



## Technicoil Corporation

Symbol: TEC

Exchange: TSX Venture Exchange

### Releases Fourth Quarter Report December 31, 2002

Release date: March 17, 2003

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Year Ended December 31, 2002	Year Ended December 31, 2001
Average number of rigs	14	11	13	9
Revenue	\$6,467,649	\$7,026,366	\$22,562,550	\$24,399,539
Gross margin	\$1,849,703	\$3,752,411	\$6,752,620	\$12,189,841
Net income (loss)	\$(2,137,285)	\$1,559,509	\$(1,905,089)	\$4,780,736
Net income (loss) per share*	\$(0.05)	\$0.05	\$(0.05)	\$0.13
Cash flow from operations	\$1,473,185	\$2,564,972	\$4,117,133	\$7,975,888
Cash flow per share*	\$0.04	\$0.07	\$0.11	\$0.22
Equipment loans	\$11,134,212	\$8,927,700	\$11,134,212	\$8,927,700
Equipment loans to equity	57%	43%	57%	43%
Shares outstanding	38,853,789	27,281,667	38,853,789	37,827,122
Shares outstanding diluted	43,314,549	42,337,850	43,314,549	42,337,850
Weighted average shares				
- diluted, treasury stock method	38,845,058	37,714,820	38,845,058	36,763,391

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

**Technicoil Corporation's** operating results in the fourth quarter of 2002 improved considerably over the prior six months of 2002 as oil and gas industry spending returned to higher levels and the winter drilling season began. However, two large, one-time costs totaling \$2.8 million for goodwill and asset impairment as a result of structural changes in the Company caused significant losses in the quarter. Fourth quarter 2002 revenues were eight percent below the fourth quarter of 2001 when the majority of Technicoil's fleet was contracted on a "take or pay" basis to a major customer. Technicoil recorded a loss of \$2.1 million or \$(0.05) per share after the above noted write-offs in the quarter compared to net income of \$1.6 million or \$0.04 per share in the fourth quarter of 2001. Cash flow from operations was \$1.5 million or \$0.04 per share for the fourth quarter of 2002 compared to \$2.6 million or \$0.07 per share for the same period in 2001.

Revenue decreased 8 percent comparing the year ended 2002 to the year ended 2001 as weak second and third quarter utilization rates offset the larger fleet that Technicoil had available for work. Cash flow declined 48 percent for the year ended 2002 compared to 2001 as the Company had higher operating, general and administrative and operating costs in support of a 44 percent larger rig fleet in 2002. The loss for 2002 of

\$1.9 million compares to positive net income of \$4.8 million in 2001 as the higher costs combined with goodwill and asset impairments to hurt the 2002 results. Technicoil continued to invest in new equipment in 2002 that resulted in an increase in long-term debt of 25 percent in 2002. Long-term debt to equity increased to 57 percent at December 31, 2002 from 43 percent from December 31, 2001. In January 2003 Technicoil announced that it would be selling five coil tubing rigs in the first quarter of 2003 for proceeds of US\$4.75 million. The proceeds from the rig sales are planned to be used to reduce debt and improve working capital balances.

### Operations

Technicoil operated an average of 14 rigs throughout the fourth quarter of 2002 conducting both fracturing and drilling operations for our customers. Overall fleet utilization was 39 percent for the quarter, an improvement over the second and third quarters of 2002 which saw utilization rates in the 30 percent range. The utilization rate was below the fourth quarter of 2001 when a major customer "take or pay" contract helped deliver 73 percent utilization rates. Drilling made up a higher proportion of Technicoil's work in the fourth quarter of 2002 compared to 2001.

In Canada fracturing operations were delivered to two customers with a total of 616 wells fractured during the fourth quarter confirming Technicoil's dominant position as the supplier of choice for the most active pressure pumping companies conducting coil fracturing operations. On the Canadian drilling side, Technicoil completed 11 wells for three customers, all using the new second generation rigs.

In the United States, Technicoil had four rigs available for work for most of the quarter with one rig returning to Canada in December. Two of the US rigs were dedicated to work for a large customer on a retainer plus day rate basis for coil fracturing. A total of 38 wells were fractured in the United States in the fourth quarter. Technicoil's historical strength in well fracturing is being consistently supplemented by drilling projects. 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.

