirements. Our effort to keep pace with the introduction of new standards and technological developments and effectively compete with larger service providers could result in additional costs or the effort could prove difficult or impossible. The failure to keep pace with these changes and to continue to enhance and improve the responsiveness, functionality and features of our services could harm our ability to attract and retain users, which could lead to a loss of satellite revenues.

8. We may be subject to significant liability for our products.

If our products contain defects, we may be subject to significant liability claims from subscribers and other users of our products and incur significant unexpected expenses or lost revenues. Our satellite communications products are complex and may contain undetected errors or failures. We also have exposure to significant liability claims from our customers because our products are designed to provide critical communications services. Our product liability insurance and contractual limitations in our customer agreements may not cover all potential claims resulting from a defect in one or more of our products. Failure of our products to perform satisfactorily could cause us to lose revenue, as well as to experience delay in or loss of market acceptance and sales, products returns, diversion of research and development resources, injury to our reputation or increased service and warranty costs.

Critical Accounting Policies

The following is a discussion of our critical accounting policies pertaining to accounts receivable, equipment, license, revenue recognition and the use of estimates.

Accounts Receivable
Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents our estimate of the amount of probable credit losses existing in our accounts receivable. We determine the allowance based on management's estimate of likely losses based on a review of current open receivables and our historical write-off experience. We review the adequacy of our allowance for doubtful accounts quarterly. Significant individual accounts receivable balances and balances which have been outstanding greater than 90 days are reviewed individually for collectibility. Account balances, when determined to be uncollectible, are charged against the allowance.

Equipment
Equipment, including betterments which extend the useful life of the asset, is stated at cost. Maintenance and repairs are charged to expense when incurred. We provide for the depreciation of our equipment using the straight-line method over the estimated useful lives. Our method of depreciation does not change when equipment becomes idle; we continue to depreciate idled equipment on a straight-line basis. No provision for salvage value is considered in determining depreciation of our equipment. We review our assets for impairment when events or changes in circumstances indicate that the carrying values of certain assets either exceed their respective fair values or may not be recovered over their estimated remaining useful lives. Provisions for asset impairment are charged to income when estimated future cash flows, on an undiscounted basis, are less than the asset's net book value. Impairment charges are recorded based on discounted cash flows. There were no impairment charges to equipment during the years ended December 31, 2005 and 2004.

Intellectual Property
Our AFJ Intellectual Property ("IP"), consisting of our 50% ownership interest in the AFJ technology jointly with Alberta, is stated at cost. We provide for amortization of our IP using the straight-line method over the estimated useful life of the technology. We review our carrying value of the IP for impairment on an annual basis or when events or changes in circumstances indicate that the carrying values may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. There were no impairment charges during the years ended December 31, 2005 but we charged $3.2 million to impairment expense in 2004.

Revenue Recognition
All revenue is recognized when persuasive evidence of an arrangement exists, the service or sale is complete, the price is fixed or determinable and collectibility is reasonably assured. Revenue is derived from sales of satellite hardware, satellite bandwidth, satellite service and lateral drilling services. Revenue from satellite hardware is recognized when the hardware is installed. Revenue from satellite bandwidth is recognized evenly over the term of the contract. Revenue from satellite service is recognized when the services are performed. We provide no warranty but sell commercially obtained 3 to 12 month warranties for satellite hardware. We have a 30 day return policy. Revenue for lateral drilling services is recognized when the services are performed and collectibility is reasonably assured and when collection is uncertain, revenue is recognized when cash is collected. In accordance with Emerging Issues Task Force Issue No. 00-14, we recognize reimbursements received from third parties for out-of-pocket expenses incurred as revenues and account for out-of-pocket expenses as direct costs.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets during the reporting period. Actual results could differ from such estimates.

Estimates are used by management in the following financial reporting areas:

- Allowance for doubtful accounts,
- Depreciation and amortization,
- Asset impairment,
- Income taxes and
- Stock option disclosures.

For additional information on our accounting policies, see Note 1 of Notes to Financial Statements included as part of Item 7 of this Report.

Fiscal Year ended December 31, 2005 Compared to the Fiscal Year Ended December 31, 2004

Satellite Communications
Satellite Communications' revenues increased by $417,000 to $1,132,000 for the year ended December 31, 2005 compared to $715,000 for the year ended December 31, 2004. The operating margin from Satellite Communications improved by $314,000 to a positive contribution of $308,000 for the year ended December 31, 2005 compared to a loss of $6,000 for the year ended December 31, 2004. As this segment of our business grows, it becomes more efficient and realizes economies of scale.

As hardware is sold, we recognize the revenue in the period it is delivered to the customer. We bill some of our bandwidth contracts in advance, but recognize revenue over the period benefited. At December 31, 2005, there was $131,000 reflected in the balance sheet as deferred revenue relating to Satellite Communication Services.

