



Technicoil Corporation

Symbol: TEC

Exchange: TSX Venture Exchange

Release date: August 11, 2004

Technicoil Releases Second Quarter Report – June 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion has been prepared with information available up to and including August 10, 2004. The discussion should be read with reference to our interim consolidated financial statements and notes. Additional information relating to Technicoil Corporation can be found on SEDAR at www.sedar.com. Unless otherwise disclosed, all financial information in this section has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and has been presented in Canadian dollars.

SUMMARY

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003 ¹	2004	2003 ¹
Number of rigs owned at end of period	9	9	9	9
Average number of rigs available during the period	7	9	8	11
Revenue	\$5,020,651	\$2,330,845	\$10,613,745	\$8,195,328
EBITDA ²	\$1,644,813	\$180,884	\$3,665,136	\$1,471,944
Net income	\$781,356	\$(607,149)	\$1,740,328	\$(537,076)
Basic earnings per share	\$0.02	\$(0.02)	\$0.04	\$(0.01)
Diluted earnings per share	\$0.02	\$(0.02)	\$0.04	\$(0.01)
Cash flow from operations ²	\$1,415,313	\$530,207	\$3,043,362	\$1,085,512
Shares outstanding at end of period	50,337,122	39,203,789	50,337,122	39,203,789
Weighted average shares – basic	39,578,880	39,203,789	39,441,701	39,097,712
Weighted average shares – diluted	41,078,763	39,203,789	40,952,032	39,177,916
			June 30, 2004	Dec. 31, 2003
Total assets			\$39,161,004	\$30,506,266
Long-term financial liabilities			-	3,069,649
Debt to equity ratio ²			-	0.47

¹ Restated for change in accounting policy.

² The reader is referred to page 19 of our 2003 Annual Report for detailed definitions.

HIGHLIGHTS

The second quarter of 2004 was our best second quarter since 2001 as we earned net income of \$0.8 million or \$0.02 per share compared to a net loss of \$0.6 million or (\$0.02) per share in the second quarter of 2003. Our revenue increased by 115% over the second quarter of 2003 with both fracturing and drilling operations showing sizable gains as a result of higher utilization. Our improvement was driven primarily by the fracturing operations as we were able to keep several rigs working throughout the normal road ban period following spring breakup. Our EBITDA increased by \$1.4 million or almost 800% over the second quarter of 2003 as profitable operations offset the normal training and maintenance expenditures incurred during spring breakup.

Two of our coil fracturing rigs were unavailable for most of the quarter as they were undergoing a conversion into tractor/trailer style units. The new unit style has greatly reduced the cost and the travel time to move from well to well, often allowing the rig to complete two wells a day in areas where it would previously only complete one. The conversion of the first unit was completed in late June, with the second unit becoming operational in early August.

On June 28, 2004, we completed a private placement share offering for 11 million common shares at \$1.00 per share. We will be building nine new rigs, five coil fracturing and four coil drilling rigs, over the next fifteen months, with the first rigs expected to be operational in early 2005. The new rigs will be financed through a combination of operating cash flow, the proceeds from our private placement and debt. We used a portion of the equity proceeds this quarter to retire all outstanding debt given that our planned capital expansion did not necessitate an immediate use of the funds.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Canada				
Fracturing	\$3,947,564	\$1,378,591	\$7,226,088	\$4,604,379
Drilling	1,073,087	395,166	3,387,657	2,126,572
Total Canada	5,020,651	1,773,757	10,613,745	6,730,951
United States				
Fracturing	-	557,088	-	1,464,377
Consolidated Revenue	\$5,020,651	\$2,330,845	\$10,613,745	\$8,195,328

Revenue for the second quarter of 2004 increased by \$2.7 million or 115% over the second quarter of 2003 even though two coil fracturing rigs were unavailable for work for most of the quarter. The revenue increase is due to substantial growth in both the drilling and fracturing segments.

Fracturing continues to be our primary business as strong utilization during the breakup period resulted in fracturing providing 79% of our revenue for the quarter. Our fracturing revenue increased by \$2.0 million or 104% compared to the second quarter of 2003 as we were able to keep several fracturing rigs working on the Suffield Block in Southern Alberta throughout the breakup period when road bans were in effect for the rest of the province. Two of our rigs also operated 16 to 24 hours a day for most of the quarter, as opposed to the normal 8 to 12 hour days, which resulted in April having the highest fracturing hours of any month this year. Nevertheless, June proved to be wetter than normal and resulted in lower activity than we had anticipated.

Our drilling revenue increased by \$0.7 million or 172% compared to the second quarter of 2003 when we only had one drilling rig available for work. Weather played a major role in limiting our drilling revenue this quarter. Spring breakup prevented us from working for almost all of April, while rain resulted in sporadic shutdowns throughout May and June. Still, we operated at 42% utilization for the quarter compared to the CAODC industry average of 30%.

