



## Technicoil Corporation

Symbol: TEC

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### Releases Third Quarter Report September 30, 2002

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	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Average number of rigs	14	9	13	8
Revenue	\$4,459,590	\$7,751,936	\$16,094,901	\$17,373,173
Gross margin	\$520,528	\$4,065,461	\$4,902,917	\$8,437,430
Net income (loss)	\$(772,731)	\$1,907,480	\$232,196	\$3,221,227
Net income (loss) per share*	\$(0.02)	\$0.05	\$0.01	\$0.09
Cash flow	\$165,516	\$2,848,093	\$2,643,948	\$5,523,486
Cash flow per share*	\$0.00	\$0.08	\$0.07	\$0.15
EBITDA	\$(396,026)	\$3,514,366	\$2,413,311	\$6,958,080
Equipment loans vs. Dec. 31, 2001	\$11,494,149	\$8,927,700	\$11,494,149	\$8,927,700
Equipment loans to equity	54%	43%	54%	43%
Shares outstanding	38,853,789	27,281,667	38,853,789	27,281,667
Shares outstanding diluted	43,974,550	42,337,850	43,974,550	42,337,850
Weighted average shares - diluted, treasury stock method	39,986,771	36,217,454	39,879,869	36,582,053

\*Per share figures are on a weighted average diluted basis using the treasury stock method

**Technicoil Corporation's** results in the third quarter of 2002 continued to be negatively impacted by reduced oil and gas industry spending causing low utilization rates and reduced revenues in the quarter compared to the third quarter in 2001. Technicoil recorded a loss of \$0.8 million or \$(0.02) per share in the quarter compared to net income of \$1.9 million or \$0.05 per share in the third quarter of 2001. Weak natural gas prices during the summer in Technicoil's main operating areas of western Canada and the rocky mountain area of the United States caused reduced capital spending by customers on natural gas drilling and fracturing. The third quarter 2002 results were also negatively impacted by one-time costs related to closing the Company's Houston marketing and administrative office and costs related to an unsuccessful attempt to sell the company. Cash flow from operations was \$0.2 million or \$0.00 per share for the third quarter of 2002 compared to \$2.8 million or \$0.08 per share for the same period in 2001.

Revenue decreased 7 percent comparing the first nine months of 2002 to the same period in 2001 as weak second and third quarter utilization rates offset the larger fleet that Technicoil had available for work. Cash flow declined 52 percent and net income declined 93 percent in the first nine months of 2002 compared to 2001 as the company had higher operating, general and administrative and amortization costs in support of a 63 percent larger rig fleet in 2002. Technicoil continued to invest in new equipment in 2002 that resulted in an increase in long-term debt of 22 percent in the first nine months. Long-term debt to equity increased to 54 percent at September 30, 2002 from 43 percent from December 31, 2001.

## **Operations**

Technicoil operated an average of 14 rigs throughout the second quarter of 2002 conducting both fracturing and drilling operations for our customers. The Company's two new second generation rigs were delivered in early July and August and after short commissioning periods began drilling operations. Overall fleet utilization was low in the third quarter with utilization rates of 34 percent in Canada and 28 percent in the United States for a company-wide rate of 32 percent.

In Canada fracturing operations were delivered to three customers with a total of 228 wells fractured during the third quarter. Technicoil continues to be the supplier of choice for the most active pressure pumping companies conducting coil fracturing operations. On the Canadian drilling side, Technicoil completed 54 wells for three customers, all using the new second generation rigs.

In the United States, Technicoil had four rigs available for work. Two of these rigs were dedicated to work under the Halliburton contract on a retainer plus day rate basis for coil fracturing. Fracturing work was also done directly for a northeast U.S. exploration and production company using other third party pressure pumping companies. Technicoil began operations on a deep drilling contract in the United States late in the third quarter using a second generation rig from Canada and completed one well during the quarter.

Technicoil's two second generation rigs initially went to work on shallow gas drilling projects and performed beyond management's expectation. The Company was able to test both the top drive drilling capability of the rigs as well as drilling with coil tubing. Both drilling methods were successful as was the performance of the integrated mud and pipe handling systems built for these new rigs. Technicoil then embarked on two technically challenging coil drilling projects. The first was a deep drilling project in Wyoming with wells targeted to over 2,100 meters in a hard rock environment. The rig design and support equipment performed well and proved its ability to drill to this deeper depth. However, difficulties were encountered with the coil tubing injector causing unacceptable down time. The injector also did not work smoothly at slower, hard rock drilling rates of penetration. Technicoil is working with the manufacturer of this key rig component to solve these problems. The second project was to drill larger diameter, directional wells for heavy oil targets in eastern Alberta. Coil tubing drilling proved to be superior to conventional technology in this application. Technicoil was able to drill at higher rates of penetration than conventional drilling rigs while maintaining directional control. Technicoil completed the last few wells in this 10 well project in times shorter than conventional rigs had ever completed wells in this area.