Down-hole Solutions
Down-hole Solutions' revenues decreased by $712,000 to $27,000 for the year ended December 31, 2005 compared to $739,000 for the year ended December 31, 2004. The operating margin from Down-hole Solutions deteriorated by $337,000 to a loss of $466,000 for the year ended December 31, 2005 compared to a loss of $129,000 for the year ended December 31, 2004. We have been in technology development mode following mixed results using the Landers technology and therefore have been unable to generate a profit during either year.

Effective as of October 27, 2004, we entered into a licensing agreement to develop a new generation of lateral drilling technology using the AFJ process; such license was converted to a 20% equity ownership in the IP in August 2005, which was subsequently increased to 50% in March 2006. In the short term, the development activity will decrease lateral drilling revenues until such time as the new technology rigs are deployed into commercial operations.

Selling, General and Administrative Expense
Selling, general and administrative ("SG&A") expense decreased by $1.9 million to $2.8 million for the year ended December 31, 2005 compared to $4.7 million for the year ended December 31, 2004. The following table details the major components of SG&A expense over the periods.

In thousands	2005	2004	Increase (Decrease)
Payroll and related costs	$ 627	$ 774	$ (147)
Option and warrant expense	100	747	(647)
License fee	-	735	(735)
Legal fees and settlements	1,336	719	617
External services	413	568	(155)
Insurance	183	447	(264)
Liquidated damages	-	500	(500)
Travel & entertainment	69	140	(71)
Office rent	31	67	(36)
Communications	15	56	(41)
Miscellaneous	73	-	73
	$ 2,847	$ 4,753	$ (1,906)

The decrease in option and warrant expense can be attributed to the fact that in 2005, we started issuing options at market price and therefore recognized no expense under our accounting policy (see Financial Note 13). The 2004 license fee is related to the lateral drilling license and note payable with Carl Landers. We issued 300,000 shares of common stock with a value of $1.9 million to reduce the note balance by $1.2 million and recorded expense of $0.7 million. Legal fees and settlement costs continue to increase due to the level of legal activity we have experienced over the last three years, including a Note we incurred to settle the dispute with a previous CEO. Our external services have decreased due to the fact we were in construction and development versus operating mode in Down-hole Solutions in 2005. The decrease in the cost of insurance was primarily attributable to the decrease in the directors and officers' liability policy premium due to lower legal exposure and the lower level of operating exposure. The 2004 liquidated damages relate to our delay in registering shares that we sold (see Financial Note 12).

Depreciation and Amortization
Depreciation and amortization expense decreased by $82,000 to $431,000 for the year ended December 31, 2005 compared to $513,000 for the year ended December 31, 2004. The decrease in depreciation was due to the partial year depreciation of the rigs in 2005 including the transfer of one rig in early 2005 and the transfer of the remaining rigs in the fourth quarter of 2005. Amortization was reduced by the asset impairment as of December 31,2004.

Asset Impairment Expense

We charged $3,175,000 to impairment expense at December 31, 2004 to recognize the difference in the carrying value and the market price when we entered into the sale of the Landers license to Maxim for $1.3 million. No impairment charge was recorded for the year ended December 31, 2005.

Other Income

We recognized $561,000 of other income in 2005 primarily from the receipt of late payment fees associated with the sale of the Landers license. No other income or expense was recorded in 2004.

Gain or Loss on Sale of Property

In 2005, we had a net loss from the sale and or disposition of the non-abrasive drilling equipment in the normal course of business of $93,000. In 2004, we recognized a loss of only $11,000.

Interest Expense
Interest expense increased by $90,000 to $195,000 for the year ended December 31, 2005 compared to $105,000 for the year ended December 31, 2004. The increase in interest expense can be attributed to an average debt outstanding for the year ended December 31, 2005 of approximately $1.1 million compared to average debt outstanding of approximately $0.7 million for the year ended December 31, 2004.

Net Loss
The net loss for the year ended December 31, 2005 decreased to $2.9 million from $8.8 million for the year ended December 31, 2004. The $5.9 million decrease is attributable to the major items explained above. The tax benefit associated with our loss has been fully reserved as we have recurring net losses and it is more likely than not that tax benefits will not be realized.

Liquidity and Capital Resources
As of December 31, 2005 and 2004, our cash balance was $836,000 and $267,000, respectively, an improvement of $569,000. The improved cash balance at December 31, 2005 was generated primarily by the sale of the Landers Master License for a total of $1.8 million and stock sales of $780,000 that were utilized to pay debt and to fund operations. We have $350,000 of convertible notes that became due on December 31, 2005 and a $50,000 note that is due on demand. In addition, we have $200,000 of convertible notes with related parties that mature on May 31, 2006. Both sets of convertible notes are convertible into common stock at the rate of one share for each $2.00 of principal and interest outstanding. The $350,000 of December Notes were exchanged for stock in January 2006. In addition, the maturity date on the $1 million AFJ Rig loan was extended from September 2006 to March 31, 2007 and is now reflected as a long term liability.