Operating Expenses and Gross Margin

Our gross margin increased by \$1.5 million or almost 300% over the second quarter of 2003 as a result of our increased utilization and improved operational performance on both the drilling and fracturing sides. On a percentage basis, our gross margin showed a noticeable increase rising from 22% of revenue in the second quarter of 2003 to 40% of revenue in the second quarter of 2004.

The fracturing operations achieved a 47% gross margin, well ahead of the 30% gross margin in the second quarter of 2003 and comparable to the 48% gross margin in the first quarter of 2004. The slight decrease in the gross margin over the prior quarter is due to normal spring breakup costs including training and annual maintenance, offset by increased utilization.

Our drilling operations achieved a 14% gross margin this quarter compared to (17%) in the second quarter of 2003. The increase over the prior year is due to the improved performance and reliability of the newly retrofitted drilling rigs, and the fact that we had two rigs working compared to one in the prior year. The 14% margin is below the 32% margin achieved in the first quarter of 2004 due to extensive training and maintenance during the long spring breakup period.

General and Administrative Expenses and Bad Debt Recovery

Our general and administrative expenses increased by \$0.1 million in the second quarter of 2004 compared to the second quarter of 2003 due to timing of our bonus accruals and our stock-based compensation expense. The second quarter of 2004 includes an amount accrued for the 2004 bonus plan. There was no such amount accrued in the second quarter of 2003. We also adopted the new accounting requirements for stock-based compensation expense at the end of 2003. The general and administrative expense in the second quarter of 2004 includes a stock-based compensation expense related to options issued in 2003 that vest over the next three years. The general and administrative expenses were also affected by higher than normal legal costs this year related to new reporting and governance issues and other general matters.

Our recovery of bad debts relates to a U.S. receivable that had been fully reserved for in prior years. Early in 2004 we reached an agreement with the owing party to recover the majority of the reserved balance. As of June 30, 2004, we had received \$60,000 USD of the agreed upon \$67,000 USD settlement. No entry has been made to recognize the unreceived portion of the payments given their contingent nature.

Depreciation Expense

Depreciation expense for the second quarter of 2004 has increased 6% over the second quarter of 2003, consistent with the increase in gross assets over the same period.

Interest Expense, Foreign Currency and Taxes

We used our operating cash flow and the proceeds from our equity issue to pay out all remaining debt by the end of June. Interest expense includes an administrative charge for the early payout of the mortgage and the write-off of all remaining deferred issue expenses.

Other interest refers to interest on short-term debt net of any interest income. Other interest changed from a net expense position in the second quarter of 2003 to a net income position in the second quarter of 2004 as we have not drawn on our operating line in 2004. We earned interest income by investing our excess cash into short-term deposits.

Our exposure to foreign currency risk has been reduced significantly now that we no longer operate in the U.S. We realized a foreign currency gain this quarter due to some unhedged USD denominated payables for equipment purchases and a favourable decline in the exchange rate.

Our tax position was aided this quarter by a reduction in the Alberta income tax rates effective April 2004 and the deductibility of our recent share issue costs.

SUMMARY OF QUARTERLY RESULTS

Three months ended ¹ (\$)	2002			2003			2004		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	3,269,433	4,459,590	6,467,649	5,864,483	2,330,845	5,586,539	4,877,232	5,593,094	5,020,651
Net income	(830,027)	(506,217)	(2,115,111)	70,073	(607,149)	1,256,661	587,747	958,972	781,356
Basic earnings per share	\$(0.02)	\$(0.01)	\$(0.05)	\$0.00	\$(0.02)	\$0.03	\$0.01	\$0.02	\$0.02
Diluted earnings per share	\$(0.02)	\$(0.01)	\$(0.05)	\$0.00	\$(0.02)	\$0.03	\$0.01	\$0.02	\$0.02

¹ Restated for change in accounting policy.

Like all companies in the oil and gas industry, we are subject to seasonality throughout the year due to restrictive weather conditions. Our third quarter is normally our busiest quarter for fracturing and drilling operations due to historically favourable weather conditions in Alberta. Wells are fractured with water-based fluid carrying sand that limits the ability to perform fracturing work in temperatures below approximately -25°C. As a result, our fracturing revenue can often vary from year-to-year in the first and fourth quarters depending on the favourability of weather conditions. Our drilling operations do not face the same challenges of being shut down in the extreme cold. However, both our drilling and fracturing rigs are subject to road bans during the spring. As the warmer 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 the road bans during "spring breakup" has an impact on our, and the industry's, activity levels each spring. This causes our second quarter revenue to often be our lowest quarter of the year. Despite lower revenue, the second quarter does not always see a corresponding decrease in costs as we use the spring breakup period to perform major repairs and maintenance to our equipment and to train our field employees.

