



Annual Report 2000





Cancoil Integrated Services Inc. is a rapidly growing service company providing diverse coil tubing services to the oil and gas industry in Canada and in the United States through its subsidiary, Technicoil Integrated Services Inc. Cancoil's coil tubing rigs are capable of coil fracturing, vertical shallow well drilling, wellbore extensions, horizontal drilling, production logging, perforating, stimulations and abandonments.

Cancoil's patented high technology rigs offer many advantages. They are multi-faceted – capable of drilling, completion and maintenance services with low capital and operating costs. The rigs are self-propelled and can be quickly and easily rigged up with a two-man crew. The reduced footprint of the rig provides advantages in environmentally sensitive areas.

Annual General Meeting

9:00 a.m. Wednesday, May 30, 2001

in the Trophy Room

Calgary Petroleum Club

319 - 5 Avenue SW,

Calgary, Alberta T2P 0L5

PRESIDENT'S REPORT TO SHAREOWNERS

It is with considerable pleasure that I provide you with an update of our Company's progress during the past year.

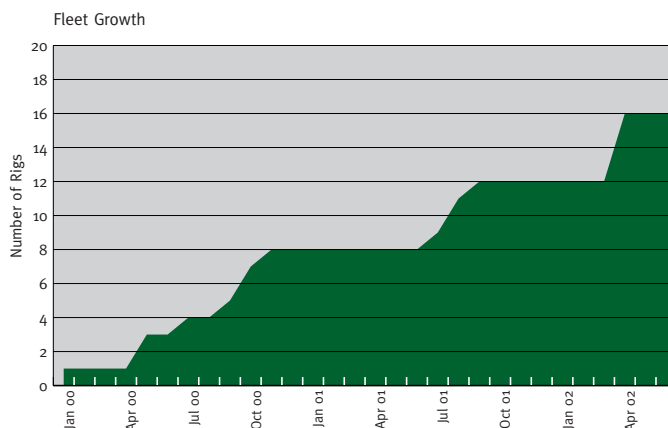
GROWTH

In January 2000 Cancoil operated one coil tubing rig in Canada. By the end of 2000 the company was operating six rigs in Canada and two in the United States through its subsidiary company Technicoil Integrated Services Inc. This eight-fold increase in rigs is only part of the Company's growth story for the year. Our expansion into the United States provides access to a significantly larger market. The U.S. market, from the perspective of wells drilled per year, is one and one half to two times larger than it is in Canada. More importantly, as much of Cancoil and Technicoil's activity is derived from existing wells requiring remediation work, the U.S. market for work-overs is in the order of five times larger than it is in Canada. Another area of significant growth potential for the Company is its growth in the variety of services offered. During the year the Company successfully completed projects in conventional drilling and underbalanced directional drilling. In time, these and other new service offerings are expected to provide the Company diversification from its traditional core business of well fracturing.

Continued rapid growth is expected in 2001. Late in 2000 the Company placed an order for an additional eight coil tubing rigs. Four rigs are set to be delivered from June to August of this year with the remaining four in Spring

2002. Of the rigs to be added in 2001 two are slated for the United States and two for Canada.

An important driver of the growth of our company stems from a cooperative business relationship that has been built with our major client, Halliburton Energy Services Inc. Events during the year have further strengthened that relationship and we have established an alliance with Halliburton that could very well result in expansion beyond North America.



FINANCIAL

During the year Cancoil changed its fiscal year-end from May 31 to December 31 to more closely conform to other businesses in the oil and gas sector. Cancoil's December 31, 2000 fiscal year represents a transition period of seven months.

Revenue for this seven month period was \$5,506,053 with 77% provided by Cancoil in

Canada and 23% provided by Technicoil in the United States. The majority of this revenue was generated from coil tubing fracturing.

Cash flow from operations for the seven month period was \$1,021,570 (\$0.03 per share diluted) and earnings before interest, taxes, depreciation and amortization ("EBITDA") was \$1,195,456 (\$0.04 per share diluted).

Net earnings for the period June 1, 2000 to December 31, 2000 were \$549,968 (\$0.02 per share diluted).

ACKNOWLEDGEMENTS

The earlier noted rapid growth of the company required a similar rapid growth in employees, management and support staff. We are extremely proud of the employees and staff that we have assembled. The Cancoil team, with its extensive experience in business, finance, engineering and operations work together to deliver a high quality product to our customers.

The success enjoyed by Cancoil in 2000 is directly attributable to the efforts of our employees, management and Board of Directors. Their diligence and effort was largely responsible for our tremendous growth and bright future.



Art Dumont
Chief Executive Officer

April 24, 2001



OPERATIONS

The following operations report covers the calendar year 2000 that encompasses both of the Company's past two year ends. Cancoil's year end was changed from May 31 to December 31 during the year.