We are also subject to significant contingent liabilities as more fully described in the Notes to the Financial Statements (See Financial Note 15).

Our cash balance as of March, 2006 is approximately $470,000.We are in an early stage of development and are rapidly depleting our cash resources, therefore we have determined that we will need to raise additional financing in the short term to continue in operation and fund future growth. We currently plan to raise additional financing in the quarter ending June 30, 2006. The use of stock for currency in financing or making acquisitions has been heavily curtailed while we have been under SEC investigation. (See Financial Note 16) If we are unable to arrange new financing or generate sufficient revenue from new business arrangements, we will be unable to continue in our current form and will be forced to restructure or seek creditor protection.

Capital Expenditures
We expended $970,000 in 2005 for the building of the first rig utilizing the AFJ cutting technology. As of December 31, 2005, we had approximately $230,000 of commitments towards this project, including spare parts. The project has been financed from Notes and working capital. Capital expenditures for 2005 were $970,000 as compared to $4,000 from 2004. Capital expenditures for 2005 include the development and construction of the first AFJ mobile drilling unit. We do not anticipate significant additional expenditures for Blast Rig #1 during 2006, but depending on customer acceptance of our services, expect to make decisions with respect to building additional rigs this year.

Research and Development, Patents and Licenses

We believe our future success depends on the ability to effectively utilize the lateral drilling technology obtained in a license granted by Mr. Landers and the AFJ technology currently under ownership and development jointly with Alberta Energy. See "Patents and Licenses" in the Description of Business section of this Form 10-KSB.

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Item 7. Financial Statements

Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Blast Energy Services, Inc.
Houston, Texas

We have audited the accompanying balance sheet of Blast Energy Services, Inc. as of December 31, 2005 and the related statements of operations, stockholders' deficit and cash flows for each of the two years then ended. These financial statements are the responsibility of Blast Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blast Energy Services, Inc. as of December 31, 2005 and the results of its operations and cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Blast will continue as a going concern. As discussed in Note 2 to the financial statements, Blast suffered recurring losses from operations and has a working capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 20, the accompanying statement of cash flows for the year ended December 31, 2005 has been restated to properly classify the cash received from the sale of the Landers license.

MALONE & BAILEY, PC

www.malone-bailey.com

Houston, Texas

March 22, 2006 (May 8, 2006 as to the effects of the restatement as described in Note 20)

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BLAST ENERGY SERVICES, INC.
(Formerly Verdisys, Inc.)
BALANCE SHEET
December 31, 2005

Assets	
Current Assets	
Cash	$ 835,978
Accounts Receivable, net of allowance for doubtful accounts of $10,290	156,437
Other Assets	231,413
Current Assets	1,223,828
Intangible assets, net of $27,857 of accumulated amortization	1,142,143
Property & equipment, net of $22,416 of accumulated depreciation	977,269
Total Assets	3,343,240
Liabilities and Stockholder's Deficit	
Current Liabilities	
Accounts payable	$ 622,396
Accrued expenses	533,842
Deferred revenue	131,425
Notes payable-related parties, net of unamortized discount of $14,814	185,186
Notes payable-other	395,000
Total Current Liabilities	1,867,849
Long Term Liabilities	
Advances-related parties	1,000,000
Note payable-other	500,000
Deferred revenue, less current portion	6,780
Total Liabilities	3,374,629
Commitments and Contingencies	-
Stockholders' Deficit	
Common stock, $.001 par value, 100,000,000 shares authorized, 42,060,477 shares issued and outstanding	42,060
Additional paid in capital	29,855,409
Accumulated deficit	(29,928,859)
Total Stockholders' Deficit	(31,390)
Total Liabilities and Stockholders' Deficit	$ 3,343,240

BLAST ENERGY SERVICES, INC.
(Formerly Verdisys, Inc.)
STATEMENTS OF OPERATIONS
Years ended December 31, 2005 and 2004

	2005	2004
Revenue:		
Satellite Communications	$ 1,131,967	$ 714,634
Down-hole Solutions	27,491	738,710
Total Revenue	1,159,458	1,453,344
Cost of Services Provided:		
Satellite Communications	824,505	720,912
Down-hole Solutions	493,209	868,160
Total Cost of Services Provided	1,317,714	1,589,072
Gross Margin (Deficit)	(158,256)	(135,728)
Operating Expenses:		
Selling, general and administrative	2,847,212	4,752,391
Depreciation and amortization	119,306	512,706
Bad debts	10,000	73,249
Asset impairment	-	3,175,833
Operating loss	(3,134,774)	(8,649,907)
Other (Income) Expense	(560,912)	-
Interest expense	195,121	105,053
(Gain) loss on sale of equipment	93,247	11,237
Interest income		