



Integrated
Services Inc.

2002

interim report

Cancoil Integrated Services Inc.

interim report

Summary Highlights

	Three Months Ended March 31		
	2002	2001	Change
Average number of rigs	12	8	50%
Revenue	\$ 8,365,878	\$ 4,272,634	96%
Gross margin	50%	30%	67%
Net income	\$ 1,805,153	\$ 248,143	627%
Net income per share*	\$ 0.05	\$ 0.01	400%
Cash flow	\$ 2,471,555	\$ 599,487	312%
Cash flow per share*	\$ 0.06	\$ 0.02	200%
EBITDA	\$ 3,497,940	\$ 770,218	354%
Long-term debt vs. Dec. 31 2001	\$ 8,434,741	\$ 8,927,700	(6%)
Long-term debt to equity	37%	43%	(14%)
Shares outstanding	38,743,789	27,231,667	42%
Shares outstanding diluted	43,864,550	42,429,850	3%
Weighted average shares			
– diluted, treasury stock method	39,581,089	36,414,647	9%

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

Cancoil Integrated Services Inc. continued to deliver excellent financial and operating results in the first quarter of 2002 with record revenues and our second highest quarterly net income figure in company history. Net income for the three months ended March 31, 2002 was up 627 percent to \$1.8 million or \$0.05 per share compared to \$0.01 per share for the three months ended March 31, 2001. The large net income increase was delivered despite a revenue increase of only 96 percent illustrating much higher utilization and cost efficiencies in operations and administration. Cash flow from operations was up 312 percent comparing the first quarter of 2002 with the three months ended March 31, 2001. Increased cash income taxes reduced the cash flow increase relative to the strong earnings improvement. These excellent results were driven by a 50 percent increase in the coil tubing rig fleet combined with high utilization and cost efficiencies. Cancoil's balance sheet continues to improve. Long-term debt decreased by six percent in the quarter as cash flows more than offset the capital program for the first three months of 2002. Long-term debt to equity improved from 43 percent at December 31, 2001 to 37 percent at March 31, 2002.

Operations

Cancoil operated 12 rigs throughout the first quarter of 2002 conducting both fracturing and drilling operations for our customers. In Canada where eight rigs were deployed, fracturing operations were delivered to three customers with the bulk of the work being done for Halliburton under the contract that expired on March 31, 2002. Cancoil also conducted a 42 well drilling program in the January and February time frame for a single customer. In the United States, Technicoil had three of its four rigs dedicated to work under the Halliburton contract. The fourth rig in the U.S. which is set up mainly for drilling had a modest amount of work in the quarter. Overall, rig utilization was high in the first quarter of 2002 resulting in excellent efficiencies in operating costs.



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Cancoil's two new generation rigs were nearing completion by the end of the first quarter of 2002. These rigs are much larger in size and depth capacity than the existing 12 rigs and will have greater capacity than any coil tubing rig in the market today. The new rigs, to be delivered in the second quarter, are being built as complete drilling systems and will target the Canadian drilling market. The remainder of the fleet continues to focus primarily on the coil fracturing market in Canada and the United States.

Cancoil was successful in diversifying its revenue stream with a variety of services and customers as well as through geographical diversification during the first quarter of 2002. The Company'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 Cancoil's growth plans.

Revenue Analysis by Type of Activity

	Three months ended	
	March 31, 2002	March 31, 2001
Canada		
Fracturing	\$ 4,162,506	\$ 978,879
Re-entry drilling	–	344,712
Conventional drilling	1,358,885	1,783,910
Total Canada	5,521,391	3,107,501
United States		
Fracturing	2,592,838	756,751
Re-entry drilling	217,150	408,382
Conventional drilling	34,499	–
Total United States	2,844,487	1,165,133
Consolidated revenue	\$ 8,365,878	\$ 4,272,634

Management Discussion and Analysis

Revenue and Net Income

Revenue for the three-month period ended March 31, 2002 was up 96 percent compared to the quarter ended March 31, 2001. Net income was up a much greater 627 percent comparing the three months ended March 31, 2002 to the first quarter of 2001. A 50 percent increase in the rig fleet combined with the Halliburton Energy Services contract delivered the large revenue increase. In comparison revenues in the first quarter of 2001 were hurt by contract delays resulting in low revenues for the 2001 period.