Cancoil operated in 1999 with one coil tubing rig conducting mainly well fracturing services for oil and gas companies in Western Canada. The Company's first rig proved to meet many operating objectives in terms of speed, cost effectiveness and minimal environmental impact. Based on this success Cancoil ordered seven additional rigs for delivery from May to November 2000 and embarked on a hectic pace of expansion of personnel, facilities and types of services offered.

A planned expansion into the United States was facilitated by the expanded rig fleet. In September 2000 Technicoil Integrated Services Inc., a 75 percent owned subsidiary, began commercial operations in the United States with one new rig. A second rig was added in the United States in October such that by December 31, 2000 the Company had six rigs working in Canada and two in the U.S.

The expansion of the rig fleet enabled Cancoil and Technicoil to significantly broaden the types of coil tubing services it was able to offer. In addition to well established coil tubing well fracturing services, Cancoil has been able to demonstrate success with conventional vertical well drilling, vertical well extensions and horizontal drilling both on an underbalanced and conventional basis.

Further services are being offered in the areas of well abandonment, cleanout and stimulation.

Operational highlights include:

- 732 wells were fractured by Cancoil in 2000 with fractures performed in approximately 4,184 zones within these wells. Technicoil fractured a further 26 wells during 2000.
- a customer completed the largest coil tubing fracturing treatment placed in one day using a Cancoil rig. Within 12 hours 19 zones in two wellbores were fractured with a total of 235 tonnes of sand placed.
- Cancoil and Technicoil each drilled a horizontal well in 2000 and are actively marketing to drill additional horizontal wells in 2001.
- four conventional vertical wells were drilled by Cancoil in 2000.
- Technicoil drilled three conventional vertical wells in 2000.
- despite a tight labour market in Alberta total staff increased from four at the beginning of 2000 to over 40 by the end of the year. The attraction of operating with Cancoil's state-of-the-art new coiled tubing equipment enabled the Company to recruit a high quality and motivated field work force. Technicoil's work force numbered 10 by the end of 2000.

- a new field office was established in Medicine Hat, Alberta with the acquisition of a building and yard for storage and service. The field office officially opened in January 2001. In April 2000 a new corporate head office was opened in downtown Calgary.
- an order was placed for eight more rigs for delivery between June 2001 and April 2002. These new rigs incorporate a number of design changes based on the experience gained by operating the existing rig fleet. Difficulties were encountered in the past year particularly with the rig component that controls the movement of the coil in and out of the well. Design changes made by our supplier should deliver reliable performance in the future.

On March 26, 2001 Cancoil was pleased to announce the signing of a Memorandum of Understanding with Halliburton Energy Services, the world's largest service company. As of April 1, 2001, Cancoil will supply rigs to Halliburton on an ongoing basis for use in coil tubing well fracturing in Canada and the United States. Halliburton will utilize between four and nine rigs as we expand our fleet. The term of the Memorandum is for one year to March 31, 2002 and is renewable for additional one year terms. Cancoil is proud that its high quality work with Halliburton was recognized within their organization by the signing of the Memorandum.

In the fourth quarter of 2000 Cancoil also announced a joint venture with PetroGlobe (Canada) Ltd. to provide well abandonment services to oil and gas companies. Using Cancoil rigs and PetroGlobe abandonment expertise, customers will receive all operations to abandon oil and gas wells on a fully integrated basis.

Executive appointments during the year included the appointment of Mr. Art Dumont as Chairman. Mr. Dumont was further appointed as President and CEO in January 2001. Mr. Mark Andreychuk, Cancoil's founder, continues with the Company as Senior Vice President, Business Development and will focus his efforts on technology advancement and expansion of our customer base and services offered. Mr. Colin Murch was appointed Vice President, Operations in January 2001. Mr. Andy Rike joined Cancoil early in 2000 and leads our U.S. operations as the President and CEO of Technicoil. In April 2001 Mr. Dell Chapman joined Cancoil as CFO and will fulfill that role for both Cancoil and Technicoil.

Cancoil looks forward to a bright future. We have an established customer base, a new high technology rig fleet and plans in place to double the fleet by April 2002. Recognition and acceptance of coil tubing services is increasing in the oil and gas industry. Cancoil has a strong reputation for its accomplishments to date and looks to expand its business in both Canada and the United States.

MANAGEMENT DISCUSSION AND ANALYSIS

This section provides management's review of operations for the seven month period ended December 31, 2000. Balance sheet comparisons will be made to the May 31, 2000 balance sheet – the last fiscal year end for Cancoil. Income statement and cash flow comparisons will be made comparing the seven months ended December 31, 2000 with the 12 month period ended May 31, 2000. The following discussion should be read with reference to the consolidated financial statements and notes on pages 13 to 23.