Revenue Analysis by Type of Activity	(Canadian \$)	Year Ended December 31, 2002	Year Ended December 31, 2001
Canada			
Fracturing		\$11,249,037	\$11,994,748
Re-entry drilling		138,288	402,507
Conventional drilling		3,193,582	2,510,089
Total Canada		14,580,907	14,907,344
United States			
Fracturing		6,240,919	6,794,971
Re-entry drilling		256,004	765,101
Conventional drilling		1,484,720	1,932,123
Total United States		7,981,643	9,492,195
Consolidated revenue		\$22,562,550	\$24,399,539

### Management Discussion and Analysis

#### Revenue and Net Income:

Despite significantly lower utilization rates, revenue for the three-month period ended December 31, 2002 was down only 8 percent compared to the quarter ended December 31, 2001 as Technicoil averaged 14 rigs in service in the 2002 period versus 11 in the fourth quarter of 2001. In addition, a higher proportion of work in 2002 was drilling versus fracturing which has higher day rates but lower margins. Technicoil incurred a loss of \$2.1 million (\$0.05 per share) in the fourth quarter of 2002 compared to a profit in the same period in 2001 of \$1.6 million (\$0.05 per share). Lower utilization rates, costs related to running a larger rig fleet and a higher proportion of lower margin drilling work resulted in lower operating margins. However, the main causes of the large loss in the quarter were one time costs related to a \$1.4 million impairment on assets held for sale and the write off of the goodwill balance of \$1.4 million. Excluding these items, Technicoil would have recorded a small profit in the fourth quarter of \$0.2 million or \$0.01 per share.

#### Asset Impairment:

In January 2003 Technicoil announced the sale of five coil fracturing rigs and ancillary equipment to a major customer for cash proceeds of US\$4.75 million. Negotiations were essentially complete at the end of 2002 and specific rigs and equipment were identified for re-classification to assets held for sale. Technicoil recorded an impairment of \$1,383,317 on these assets based on the expected US dollar proceeds at year-end exchange rates. There may be further losses or loss reductions recorded due to exchange differences at the dates when the rigs are sold and US dollar proceeds are converted to Canadian dollars.

**Goodwill Impairment:**

Goodwill of \$1.4 million was recorded on the acquisition of a 25% interest in Technicoil USA Corporation that Technicoil Corporation did not already own. In the fall of 2002 Technicoil's valuation of its United States division materially changed and the full amount of goodwill was impaired as at December 31, 2002. A primary reason was the notification by our largest customer that the customer's requirements for the Corporation's services were to be substantially curtailed as it planned to build or purchase its own coil tubing equipment. A core level of business in the United States from this significant customer was essential to the Corporation's United States business model on which the purchase of the minority interest was valued. Technicoil had not made satisfactory inroads with other customers in the United States and had closed its Houston based sales and administrative office on October 1, 2002. Management does not currently have near-term plans for significant United States market development.

On a full year basis, 2002 revenue was down eight percent compared to 2001 while the 2002 loss of \$1.9 million (\$(0.05) per share) compared to net income of \$5.1 million (\$0.13 per share) in 2001. One time costs related to the asset and goodwill impairments totaling \$2.8 million, costs for the Houston office closure of \$0.3 million and \$0.2 in costs related to the failed company sale process combined to create the large loss. Absent the above one-time items net income would have been \$0.7 million (\$0.02 per share).

Overall Company utilization rates were 39 percent in the fourth quarter of 2002 compared to 73 percent for the fourth quarter of 2001. On a full year basis in 2002, Technicoil's utilization rate was 44 percent compared to 74 percent for all of 2001. Fourth quarter 2002 operating margins were 29 percent compared to 53 percent in the fourth quarter of 2001 which was delivered at very high utilization rates. Margins in the fourth quarter suffered from a weak drilling market early in the quarter resulting in competitive pricing for drilling combined with overall lower utilization rates compared to last year. At higher utilization rates management expects margins to return to planned rates of 35 to 40 percent. During the full year 2002 operating margins averaged 30 percent compared to 50 percent for all of 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 in a time when utilization rates were lower.

General and administrative expenses as a percent of revenue were 11 percent of revenue for the three month period ended December 31, 2002 compared to nine percent for the fourth quarter of 2001. In December 2002 Technicoil announced a management restructuring in an effort to reduce costs and align the size of management with the expected reduction in the rig fleet. Severance costs related to the restructuring amounted to \$283,000 in the fourth quarter of 2002 which significantly increased the costs for the quarter. On a full year basis 2002 general and administrative costs were 13 percent compared to 10 percent in 2001. Technicoil's administrative infrastructure was in place to support high utilization of a 14 rig fleet. 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 failed company sale effort also negatively impacted this ratio. The closing of the Houston office combined with the reduction in management is expected to save approximately \$1.8 million in 2003 bringing general and administrative costs down significantly in total dollars and as a percent of revenue.