Technicoil's historical strength in well fracturing is now being consistently supplemented by drilling projects in both Canada and the United States. While drilling margins tend to vary significantly over the business cycle in the oil and gas industry the drilling market is large and an important element to Technicoil's growth plans.

<b>Revenue Analysis by Type of Activity</b>	<b>Nine Months Ended September 30, 2002</b>	<b>Nine Months Ended September 30, 2001</b>
Canada		
Fracturing	\$7,352,780	\$8,258,582
Re-entry drilling	138,288	386,157
Conventional drilling	2,672,415	2,502,211
Total Canada	10,163,483	11,146,950
United States		
Fracturing	5,020,504	3,887,345
Re-entry drilling	256,061	412,109
Conventional drilling	654,853	1,926,769
Total United States	5,931,418	6,226,223
Consolidated revenue	16,094,901	\$17,373,173

### **Management Discussion and Analysis Revenue and Net Income**

Revenue for the three-month period ended September 30, 2002 was down 42 percent or \$3.3 million compared to the quarter ended September 30, 2001 despite the fact that Technicoil averaged 14 rigs in service in the 2002 period versus nine in the third quarter of 2001. Net income declined \$2.8 million in the third quarter of 2002 compared to the same period in 2001 resulting in a loss of \$0.8 million or \$0.02 per share. Low utilization rates, costs related to preparation for two technically challenging drilling projects and lower drilling day rates in the third quarter of 2002 compared to 2001 caused the declines. Revenue from the two drilling projects did not begin until late in the third quarter. One time costs related to closing the Company's Houston sales and administrative office and an unsuccessful effort to sell the company also negatively impacted the third quarter. Severances and other closing costs for closing the Houston office amounted to \$310,140 while the failed sale process incurred costs of \$211,000. Excluding these items the third quarter loss would have been \$0.4 million or \$(0.01) per share.

On a year-to-date basis, 2002 revenue was down seven percent compared to the first nine months of 2001 while net income declined 93 percent. The large decline in net income relative to the revenue decrease reflects fixed costs associated with supporting a larger rig fleet in 2002 compared to 2001 in a period of low utilization. The one time costs related to the Houston office closure and the failed company sale process also contributed to weaker 2002 earnings. In addition, the nine-month period ended September 30, 2001 benefited from a gain on sale of fixed assets of \$0.2 million.

Utilization rates in Canada were 34 percent and 28 percent in the United States for an overall company average of 32 percent in the third quarter of 2002 compared to overall company utilization rates of 89 percent for the third quarter of 2001. On a year-to-date basis 2002 Technicoil's utilization rate was 47 percent compared to 73 percent for the first nine months of 2001. Third quarter 2002 operating margins were 12 percent compared to 52 percent in the third quarter of 2001. Margins in the third quarter, while an improvement over six percent margins in the second quarter of 2002, suffered from a weak drilling market resulting in competitive pricing for drilling. Low industry drilling activity also drove low utilization in Technicoil's main business of coil fracturing. Costs incurred to prepare the second generation rigs for initial drilling projects that did not deliver revenue until late in the third quarter also hurt operating results. Over the first nine months of 2002 operating margins averaged 30 percent compared to 49 percent for the same period in 2001. Technicoil's overall staffing levels and infrastructure increased to support a larger rig fleet in 2002 compared to 2001 resulting in higher fixed field and administrative costs. Management expects that with improved utilizations, operating margins in the 35 to 45 percent range are a reasonable expectation.

General and administrative expenses as a percent of revenue were 14 percent of revenue for the three month period ended September 30, 2002 compared to seven percent for the third quarter of 2001. On a year-to-date basis 2002 general and administrative costs were 14 percent compared to 10 percent in 2001. Technicoil's administrative infrastructure is in place to support high utilization of a 14 rig fleet and the low utilizations and revenue, especially in the second and third quarter, had a negative impact on the ratio of

general and administrative costs. The one time costs in the third quarter of \$211,000 related to the company sale efforts also negatively impacted this ratio.

The decision to close the Houston office was made, as the costs being incurred were not supportable in light of the amount of revenue being generated by Houston based sales efforts. It is the company's intent, when market conditions improve to open a marketing and field office geographically nearer to the operating areas where the equipment will be based.