Cancoil's business volume changed dramatically during the period from May to the end of December 2000 with the expansion of the coil tubing rig fleet from three to eight rigs. Two of these rigs were allocated to Technicoil Integrated Services Inc. that began operations in the United States during 2000. The large capital program and expansion of business has caused significant variation in the accounts for the period ended December 31, 2000 when compared to the year ended May 31, 2000. The combined business of Cancoil and Technicoil are analyzed on a consolidated basis.

NET INCOME

Net income increased 86 percent for the seven month period ended December 31, 2000 compared to the year ended May 31,

2000. All revenue and expense items discussed below showed significant increases reflecting the increase in the rig fleet over the seven month period ended December 31, 2000. On a diluted per share basis net income was \$0.02 for the seven month period ended December 31, 2000, unchanged from the 12 month period ended May 31, 2000. The increase in earnings was offset by a higher number of common shares outstanding as equity was raised in 2000 to finance a portion of the capital program for the fleet expansion.

REVENUES AND OPERATING EXPENSES

REVENUES

Revenues for the seven month period ended December 31, 2000 increased 135 percent compared to the 12 months ended May 31, 2000. The increase in rig fleet more than offset the shorter period of operation. The average fleet numbered 5.2 rigs for the seven month period ended December 31, 2000. The average fleet was 1.1 rigs for the prior 12 months. Cancoil expanded its services beyond coil fracturing in 2000 as additional rigs were delivered. The comparative revenue breakdown is as follows:

Type of Activity	Seven Months Ended December 31, 2000	Year Ended May 31, 2000
Canada		
Fracturing	\$ 4,086,584	\$ 1,999,836
Re-entry drilling	140,859	345,542
Conventional drilling	38,700	-
Total Canada	4,266,143	2,345,378
United States		
Fracturing	651,426	-
Re-entry drilling	285,949	-
Conventional drilling	302,535	-
Total United States	1,239,910	-
Total Consolidated	\$ 5,506,053	\$ 2,345,378

OPERATING EXPENSES

Operating expenses for the seven month period ended December 31, 2000 were up 164 percent compared to the 12 month period ended May 31, 2000. The overall increase was due to the increased number of rigs in service for the period ended December 31, 2000. Operating expenses as a percent of revenue increased by seven percent to 58 percent for the seven month period compared to the prior 12 months. Staffing and training costs as well as certain additional costs incurred to activate five new rigs during the last seven months of the year caused the increase in the ratio of costs to revenue. Only two new rigs were delivered in the 12 month period ended May 31, 2000.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the seven month period ended December 31, 2000 increased 131 percent compared to the 12 month period ended May 31, 2000. The increase in cost reflects increased staff and infrastructure in Cancoil's head office to support the larger rig fleet. As a percent of revenue general and administrative costs remained stable at 21 percent comparing the two periods. Management expects general and administrative costs as a percent of revenue to decline. The Company has staff in place to support the current fleet and does not expect to require significant additional administrative staff to support the eight new rigs to be delivered between June 2001 and April 2002.

AMORTIZATION EXPENSE

Amortization expense increased 105 percent for the seven month period ended December 31, 2000 compared to the 12 month period ended May 31, 2000 due to rig fleet expansion.

INTEREST ON LONG-TERM DEBT

Interest expense increased for the seven month period ended December 31, 2000 compared to the prior 12 month period as the capital program for the rig fleet expansion was financed in part through increased bank debt.

CASH FLOW

Cash flow from operations increased 104 percent for the seven months ended December 31, 2000 compared to the 12 month period ended May 31, 2000. The increased cash flow reflects the overall increase in business activity. On a diluted per share basis cash flow from operations for the seven month period was \$0.03 equal to the prior year. An increase in the number of shares outstanding offset the cash flow increase.

INVESTING ACTIVITIES

The capital program for the seven new rigs delivered between May and November 2000 began in earnest in March 2000 and continued at high activity levels until delivery of the final rig on November 24, 2000.

Capital spending for the seven month period ended December 31, 2000 was 115 percent higher than the 12 month period ended May 31, 2000.

FINANCING ACTIVITIES

Company cash flow financed a portion of the capital program during the seven month period ended December 31, 2000. Special warrants issued in November 2000 for net proceeds of \$4.8 million combined with an increase in bank debt of \$4.3 million to finance the remainder of the capital program.

ASSETS AND LIABILITIES

WORKING CAPITAL

Accounts receivable and accounts payable increased 144 percent and 150 percent respectively at December 31, 2000 compared to May 31, 2000. Both increases reflect the higher operating activity levels driven by the larger rig fleet. Increased long-term debt for funding of the capital program resulted in an increase of the current portion of long-term debt of over \$1.0 million to \$1.5 million. The loans for rig construction are repayable in terms varying from 36 to 60 months.

Overall working capital at December 31, 2000 was in a deficit position of \$0.6 million compared to May 31, 2000 positive working capital of \$1.7 million.