Amortization expense increased 36 percent and 60 percent respectively for the three month and full year periods ended December 31, 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 increased 20 percent comparing the three-month period ended December 31, 2002 to the quarter ended December 31, 2001 due to significantly higher debt balances in the 2002 period. Interest expense declined 18 percent on a year-over-year basis. Average debt levels in 2002 were higher than in 2001. Higher debt was offset by lower interest rates compared to 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 2002.

## **Assets and Liabilities**

Accounts receivable were down 26 percent at December 31, 2002 compared to December 31, 2001, as revenues were lower in the fourth quarter of 2002 compared to 2001. Accounts payable at December 31, 2002 were down six percent from year-end 2001 reflecting reduced activity compared to last year. Income taxes recoverable of \$1.8 million reflect mainly losses for 2002 in the United States that are creditable to taxes paid in 2001.

Working capital at December 31, 2002 and 2001 include significant amounts for demand debt and assets held for sale. Technicoil's equipment loans are repayable in terms ranging from 24 to 48 months but are legally demand in nature so are classified as a current liability. 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. Adjusting for the removal of the equipment loans for December 31, 2002 and 2001 and assets held for sale at December 31, 2002, working capital is a positive \$1.9 million or a ratio of 1.4:1, unchanged from December 31, 2001.

Capital spending in 2002 related primarily to construction of two second generation rigs and drilling support equipment. A total of \$10.6 million was spent on fixed assets in 2002 including the \$4.9 million in deposits for construction in progress at the end of 2001.

Equipment loan balances were 25 percent higher at December 31, 2002 compared to December 31, 2001 as capital spending during the year exceeded cash flows and deposits on capital equipment. Principal payments totaling \$1.7 million were deferred for three months during 2002 which also resulted in a higher year end debt balance. Technicoil's debt/equity ratio increased to 57 percent from 43 percent at December 31, 2001 due to the debt increase and losses in 2002 that reduced the shareholders' equity balance. Proceeds from the sale of coil fracturing rigs in 2003 are targeted to be applied mainly to debt balances significantly improving Technicoil's financial condition.

Capital stock increased in 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.

## **Outlook**

Results in 2002 were disappointing as a strong first quarter was followed by 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. The lower natural gas price environment experienced in western Canada and the rocky mountain region in the United States in the summer of 2002 has corrected itself and natural gas prices were much higher in the fourth quarter and into 2003. Activity rebounded strongly in the fourth quarter of 2002 illustrated by Technicoil achieving total revenues of \$2.6 million in the month of December 2002 and experiencing solid margins. Coil fracturing business is strong and expected to stay strong as drilling utilization rates are very high in western Canada in the first months of 2003. The main driver of coil fracturing activity is the drilling of new shallow gas wells. Technicoil has steady work lined up for its drilling equipment until break-up in 2003. The second generation rigs have set a new standard for coil tubing, drilling to deeper depths with wider diameter bits than historically thought practical using coil tubing.

In addition to the closing of the Houston office, Technicoil commenced action in Canada to reduce costs in recognition of our reduced fleet size. Technicoil reduced the size of its management team and flattened its organization in operations and finance. In December Technicoil announced that Marvin Clifton joined the Company as Technicoil's new president. Marv brings to Technicoil a strong track record of managing oil field service and drilling businesses over many years. He is "hands on" with operations, demands excellence and has made his influence felt quickly in the organization. Another important role Marv will play will be to assess the capital needs for our existing fleet to ensure the rigs are configured optimally and perform flawlessly. A modest capital program is planned for 2003 focused on existing equipment improvement and optimization.

The steps taken to reduce costs and improve performance combine with the projection of a stronger balance sheet as Technicoil applies proceeds from rig sales to reduce debt. Business prospects look robust as industry activity has returned to high levels. Technicoil believes its coil fracturing fleet is currently large enough to satisfy projected customer needs throughout 2003 and is expecting high utilization of this equipment. Management expects to be able to undertake new growth initiatives later in 2003 as Technicoil becomes more established in the drilling market.

**CONSOLIDATED BALANCE SHEETS**

	December 31, 2002	December 31, 2001
<b>ASSETS</b>		
Current assets:		
Cash	-	\$1,439,152
Accounts receivable	\$4,399,898	5,967,712
Income tax recoverable	1,811,915	-
Prepaid expenses and other	362,694	242,094
Capital assets held for sale	7,443,600	-
Due from shareholder	-	60,000
	<hr/> 14,018,107	<hr/> 7,708,958
Capital assets under construction	-	4,935,102
Capital assets – net	23,759,696	24,269,962
	<hr/> \$37,777,803	<hr/> \$36,914,022
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Bank operating loan	\$1,761,476	\$1,150,000
Accounts payable and accrued liabilities	2,876,054	3,044,214
Income taxes payable (recoverable)	-	1,263,394
Equipment loans	11,134,212	8,927,700
	<hr/> 15,771,742	<hr/> 14,385,308
Future income taxes	2,599,131	1,680,013
Non-controlling interest	-	318,015
Shareholders' equity		
Capital stock	16,037,005	15,255,672
Retained earnings	3,369,925	5,275,014
	<hr/> 19,406,930	<hr/> 20,530,686
	<hr/> \$37,777,803	<hr/> \$36,914,022