The large relative increase in net income compared to the revenue increase results from improvements in operating and general and administrative costs as a percent of revenue when comparing the two periods. Margins of 30 percent in the first quarter of 2001 were hurt by the cancellations and delays as crews were hired and trained for rigs delivered late in 2000 that did not go to work until late in the first quarter of 2001. In the quarter ended March 31, 2002 margins were 50 percent which are above management's long term expectations. The high margins reflect high utilization of the fleet in the first quarter of 2002 as 75 percent of the rigs were under contract with Halliburton. Management's planning assumptions for gross margins are in the 35 to 45 percent range depending on the type of work performed. General and administrative expenses as a percent of revenue declined to approximately eight percent in the three month period ended March 31, 2002 compared to 12 percent for the first quarter of 2001. Most of Cancoil's administrative infrastructure had been put in place by the first quarter of 2001 and higher 2002 revenues delivered greater economies of scale. On a diluted per share basis net income was \$0.05 for the first three months of 2002 compared to \$0.01 for the three months ended March 31, 2001 up 400 percent as additional shares were issued in the past year offsetting part of the income increase when measured on a per share basis.

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Amortization expense increased 70 percent for the three months ended March 31, 2002 compared to the quarter ended March 31, 2001 due to the aggressive capital program that Cancoil has been executing since expansion began in mid-2000. Interest expense declined 22 percent comparing the three-month period ended March 31, 2002 to the quarter ended March 31, 2001. Debt levels in 2002 were actually higher than in the first quarter of 2001; however interest rates have declined significantly from the same period 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 5.5 percent range for bank debt in the first quarter of 2002.

Loss carry forwards for income tax purposes at the end of 2000 were absorbed during 2001 due to a highly profitable year. The lack of loss carry forwards entering 2002 results in a large increase to income tax expense in the first quarter of 2002 compared to the same quarter in 2001.

Assets and Liabilities

Accounts receivable were up 34 percent at March 31, 2002 compared to December 31, 2001 as receivables from a drilling program that ended in late January were outstanding at the end of the first quarter of 2002. The majority of these receivables had been collected by the end of April. Accounts payable at March 31, 2002 were not changed much from year-end 2001 as the rig count and activity levels were consistent throughout the fourth quarter of 2001 and the first quarter of this year.

Working capital at March 31, 2002 was in a deficit position of \$6.2 million, improved from a deficit of \$6.7 at December 31, 2001. The large deficit is a result of the balance sheet classification of Cancoil's equipment loans as current. Most of this debt was formerly classified as long-term. 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. Cancoil's equipment loans are repayable in

terms ranging from 24 to 48 months but are legally demand in nature. The Company 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 Cancoil with lower borrowing costs. Adjusting for the removal of the equipment loans at March 31, 2002, working capital is a positive \$2.2 million or a ratio of 1.35:1, almost unchanged from December 31, 2001.

Capital spending in the first quarter of 2002 related primarily to component equipment for the new generation rigs as well as spending on the drilling systems to accompany the new rigs. Deposits made prior to the end of 2001 funded the ongoing construction of the new rigs through the first quarter.

Long-term debt (equipment loans) balances were six percent lower at March 30, 2002 compared to December 31, 2001 as capital spending in the first three months was more than offset by cash flows and drawdowns on deposits for capital equipment under construction. Cancoil's debt/equity ratio continues to improve, declining to 37 percent at March 31, 2002 compared to 43 percent at December 31, 2001.