LIQUIDITY, CAPITAL RESOURCES, LEVERAGE AND COVERAGE RATIOS

	Period ended December 31, 2000 ⁽¹⁾	Year ended May 31, 2000
Total long-term debt ⁽³⁾ to equity (%)	46	20
Interest coverage – cash flow from operations ⁽²⁾ (times)	5.8	3.9
Long-term debt ⁽³⁾ to cash flow from operations (times)	3.3	2.9

(1) Seven months ended December 31, 2000 cash flow from operations and interest expense are annualized for these calculations.

(2) Cash flow from operations plus interest expense, divided by interest expense.

(3) Excludes convertible debenture - see note 6.

DEPOSITS ON CAPITAL ASSETS UNDER CONSTRUCTION

Upon completion and delivery of seven rigs from May to November 2000, Cancoil immediately embarked on further capital spending to build another eight coil tubing rigs. Prior to December 31, 2000 deposits of \$4.4 million were made to begin construction of the next eight rigs and ancillary equipment. Deposits of \$2.2 million were outstanding at May 31, 2000 for five coil tubing rigs that were delivered between June and November 2000.

LONG-TERM DEBT

Long-term debt at December 31, 2000 was \$4.3 million, up from \$1.0 million at May 31, 2000. The increase in debt reflects the completion of the capital program for the five rigs delivered between June and November 2000 plus the deposits mentioned above. An issue of special warrants in November 2000 that netted \$4.8 million was also applied to this capital program to reduce debt levels.

LIQUIDITY AND CAPITAL RESOURCES

Cancoil attempts to retain adequate financial flexibility to support its capital program through a combination of cash flow, bank debt and public equity financing. The equity financing completed in November 2000 combined with a \$9.0 million bank debt agreement in place is expected to be adequate to complete the expansion of the fleet to 16 rigs. Management estimates that by the end of the fleet expansion in the second quarter of 2002 debt levels will be higher than management's targeted level. Management intends to use surplus cash flows from the larger fleet to reduce overall debt levels in 2002.

BUSINESS RISKS

The oil and gas service industry is inherently risky as its activity levels and resulting revenues are dependent on the activity level within the oil and gas exploration and production industry. Many factors impact the health of Cancoil's customer base such as

prices for oil, natural gas and natural gas liquids, ability to raise capital and the general financial health and prospects in the industry. Management believes its specific risk is reduced for the April 1, 2001 to March 31, 2002 period by the Halliburton Memorandum of Understanding which contracts a significant percentage of the Company's fleet for this period.

The Cancoil rig fleet is modern and uses the latest available control technology. The activities performed have risk implicit with their conduct. The Company has in place safety, training and equipment maintenance programs. A comprehensive insurance program is also in place. These programs combined with Cancoil's new rig technology help manage the risk of the Company's operations.

OUTLOOK

Cancoil has grown rapidly in the past seven months and continues on a growth path to double its rig fleet by the second quarter of 2002. To date Cancoil has been pleased with the performance of the technology especially in coil tubing fracturing. Cancoil has also proven its technology for other coil tubing applications such as conventional and horizontal drilling both on a balanced and under-balanced basis. Well abandonment, cleanout and stimulation work are other service areas where Cancoil has business development plans. Geographical expansion and diversification is being accomplished

through Technicoil's operations in the United States. Management believes the diversification of services offered will expand our customer base and promote active rig utilization throughout the year as various services can be seasonal in nature.

The Company's debt levels will increase throughout 2001 as the next eight rigs are completed. However beyond the completion of these rigs management foresees a modest capital program. Cash flow at that time will be targeted to reduce debt as the entire fleet is put to work.

Coil tubing technology is still relatively new to the oil and gas industry and its recognition and acceptance continues to grow. The company plans to continue to improve on its leading technology and has a focus to develop new technologies within the coil tubing field. Cancoil believes its customer base and breadth of services will continue to provide excellent growth prospects.

CORPORATE GOVERNANCE

During 2000 Cancoil established a corporate governance committee comprised of three independent directors. The committee has the following mandate:

- review annually the composition and mandates of the board of directors and its committees, assess their effectiveness and recommend amendments to mandates or committees as believed necessary or desirable.

- consider and, if thought fit, approve requests from directors or committees of directors, for the engagement of special advisors from time to time.
- maintain a list of potential candidates for board membership and where appropriate interview potential candidates for board membership.
- ensure adequate succession plans are in place for the office of President and Chief Executive Officer.

BOARD COMPOSITION AND ACTIVITY

Cancoil's Board is comprised of seven directors, including four independent directors. At regularly scheduled meetings the Board, or Committees of the Board, discuss reports from management and review the Company's overall financial position and operations. Based on these discussions and assessments, the Company's business issues and plans are reviewed. An operating and capital budget is approved prior to the beginning of each fiscal year. Monthly reports are received by Board members to monitor the progress of the Company against such budgets and to keep abreast of the Company's activities.