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Year Ended December 31, 2002	Year Ended December 31, 2001
Coil tubing service and drilling revenue	\$6,467,649	\$7,026,366	\$22,562,550	\$24,399,539
Expenses:				
Operating	4,617,946	3,273,955	15,809,930	12,209,698
General and administrative	683,987	661,037	2,863,453	2,330,136
Houston office closure	18,054	-	328,194	-
Amortization	641,243	469,858	2,265,474	1,415,074
Impairment of goodwill	1,440,585	-	1,440,585	-
Impairment of capital assets	1,383,317	-	1,383,317	-
Interest on equipment loans	152,003	126,857	522,898	638,208
Loss (gain) on sale of capital assets	13,728	-	13,728	(189,749)
Interest income	(201)	(5,671)	(5,383)	(25,132)
	8,950,662	4,526,036	24,622,196	16,378,235
Net income (loss) before income tax	(2,483,013)	2,500,330	(2,059,646)	8,021,304
Income tax expense (recovery)				
Current	(477,325)	405,216	(1,073,675)	1,270,741
Future	131,597	508,303	919,118	1,691,851
	(345,728)	913,519	(154,557)	2,962,592
Net income (loss) before non-controlling interest	(2,137,285)	1,586,811	(1,905,089)	5,058,712
Non-controlling interest in net income of subsidiary	-	(27,302)	-	(277,976)
Net income (loss) for the period	(2,137,285)	1,559,509	(1,905,089)	4,780,736
Retained earnings, beginning of period	5,507,210	3,715,505	5,275,014	494,278
Retained earnings, end of period	\$3,369,925	\$5,275,014	\$3,369,925	\$5,275,014
Net income (loss) per share				
Basic	\$(0.05)	\$0.07	\$(0.05)	\$0.17
Diluted	\$(0.05)	\$0.05	\$(0.05)	\$0.13

**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Three Months Ended December 31, 2002	Three Months Ended December 31, 2001	Year Ended December 31, 2002	Year Ended December 31, 2001
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$(2,137,285)	\$1,559,509	\$(1,905,089)	\$4,780,736
Add (deduct) non-cash items				
Amortization	641,243	469,858	2,265,474	1,415,074
Impairment of goodwill	1,440,585	-	1,440,585	-
Impairment of capital assets	1,383,317	-	1,383,317	-
Loss (gain) on sale of capital asset	13,728	-	13,728	(189,749)
Future income tax	131,597	508,303	919,118	1,691,851
Non-controlling interest	-	27,302	-	277,976
Cash flow from operations	1,473,185	2,567,972	4,117,133	7,975,888
Change in non-cash working capital	(2,782,153)	753,375	(1,736,255)	(834,446)
	(1,308,968)	3,318,347	2,380,878	7,141,442
Financing activities:				
Common shares and warrants issued	88,000	1,500,000	101,333	1,637,586
Increase (decrease) in equipment loans	(359,937)	892,184	2,206,512	3,149,471
	(271,937)	2,392,184	2,307,845	4,787,057
Investing activities:				
Acquisition of capital assets	(115,382)	(3,997,849)	(10,603,469)	(11,865,876)
Capital assets under construction	-	849,780	4,935,102	(517,765)
Proceeds on sale of fixed assets	14,151	-	14,151	904,473
Acquisition of minority interest	-	-	(1,085,135)	-
	(101,231)	(3,148,069)	(6,739,351)	(11,479,168)
Net increase, (decrease) in cash and cash equivalents				
	(1,682,136)	2,562,462	(2,050,628)	449,331
Cash and cash equivalents (bank operating loan net of cash), beginning of period				
	(79,340)	(2,273,310)	289,152	(160,179)
Cash and cash equivalent (bank operating loan net of cash), end of period				
	\$(1,761,476)	\$289,152	\$(1,761,476)	\$289,152
Cash flow from operations per share				
Basic	\$0.04	\$0.08	\$0.11	\$0.28
Diluted	\$0.04	\$0.07	\$0.11	\$0.22
Cash interest paid	\$165,013	\$223,947	\$566,030	\$634,508
Cash income taxes paid	-	-	\$20,197	-

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