Spring break-up arrived early March this year, shutting down our drilling operations in the second week of March until the last week of April. Our fracturing operations were not shut down entirely as a result of spring breakup due to several of our fracturing rigs working on the Suffield Block in Southern Alberta throughout the breakup period. Despite the early end to spring breakup, bouts of rain continued throughout May and June causing sporadic work stoppages for both the drilling and fracturing rigs for the remainder of the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We ended the second quarter of 2004 with \$10 million in cash due to our \$11 million private placement that closed on June 28, 2004. We used \$3.9 million of our operating cash flow and equity proceeds this quarter to pay out all outstanding debt given that our payment terms for the newly ordered rigs did not necessitate an immediate use of the funds. We expect to obtain new debt financing late in 2004 or early in 2005 as required to finance our capital expansion.

Cash flow from operations generated \$1.4 million in the second quarter of 2004 compared to \$0.5 million in the second quarter of 2003 due to an increase in profitability over the same period.

Cash Requirements and Resources

Our primary cash need continues to be for capital expenditures in order to expand our business as we are building nine new rigs over the next fifteen months. Our four new drilling rigs have been ordered, with one rig scheduled for completion in each of the first and second quarters, and the two remaining rigs scheduled for completion in the third quarter. We are in the process of finalizing a contract for the construction of five new coil fracturing rigs. All five fracturing rigs are anticipated to be completed in the first half of 2005. The new drilling and fracturing rigs will allow us to capture efficiencies, especially on the drilling side where we currently have only two rigs.

We recently completed our conversion of two coil fracturing rigs into tractor/trailer style units. The first conversion was completed in June, with the second conversion completed in early August. The \$1.3 million total conversion cost reduced the per axle weight of the units considerably and increased maneuverability, giving greater mobility when restricted road bans are in effect.

Our growth capital expenditures of approximately \$35 million will be financed through a combination of operating cash flow, the proceeds from our private placement, and debt. Preliminary discussions with our bank have not indicated any issues in accessing our anticipated debt requirements. We also continue to hold a \$0.2 million operating line of credit with our bank, reduced from \$3 million in April 2004.

RISKS AND UNCERTAINTIES AND RELATED FINANCIAL INSTRUMENTS

As of June 30, 2004, our financial instruments included only primary financial instruments, specifically receivables and payables. Our 2003 annual report contained a detailed discussion of our exposure to risk including credit risk and economic dependence, interest rate risk, fair values, and foreign exchange risk. Our exposure to risk as of June 30, 2004 is virtually unchanged from our exposure at December 31, 2003 with the exception that we have no current exposure to interest rate risk. We did not enter into any derivative financial instrument contracts during the quarter, nor did we have any derivative financial instrument contracts outstanding as of June 30, 2004.

We did enter into a foreign currency forward contract in July 2004 to purchase \$691,295 USD between January 5 and 31, 2005, at an exchange rate of 1.3299. The contract was purchased as a hedge against a USD denominated payable for the same amount that will be due in January 2005 for the purchase of equipment related to the new coil fracturing rigs. We have no exposure to foreign currency risk for this transaction as the amount and timing of the payable and the forward contract are identical. This transaction is considered an off-balance sheet transaction as no entry is required until the equipment is received.

COMMON SHARES AND OTHER SECURITIES

As of August 10, 2004, we had 50,337,122 common shares issued and outstanding due to the 11 million new shares that were issued on June 28, 2004 as part of our private placement. We also had 2,954,700 stock options issued and outstanding of which 1,749,794 were vested. Each stock option is exercisable into one common share. We have not issued any new stock options subsequent to December 31, 2003.

TRANSACTIONS WITH RELATED PARTIES

We did not enter into any transactions with related parties during the second quarter of 2004, nor did we have any balances outstanding with related parties as of June 30, 2004.

OUTLOOK AND FUTURE RISKS

Our outlook for the remainder of 2004 is positive as strong demand by our customers and a wet spring have resulted in a backlog of both drilling and fracturing work. With the drilling rig retrofits and the fracturing rig conversions complete, the second half of 2004 represents the first time in over a year that all nine rigs will be available for work for a sustained period. Our drilling performance continues to improve as our crews gain experience with the newly designed rigs. The new tractor/trailer style fracturing rigs have allowed us to double our daily output due to reduced moving times. We expect to be very busy in the fall and winter months, weather permitting.

In 2005, we will enter a period of rapid growth as our fleet size will double with the addition of nine new rigs. We will be spending the remainder of 2004 ensuring that we have the appropriate systems and personnel in place to manage this growth. Coal bed methane production is continuing to move beyond the test phase in Western Canada and is slowly becoming more established as a valuable resource to our customers. Coal bed methane wells require fracturing, with coil fracturing established as the preferred and most economical method. Our equipment is ideally suited for both drilling and fracturing coal bed methane wells and we believe industry demand is sufficient to support our future growth.