MANAGEMENT'S REPORT

The Management of Cancoil Integrated services Inc. is responsible for the preparation of the accompanying financial statements in accordance with generally accepted accounting principles and, where necessary, include amounts based on Management's informed judgements and best estimates under the circumstances. Other financial information presented elsewhere in this report is consistent with the financial statements and the underlying information from which these statements were prepared.

Management also develops and maintains, consistent with reasonable costs, appropriate systems of internal controls to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded for the preparation of reliable financial statements.

KPMG, the independent external auditors appointed by the Shareholders, has audited the financial statements and expressed an opinion herein. The Board of Directors, through its Audit Committee is responsible for ensuring that Management fulfills its financial reporting responsibilities. The Audit Committee, consisting of non-management directors, reviews the financial information of the annual report and meets with Management and KPMG to discuss internal controls, accounting, auditing, and financial reporting issues. The Board of Directors has approved these financial statements based on the Committee's recommendation.



Art Dumont

Chief Executive Officer

February 23, 2001

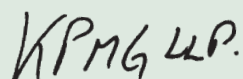
AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cancoil Integrated Services Inc. as at December 31, 2000 and May 31, 2000 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the seven months ended December 31, 2000 and for the year ended May 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and May 31, 2000 and the results of its operations and its cash flows for the seven months ended December 31, 2000 and for the year ended May 31, 2000 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada

February 23, 2001

CANCOIL INTEGRATED SERVICES INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2000	May 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ —	\$ 1,693,099
Accounts receivable	2,469,302	1,011,269
Prepaid expenses	237,948	28,201
	2,707,250	2,732,569
Due from shareholder (note 7)	60,000	60,000
Deposits on capital assets under construction (note 10)	4,417,337	2,224,906
Capital assets (note 3)	14,533,884	5,757,819
	\$ 21,718,471	\$ 10,775,294
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank operating loan	\$ 160,179	\$ —
Accounts payable and accrued liabilities	1,539,266	612,195
Current portion of long-term debt (note 5)	1,470,729	409,633
Deferred revenue	100,232	—
	3,270,406	1,021,828
Long-term debt (note 5)	4,307,500	1,042,971
Convertible debenture (note 6)	1,500,000	1,500,000
Future income taxes (note 9)	65,341	—
Non-controlling interest	40,039	76,187
Shareholders' equity:		
Capital stock (note 8)	12,040,907	7,189,998
Retained earnings (deficit)	494,278	(55,690)
	12,535,185	7,134,308
Commitments (note 10)		
Subsequent event (note 11)		
	\$ 21,718,471	\$ 10,775,294

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Art Dumont
Director



Mark Andreychuk
Director

CANCOIL INTEGRATED SERVICES INC.
**CONSOLIDATED STATEMENTS OF OPERATIONS
AND RETAINED EARNINGS (DEFICIT)**

	Seven months ended December 31, 2000	Year ended May 31, 2000
Coil tubing drilling and service revenues	\$ 5,506,053	\$ 2,345,378
Expenses:		
Operating	3,168,194	1,196,824
General and administrative	1,178,551	509,625
Amortization	442,409	215,447
Interest on long-term debt	213,614	175,396
Interest income	(75,876)	(35,941)
	4,926,892	2,061,351
Net income before non-controlling interest	579,161	284,027
Non-controlling interest in net loss of subsidiary	36,148	11,760
Net income before income tax	615,309	295,787
Income tax expense (note 9)		
Future	65,341	-
Net income for the period	549,968	295,787
Deficit, beginning of period	(55,690)	(351,477)
Retained earnings (deficit), end of period	\$ 494,278	\$ (55,690)
Net earnings per share (note 8):		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

See accompanying notes to consolidated financial statements.

CANCOIL INTEGRATED SERVICES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Seven months ended December 31, 2000	Year ended May 31, 2000
Cash provided by (used in):		
Operating activities:		
Net income	\$ 549,968	\$ 295,787
Add (deduct) non-cash items:		
Amortization	442,409	215,447
Future income tax	65,341	-
Non-controlling interest	(36,148)	(11,760)
Cash flow from operations	1,021,570	499,474
Net change in non-cash working capital	(640,478)	(443,360)
	381,092	56,114
Financing activities:		
Common Shares and special warrants issued	4,850,909	5,697,113
Contribution by non-controlling shareholder of a subsidiary	-	87,947
Increase (decrease) in long-term debt	4,325,625	(331,184)
Convertible debenture	-	1,500,000
	9,176,534	6,953,876
Investing activities:		
Acquisition of capital assets	(9,218,473)	(3,088,545)
Advances to shareholder	-	(60,000)
Deposits on capital assets under construction	(2,192,431)	(2,224,906)
	(11,410,904)	(5,373,451)
Net increase (decrease) in cash and cash equivalents	(1,853,278)	1,636,539
Cash and cash equivalents, beginning of period	1,693,099	56,560
Cash and cash equivalents (deficiency), end of period	\$ (160,179)	\$ 1,693,099
Cash flow from operations per share (note 8):		
Basic	\$ 0.04	\$ 0.03
Diluted	\$ 0.03	\$ 0.03
Cash interest paid	\$ 190,363	\$ 167,727