Capital stock increased in the first quarter of 2002 as shares were issued as partial consideration for the purchase of the 25 percent of Cancoil's United States subsidiary, Technicoil Integrated Services Inc. in January 2002. Cancoil 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.

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Outlook

The second quarter of every year in the oil and gas industry in Canada is always beset with the uncertainty of the timing and extent of spring break-up. This year break-up uncertainties are combined with forecasts of reduced activity in the oil and gas industry in 2002 compared to 2001, mainly due to lower commodity prices. In particular natural gas, which is the main driver of Cancoil's fracturing and drilling businesses, has seen lower market prices this year. However, despite these uncertainties, Cancoil is experiencing strong equipment utilization experience for well fracturing in late April as break-up in our key Southern Alberta market area is ending. In the United States break-up is not generally an issue and two of the four rigs in the U.S. have been working at high utilizations throughout April.

Three quarters of Cancoil's fleet was contracted to the end of March 31, 2002 under the Halliburton agreement providing a strong base of operating revenue for the first quarter. Three rigs were working for Halliburton in the United States with five to six in Canada committed to this contract. Halliburton has renewed a contract for two rigs in the United States on a retainer plus day rate basis for the balance of 2002 and is contracting Cancoil rigs in Canada on an as needed basis in Canada at market rates. Exiting break-up at the end of April Cancoil has approximately 50% of its fleet working with Halliburton. Reduced usage by Halliburton has freed equipment, particularly in Canada, to be marketed to other customers in the coil fracturing market. Cancoil has worked for two other fracturing customers in the first quarter of 2002 and expects significant opportunities for additional work throughout the year from existing and additional customers in Canada and the United States.

Delivery of the two new generation rigs will occur in May and June of 2002. These rigs will focus on the drilling market and will initially work in Canada. Cancoil has commitments from major oil and gas companies to drill test programs to prove the effectiveness of the new rigs. The Company is grateful for the sponsorship of these customers to test this exciting new equipment. Management is confident the new rigs will deliver wells to the customer efficiently and on a cost effective basis. Large cash deposits are in place to fund the majority of the completion costs of the new equipment and Cancoil has adequate borrowing facilities in place that combined with cash flows are expected to be more than adequate to fund the 2002 capital program. The bulk of this year's capital program will be completed by the end of June and surplus cash flows are targeted to reduce debt levels for the balance of the year. Management wishes to retain maximum financial flexibility to take advantage of improving trends anticipated in the oil and gas industry over the balance of 2002 and into next year.

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Consolidated Balance Sheets

	March 31	December 31
	2002	2001
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 273,038	\$ 1,439,152
Accounts receivable	8,026,040	5,967,712
Prepaid expenses and other	233,929	242,094
Due from shareholder	–	60,000
	8,533,007	7,708,958
Goodwill	1,440,585	–
Capital assets under construction	4,110,106	4,935,102
Capital assets – net	25,550,764	24,269,962
	\$ 39,634,462	\$ 36,914,022
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank operating loan	\$ 1,539,100	\$ 1,150,000
Accounts payable and accrued liabilities	4,785,300	4,307,608
Demand equipment loans (note 2)	8,434,741	8,927,700
	14,759,141	14,385,308
Future income taxes	1,846,149	1,680,013
Non-controlling interest	–	318,015
Shareholders' equity		
Capital stock (note 4)	15,949,005	15,255,672
Retained earnings	7,080,167	5,275,014
	23,029,172	20,530,686
	\$ 39,634,462	\$ 36,914,022

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Consolidated Statements of Operations and Retained Earnings