Amortization expense increased 76 percent and 72 percent respectively for the three and nine-month periods ended September 30, 2002 compared to the same periods in 2001 due to the aggressive capital program that Technicoil has been executing since expansion began in mid-2000. Interest expense declined 21 percent comparing the three-month period ended September 30, 2002 to the quarter ended September 30, 2001. Interest expense declined 27 percent on a year-to-date basis. Debt levels in 2002 are higher than those in the comparative periods of 2001, however interest rates have declined significantly from last year. Additionally, the \$1.5 million convertible debenture was converted to common shares in October 2001. This debenture carried a 7.5 percent interest rate compared to rates in the 5.0 percent range for bank debt in the first nine months of 2002.

### **Assets and Liabilities**

Accounts receivable were down 50 percent at September 30, 2002 compared to December 31, 2001, as revenues were weak in the third quarter compared to the last quarter of 2001. Technicoil has not experienced any problems with slow or uncertain receivables collection despite the weakness in the overall oil and gas industry. Accounts payable at September 30, 2002 were up 38 percent from year-end 2001 reflecting high expenditures in the third quarter for preparing the second-generation rigs for drilling projects. Income taxes recoverable of \$1.4 million reflect mainly losses for 2002 in the United States that are creditable to taxes paid in 2001.

Working capital at September 30, 2002 was in a deficit position of \$10.7 million, compared to a deficit of \$6.7 at December 31, 2001. The large deficit is mainly a result of the balance sheet classification of Technicoil's equipment loans as current. The Emerging Issues Committee of the C.I.C.A. issued EIC-122 effective January 2002 that states any debt that is legally demand in nature be classified as current on the balance sheet. Technicoil's equipment loans are repayable in terms ranging from 24 to 48 months but are legally demand in nature. Technicoil is in compliance with all terms and conditions of the equipment loans and does not expect the lender to exercise its demand privileges within the next year. The demand feature in the debt facilities provides Technicoil with lower borrowing costs. Adjusting for the removal of the equipment loans at June 30, 2002, working capital is a positive \$0.8 million or a ratio of 1.2:1, down from a ratio of 1.4:1 at December 31, 2001. The lower ratio at the end of September reflects the weaker operating environment in the third quarter of 2002 compared to the last quarter of 2001.

Year-to-date capital spending related primarily to construction of the new second generation rigs as well as drilling support equipment to accompany the new rigs. A total of \$10.5 million was spent on fixed assets to date in 2002. Minimal capital spending is planned for the remainder of 2002.

Equipment loan balances were 29 percent higher at September 30, 2002 compared to December 31, 2001 as capital spending in the first nine months exceeded cash flows and deposits on capital equipment. Technicoil's debt/equity ratio increased to 54 percent from 43 percent at December 31, 2001 due to the debt increase and small earnings on a year to date basis.

Capital stock increased in the first nine months of 2002 as shares were issued as partial consideration for the purchase of the 25 percent of Technicoil's United States subsidiary that it did not already own in January 2002. Technicoil purchased this interest for 850,000 shares valued at \$0.80 and cash consideration of U.S.\$685,000. This purchase consideration amounted to \$1,758,600 and included minority interest of \$318,015 and goodwill of \$1,440,585.

**Outlook**

The second and third quarters of 2002 witnessed an extended spring break-up with unusually wet weather continuing throughout the second quarter followed by cautious capital spending by oil and gas companies in the third quarter. These events have caused Technicoil's results to fall well behind management's expectations resulting in higher debt levels than expected. The low natural gas price environment experienced in western Canada and the rocky mountain region in the United States in the third quarter of 2002 has corrected itself and natural gas price realizations are much improved for our customers in these basins where Technicoil does most of its work. Technicoil has strong coil fracturing prospects for the remainder of 2002 with three different customers. The second generation rigs are focused on the drilling market and are experiencing acceptable utilization rates. Technicoil has steady work lined up for these new rigs over the next two quarters until break-up in 2003. The second generation rigs are built with the capability to drill with both coil tubing and conventional drill pipe using a top drive integrated into the rig. Our ability to drill using both methods is popular with our drilling customers. Management expects the new rigs to set new standards for coil tubing drilling to deeper depths with wider diameter bits than historically thought possible using coil tubing.

Coil fracturing in Canada is a well-accepted practice. Technicoil expects increasing use of this completion method as coal bed methane drilling becomes more established in Canada. In the United States, coil fracturing is still in its acceptance phase and Technicoil expects increased interest in coil fracturing as the benefits are proven especially for the extensive coal bed methane projects that are already well established in the United States. Marketing efforts in the United States will continue from the Calgary office and will be focused mostly in the rocky mountain region where Technicoil sees the most opportunity for drilling and fracturing with coil tubing.

On October 18, 2002 Technicoil announced that the board of directors had terminated the marketed sale process announced on July 3, 2002 as a course of action to achieve maximum shareholder value. General economic uncertainty and in particular, difficult times in the oil and gas service industry contributed to the Company's inability to generate an acceptable bid for the company. The Company's focus now is on cost control and reduction with an objective of reducing debt with surplus cash flows as the business environment improves as expected in the upcoming quarters.