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

1. Incorporation/nature of business:

Cancoil Integrated Services Inc. (the "Corporation") is incorporated under the laws of the Province of Alberta and is in the business of providing coil tubing drilling and integrated services to the oil and gas industry.

2. Significant accounting policies:**(a) Basis of presentation:**

The consolidated financial statements include those of the Corporation and its 75% owned subsidiary, Technicoil Integrated Services Inc. These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash in banks and term deposits with a maturity period of three months or less.

(c) Capital assets are recorded at cost. Amortization is provided over the useful lives as follows:

Assets	Method
Office and computer equipment	3 years straight-line
Coiled tubing rig and ancillary equipment	15 years straight-line

(d) Revenue recognition:

The Corporation recognizes revenue at the time services are rendered.

(e) Income taxes:

The Corporation follows the liability method of tax allocation accounting, whereby temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

(f) Stock based compensation plan:

The Corporation has a stock option plan which is described in note 8(c). No compensation expense is recognized for this plan when stock options are issued to directors, officers and employees. Any consideration paid on the exercise of stock options is credited to share capital.

(g) Per share amounts:

Basic earnings per common share is computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments in accordance with new standards approved by the Canadian Institute of Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

2. Significant accounting policies (continued):**(h) Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

(i) Foreign currency translation:

The accounts of the Corporation's U.S. subsidiary are translated into Canadian dollars with monetary items translated at exchange rates in effect at the balance sheet date and non-monetary items translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(j) Comparative figures:

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation.

3. Capital assets:

December 31, 2000	Cost	Accumulated amortization	Net book value
Office and computer equipment	\$ 334,925	\$ 59,848	\$ 275,077
Coiled tubing rig and ancillary equipment	14,891,697	632,890	14,258,807
	\$ 15,226,622	\$ 692,738	\$ 14,533,884
May 31, 2000			
Office and computer equipment	\$ 112,602	\$ 10,690	\$ 101,912
Coiled tubing rig and ancillary equipment	5,895,567	239,660	5,655,907
	\$ 6,008,169	\$ 250,350	\$ 5,757,819

4. Operating loan:

At December 31, 2000, the Corporation had a credit facility available to a maximum of \$3,000,000 bearing interest at bank's prime rate plus 1.25% per annum. This facility is secured by a general security agreement with a fixed and floating charge on all Corporation's assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

5. Long-term debt:

	December 31, 2000	May 31, 2000
Term loan repayable in 36 equal installments of \$33,646 until maturity in December 2003	\$ 1,224,896	\$ 1,446,771
Term loan repayable in 45 equal installments of \$33,333 until maturity in September 2004	1,533,333	–
Term loan repayable in 60 equal installments of \$50,000 until maturity in December 2005	3,000,000	–
Other debt	–	5,833
	5,778,229	1,452,604
Less current portion	1,470,729	409,633
	\$ 4,307,500	\$ 1,042,971

These term loans bear interest at the bank's prime rate plus 1.5%. Pursuant to the credit agreement, the Corporation is subject to certain restrictive covenants and the maintenance of financial ratios. The loans are secured by a general security agreement with fixed and floating charge on all of the Corporation's assets except one coil tubing unit to which the lender has relinquished its first fixed charge in favour of the debenture holder (note 6).

The principal amount of long-term debt to be repaid subsequent to December 31, 2000 is:

2001	\$ 1,470,729
2002	1,403,750
2003	1,403,750
2004	900,000
2005	600,000
	\$ 5,778,229

6. Convertible debenture:

Pursuant to conversion of the warrants issued in connection with the private placement described in note 8, the Corporation issued a 7% non-redeemable convertible debenture which matures on April 11, 2003 and is secured by a first fixed charge on one coil tubing unit.

This debenture may be converted, in whole or in part, at the option of the holder, to Common Shares of the Corporation prior to maturity. In the event the debenture holder elects to convert the debenture, the holder shall receive Common Shares based on a conversion price of: \$0.50 per share prior to October 29, 2001; \$0.60 per share prior to October 29, 2002; and \$0.70 per share after October 29, 2002 until April 11, 2003.

7. Related party transactions:

A shareholder who is a director and officer has a non-interest bearing and unsecured note for \$60,000 due on October 29, 2001.