	Three months ended	
	March 31	March 31
	2002	2001
	(unaudited)	
Coil tubing service and drilling revenue	\$ 8,365,878	\$ 4,272,634
Expenses:		
Operating	4,169,391	2,978,246
General and administrative	698,547	524,170
Amortization	500,266	294,304
Interest	114,998	149,072
Interest income	(2,586)	(55,520)
	5,480,616	3,890,272
Net income before income tax	2,885,262	382,362
Income tax expense		
Current	913,973	—
Future	166,136	53,526
	1,080,109	53,526
Net income before non-controlling interest	1,805,153	328,836
Non-controlling interest in net (income) loss of subsidiary	—	(80,693)
Net income for the period	1,805,153	248,143
Retained earnings, beginning of period	5,275,014	494,278
Retained earnings, end of period	\$ 7,080,167	\$ 742,421
Net income per share		
Basic	\$ 0.05	\$ 0.01
Diluted	\$ 0.05	\$ 0.01

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Consolidated Statements of Cash Flows

	Three months ended	
	March 31	March 31
	2002	2001
	(unaudited)	
Cash provided by (used in):		
Operating activities:		
Net income	\$ 1,805,153	\$ 248,143
Add (deduct) non-cash items		
Amortization	500,266	294,304
Future income tax	166,136	(23,653)
Non-controlling interest	-	80,693
Cash flow from operations	2,471,555	599,487
Change in non-cash working capital	(1,512,472)	(485,845)
	959,083	113,642
Financing activities:		
Common shares and warrants issued	13,333	191,866
Increase (decrease) in long-term debt	(492,959)	86,563
	(479,626)	278,429
Investing activities:		
Acquisition of capital assets	(1,774,533)	(1,703,133)
Capital assets under construction	824,996	(103,896)
Acquisition of Technicoil minority interest	(1,085,135)	-
	(2,034,672)	(1,807,029)
Net (decrease) in cash and cash equivalents	(1,555,215)	(1,414,958)
Cash and cash equivalents (bank operating loan net of cash), beginning of period	289,152	(160,179)
Cash and cash equivalent (bank operating loan net of cash), end of period	\$ (1,266,063)	\$ (1,575,137)
Funds flow from operations per share		
Basic	\$ 0.06	\$ 0.02
Diluted	\$ 0.06	\$ 0.02

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Notes to the Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

These interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements. Not all disclosures required by GAAP for annual financial statements are presented. The interim financial statements should be read in conjunction with the most recent audited, annual financial statements.

2. Demand Equipment Loans

The Company has a series of reducing demand loans that have been drawn for the construction of coil tubing rigs. The loans are repayable in terms ranging from 24 to 48 months but are legally demand in nature. These loans have been classified as current liabilities due to their demand nature. The portion of the equipment loans that are scheduled to be repaid within the next 12 months amounts to \$3,181,729.

3. Seasonality of Operations

A significant portion of the Company's operations is carried on in Canada. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on

weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has an impact on the Company's activity levels in the spring of each year. In addition, in extreme cold weather in Canada well fracturing activity may be curtailed for short periods. Wells are fractured with water-based sand mixtures that can freeze at temperatures below minus 20C.

4. Capital Stock

Outstanding common shares, purchase warrants and stock options:

	March 31, 2001	December 31, 2000
Common shares	38,743,789	37,827,122
Common share purchase warrants	2,272,728	2,272,728
Stock options	2,848,033	2,238,000
	43,864,550	42,337,850

5. Segmented Information

	Three Months Ended March 31 2002			Three Months Ended March 31 2001		
	Canada	U.S.	Total	Canada	U.S.	Total
Third party revenue						
Drilling	\$ 1,358,885	\$ 251,649	\$ 1,610,534	\$ 2,128,622	\$ 408,382	\$2,537,004
Well servicing	4,162,506	2,592,838	6,755,344	978,879	756,751	1,735,630
	\$ 5,521,391	\$ 2,844,487	\$ 8,365,878	\$ 3,107,501	\$ 1,165,133	\$ 4,272,634
Inter-segment	\$ 725,309	\$ (725,309)	-	\$ 166,883	\$ (166,883)	-
Net income	\$ 1,574,365	\$ 230,787	\$ 1,805,152	\$ 6,063	\$ 242,080	\$ 248,143

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