Technicoil Corporation  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2002 (unaudited)	December 31, 2001
<b>ASSETS</b>		
Current assets:		
Cash	\$540,210	\$1,439,152
Accounts receivable	2,983,738	5,967,712
Prepaid expenses and other	678,765	242,094
Due from shareholder	-	60,000
	4,202,713	7,708,958
Goodwill (note 8)	1,440,585	-
Capital assets under construction	-	4,935,102
Capital assets – net	33,140,353	24,269,962
	\$38,783,651	\$36,914,022
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank operating loan	\$619,550	\$1,150,000
Accounts payable and accrued liabilities	4,215,632	3,044,214
Income taxes payable (recoverable)	(1,469,429)	1,263,394
Equipment loans (note 3)	11,494,149	8,927,700
	14,859,902	14,385,308
Future income taxes	2,467,534	1,680,013
Non-controlling interest	-	318,015
Shareholders' equity		
Capital stock (note 5)	15,949,005	15,255,672
Retained earnings	5,507,210	5,275,014
	21,456,215	20,530,686
	\$38,783,651	\$36,914,022

## Technicoil Corporation

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND RETAINED EARNINGS**

(unaudited)

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Coil tubing service and drilling revenue	\$4,459,590	\$7,751,936	\$16,094,901	\$17,373,173
Expenses:				
Operating	3,939,062	3,686,475	11,191,984	8,935,743
General and administrative	606,414	551,095	2,179,466	1,669,099
Houston office closure (note 7)	310,140	-	310,140	-
Amortization	616,953	350,027	1,624,231	945,216
Interest on equipment loans	146,328	184,697	370,895	511,351
(Gain) on sale of fixed assets	-	-	-	(189,749)
Other expenses (income)	(1,004)	(4,334)	(5,182)	(19,461)
	5,617,893	4,767,960	15,671,534	11,852,199
Net income (loss) before income tax	(1,158,303)	2,983,976	423,367	5,520,974
Income tax expense (recovery)				
Current	(706,866)	485,910	(596,350)	865,525
Future	321,294	491,922	787,521	1,183,548
	(385,572)	977,832	191,171	2,049,073
Net income (loss) before non-controlling interest	(772,731)	2,006,144	232,196	3,471,901
Non-controlling interest in net (income) loss of subsidiary	-	(98,664)	-	(250,674)
Net income for the period (loss)	(772,731)	1,907,480	232,196	3,221,227
Retained earnings, beginning of period	6,279,941	1,808,025	5,275,014	494,278
Retained earnings, end of period	\$5,507,210	\$3,715,505	\$5,507,210	\$3,715,505
Net income (loss) per share				
Basic	\$(0.02)	\$0.07	\$0.01	\$0.12
Diluted	\$(0.02)	\$0.05	\$0.01	\$0.09

## Technicoil Corporation

**CONSOLIDATED STATEMENTS OF CASH FLOW**

(unaudited)

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$(772,731)	\$1,907,480	\$232,196	\$3,221,227
Add (deduct) non-cash items				
Amortization	616,953	350,027	1,624,231	945,216
Future income tax	321,294	491,922	787,521	1,106,369
Non-controlling interest	-	98,664	-	250,674
Cash flow from operations	165,516	2,848,093	2,643,948	5,523,486
Change in non-cash working capital	641,724	873,347	1,045,898	(1,587,821)
	807,240	3,721,440	3,689,846	3,935,665
Financing activities:				
Common shares and warrants issued	-	(2,101)	13,333	214,765
Increase (decrease) in equipment loans	2,012,020	461,762	2,566,449	2,257,287
	2,012,020	459,661	2,579,782	2,472,052
Investing activities:				
Acquisition of capital assets	(7,911,662)	(5,050,069)	(10,488,087)	(7,868,027)
Capital assets under construction	6,146,911	(362,993)	4,935,102	(1,367,545)
Book value of asset sold	-	-	-	714,724
Acquisition of Technicoil minority interest	-	-	(1,085,135)	-
	(1,764,751)	(5,413,062)	(6,638,120)	(8,520,848)
Net (decrease) in cash and cash equivalents	1,054,509	(1,231,961)	(368,492)	(2,113,131)
Cash and cash equivalents (bank operating loan net of cash), beginning of period	(1,133,849)	(1,041,349)	289,152	(160,179)
Cash and cash equivalent (bank operating loan net of cash), end of period	\$(79,340)	\$(2,273,310)	\$(79,340)	\$(2,273,310)
Cash flow from operations per share				
Basic	\$0.00	\$0.10	\$0.07	\$0.20
Diluted	\$0.00	\$0.08	\$0.07	\$0.15

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