8. Capital stock:**(a) Authorized:**

Unlimited number of Common Shares.

Unlimited number of Preferred Shares, issuable in series.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

8. Capital stock (continued):

(b) Common Shares and Warrants issued and outstanding:

	Number of Shares	Number of Warrants		Amount
		"A"	"Special"	
Balance at May 31, 1999	12,075,000	-	-	\$ 1,492,885
Shares issued on exercise of stock options	300,000	-	-	30,000
Shares issued a private placement	14,666,667	-	-	5,760,000
Less: share issue costs	-	-	-	(332,887)
Class "A" Warrants issued		3,000,000	-	240,000
Balance at May 31, 2000	27,041,667	3,000,000	-	\$ 7,189,998
Shares issued on exercise of stock option	80,000	-	-	40,000
Less: share issue costs	-	-	-	(4,101)
Class "Special" Warrants issued	-	-	4,545,455	4,815,010
Balance at December 31, 2000	27,121,667	3,000,000	4,545,455	\$ 12,040,907

Under the private placement of shares made on October 29, 1999, the Corporation issued 8,000,000 units for total proceeds of \$3,000,000. Each unit was comprised of one Common Share of the Corporation and 0.375 "A" Warrant and 0.375 "B" Warrant. Each whole "A" Warrant together with \$0.50 entitle the holder to acquire one Common Share of the Corporation for a period of 2 years, up to October 29, 2001. Should all "A" Warrants be exercised, the Corporation would issue 3,000,000 Common Shares for a cash consideration of \$1,500,000. As at December 31, 2000, none of these "A" Warrants have been exercised. Of the total issue price of \$3,000,000, an amount of \$240,000 has been attributed to "A" Warrants.

Each whole "B" Warrant together with \$0.50 entitles the holder to either: acquire one Common Share of the Corporation for a period of 2 years, up to October 29, 2001, or purchase a 7% non-redeemable convertible debenture from the Corporation in the principal amount of up to \$1,500,000 for a period of 2 years, up to October 29, 2001. All of the "B" Warrants were exercised on April 11, 2000 by purchase of a convertible debenture (note 6).

Under the private placement of "Special Warrants" made on November 9, 2000, the Corporation issued 4,545,455 Special Warrants at \$1.10 each for gross proceeds of \$5,000,000 and net proceeds of \$4,815,010 after finance costs. Each "Special Warrant" entitles the holder to acquire one common share and one half of one "Common Share Purchase Warrant" at no additional cost no later than November 9, 2001. Upon exercise of all "Special Warrants", 4,545,455 Common shares and 2,272,728 "Common Share Purchase Warrants" would be issued. Each "Common Share Purchase Warrants" together with \$1.25 entitle the holder to acquire one Common Share. The "Common Share Purchase Warrants" are exercisable up to November 8, 2003. Should all the "Common Share Purchase Warrants" be exercised, 2,272,728 common shares would be issued for a cash consideration of \$2,840,910.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

8. Capital stock (continued):**(c) Stock option plan:**

The Corporation has a fixed stock option plan under which it may grant up to 20% of its Common Shares outstanding to directors, officers and employees subject to shareholder and regulatory approval. At December 31, 2000, the Corporation had approval to grant up to 5,408,333 common shares under the stock option plan. Options prices and vesting terms are determined by the directors at granting, but a minimum of one third of options granted shall vest each year. The term of options granted does not exceed five years.

At December 31, 2000, options were outstanding for the issue of 2,150,000 Common Shares to directors, officers, and employees of the Corporation. Changes in the number of options with their weighted average exercise price are summarized below:

	December 31,2000		May 31,2000	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,775,000	\$ 0.41	700,000	\$ 0.10
Granted	550,000	1.05	1,375,000	0.50
Exercised	(80,000)	0.50	(300,000)	0.10
Cancelled	(95,000)	0.50	–	–
Outstanding, end of period	2,150,000	\$ 0.57	1,775,000	\$ 0.41
Exercisable, end of period	566,667	\$ 0.22	400,000	\$ 0.10

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of exercise price	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 0.10	400,000	2.25	\$ 0.10	400,000	\$ 0.10	
0.50	1,200,000	4.08	0.50	166,667	0.50	
1.00	250,000	4.66	1.00	–	–	
1.10	300,000	4.80	1.10	–	–	
\$ 0.10 - 1.10	2,150,000	3.91	\$ 0.57	566,667	\$ 0.22	

(d) Per share amounts:

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share which was retroactively adopted by the Corporation for the seven months ended December 31, 2000. Under the new standard, the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only “in the money” dilutive instruments impact the diluted calculation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

8. Capital stock (continued):**(d) Per share amounts (continued):**

The weighted average number of common shares outstanding for the seven months ended December 31, 2000 was 27,076,067 shares (May 31, 2000 - 17,811,430 shares).

The following table illustrates the number of shares which were added to the weighted average number of common shares outstanding for the dilutive effect of stock options and warrants.

	December 31, 2000	May 31, 2000
Dilutive effect of stock options	1,040,910	475,680
Dilutive effect of warrants	3,272,728	321,429

Prior period diluted earnings per share and current period diluted earnings per share using the imputed earnings method are not materially different from earnings per share using the treasury stock method.

On January 19, 2001, 180,000 stock options were granted to employees exercisable to January 19, 2006 at a price of \$1.15 per share. On February 16, 2001, 50,000 of these stock options were cancelled.

On February 26, 2001, 110,000 shares were issued to an employee as consideration for employment remuneration.

9. Income taxes:

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rates before income taxes. The difference relates to the following items:

	December 31, 2000	May 31, 2000
Statutory income tax rate	44.6%	44.6%
Expected income tax	\$ 274,550	\$ 131,921
Changes resulting from:		
Unrecognized benefit of subsidiary loss	48,391	16,063
Share issue costs deduction	(31,000)	(36,142)
Future tax valuation allowance	-	(115,932)
Reversal of future tax valuation allowance	(236,930)	-
Non-deductible items	10,330	4,090
	\$ 65,341	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

9. Income taxes (continued):

The components of the net future income tax liability at December 31, 2000 are as follows:

	December 31, 2000	May 31, 2000
Future income tax assets:		
Benefit of non-capital losses	\$ 716,508	\$ 586,138
Share issue costs	184,989	131,640
	901,497	717,778
Less: Valuation allowance	(37,958)	(204,417)
Net future income tax assets	863,539	513,361
Future income tax liabilities:		
Capital assets	(928,880)	(513,361)
	\$ (65,341)	\$ -

The Corporation has non-capital losses of \$1,521,000 (May 31, 2000 - \$1,314,000) which are available to be carried forward to reduce taxable income of future years up to 2007 as follows:

2004	\$ 42,000
2005	664,000
2006	561,000
2007	254,000
	\$ 1,521,000

In addition Technicoil Integrated Services Inc. has operating losses of approximately \$200,000 which are available to be carried forward to reduce taxable income of future years. These losses expire in 2020.

The Corporation has undepreciated capital cost allowance pools amounting to approximately \$12,400,000 at December 31, 2000 (May 31, 2000 - \$4,607,000). The Corporation claimed maximum capital cost allowance amounting to approximately \$1,370,000 for the period (May 31, 2000 - \$1,036,000).

10. Commitments:

- (a) The Corporation has made deposits in the aggregate amount of \$4,417,337 toward the construction of eight coil tubing rigs and is committed to further expenditures in the aggregate amount of \$10,779,000 to complete their construction.
- (b) Upon formation of its 75% owned subsidiary, Technicoil Integrated Services Inc., the Corporation entered into an agreement with the non-controlling interest holder whereby the Corporation will acquire the non-controlling interest at fair market value on December 14, 2002 or upon the subsidiary achieving certain operational targets. The acquisition is to be financed through issuance of common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Seven months ended December 31, 2000 and year ended May 31, 2000

10. Commitments (continued):**(c) The Corporation has annual commitments for operating leases as follows:**

Year ending December 31	Vehicles	Premises	Total
2001	\$ 167,708	\$ 111,080	\$ 278,788
2002	96,962	108,824	205,786
2003	29,769	15,847	45,616

11. Subsequent events:

The Corporation purchased land and office and shop buildings for a cash price of \$785,000 on January 31, 2001 to accommodate its Canadian field operations.

12. Financial instruments:**(a) Credit risk and economic dependence:**

A substantial portion of the accounts receivable are with customers in the petroleum and natural gas industry and are subject to normal industry credit risk. Customers are subject to an internal credit review to minimize the risk of non-payment. The Corporation has a significant exposure to a major customer. This customer is a major international energy corporation and is not considered to be a risk.

(b) Interest rate risk:

As at December 31, 2000, the Corporation was exposed to floating interest rates with respect to its bank indebtedness.

(c) Fair values:

The fair values of accounts receivable and accounts payable approximate their carrying values due to their short-term nature.

The fair value of the term loan approximates its carrying value due to its floating rate nature.

The fair value of the convertible debenture is dependent on the market value of the shares of the Corporation on a particular date. The market value of the Corporation's share on December 29, 2000 was \$1.10. The number of shares to be issued on conversion will not be affected by the market value of the Corporation's share.

The fair value of the Corporation's related party balance is considered undeterminable due to the inability to apply a valuation method or obtain market prices.

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- (2) Member of Compensation Committee
- (3) Member of Corporate Governance Committee
- (4) Member of Health, Safety and Environmental Committee

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