We have no specifically identifiable risks that are unique to our Company that would materially affect our results in a negative way in the foreseeable future. We are subject to the normal cycles of the oil and gas industry, as well as normal inflation risks for the cost of supplies and services. While we do have contractual pricing arrangements with our customers, the contracts are generally for short periods of time and encourage both parties to renegotiate new rates if there are material changes in revenue or costs for one party. The terms of these agreements should enable us to preserve our margins, even in times of high inflation. We do plan to obtain sizable debt financing in late 2004 or early 2005 in order to fund our planned capital expenditures. A significant increase in the rise of interest rates would negatively affect our financing cost.

We are at the dawn of a new era in our company's history. On behalf of the Board of Directors and all of our employees, we thank you for your continued support.

NOTICE TO READER:

The following interim consolidated statements have not been reviewed by the Company's auditors but have been reviewed and approved by the Company's Audit Committee and Board of Directors.

Consolidated BALANCE SHEETS

	June 30, 2004 (unaudited)	December 31, 2003 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$9,960,075	\$2,640,536
Accounts receivable	3,545,568	3,433,194
Income taxes receivable	-	1,758
Inventory	344,663	343,023
Prepaid expenses	497,447	241,007
	14,347,753	6,659,518
Capital assets under construction	917,394	-
Capital assets	23,895,857	23,846,748
	\$39,161,004	\$30,506,266
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,375,741	\$2,164,119
Income taxes payable	525,574	106,052
Current portion of long-term debt	-	1,131,180
	2,901,315	3,401,351
Long-term debt	-	3,069,649
Future income taxes	3,144,473	3,242,798
Shareholders' equity		
Share capital	26,662,700	16,122,005
Contributed surplus	104,150	62,425
Retained earnings	6,348,366	4,608,038
	33,115,216	20,792,468
	\$39,161,004	\$30,506,266

Consolidated Statements of OPERATIONS and RETAINED EARNINGS

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003 ¹	2004	2003 ¹
Coil tubing service and drilling revenue	\$5,020,651	\$2,330,845	\$10,613,745	\$8,195,328
Expenses:				
Operating	3,018,440	1,812,623	6,274,247	6,191,836
General and administrative	397,519	263,594	754,391	457,804
Bad debts (recovery)	(40,121)	73,744	(80,029)	73,744
Depreciation	515,674	488,173	990,459	966,560
Impairment of capital assets	-	175,000	-	269,310
Loss on sale of capital assets	-	19,381	111,097	336,600
Interest on long-term debt	78,333	83,942	143,345	229,181
Other interest, net	(10,168)	13,961	(19,252)	34,799
Foreign exchange loss (gain)	(30,535)	242,380	(38,102)	363,710
	3,929,142	3,172,798	8,136,156	8,923,544
Net income (loss) before income tax	1,091,509	(841,953)	2,477,589	(728,216)
Income tax expense (recovery)				
Current	217,802	(689,607)	587,647	(241,258)
Future	92,351	454,803	149,614	50,118
	310,153	(234,804)	737,261	(191,140)
Net income (loss) for the period	781,356	(607,149)	1,740,328	(537,076)
Retained earnings, beginning of period	5,567,010	3,370,779	4,608,038	3,300,706
Retained earnings, end of period	\$6,348,366	\$2,763,630	\$6,348,366	\$2,763,630
Earnings per share				
Basic	\$0.02	\$(0.02)	\$0.04	\$(0.01)
Diluted	\$0.02	\$(0.02)	\$0.04	\$(0.01)

¹ Restated for change in accounting policy

Consolidated Statements of CASH FLOWS

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003 ¹	2004	2003 ¹
Cash provided by (used in):				
Operating activities:				
Net income (loss) for the period	\$781,356	\$(607,149)	\$1,740,328	\$(537,076)
Add non-cash items:				
Depreciation	515,674	488,173	990,459	966,560
Impairment of capital assets	-	175,000	-	269,310
Loss on sale of capital assets	-	19,381	111,097	336,600
Stock-based compensation expense	25,932	-	51,864	-
Future income tax	92,351	454,802	149,614	50,118
Cash flow from operations	1,415,313	530,207	3,043,362	1,085,512
Net change in non-cash working capital	1,114,578	196,486	262,448	1,081,283
	2,529,891	726,693	3,305,810	2,166,795
Financing activities:				
Common shares issued	-	-	14,000	35,000
Private placement	11,000,000	-	11,000,000	-
Share issue costs	(731,384)	-	(731,384)	-
Repayment of long-term debt	(3,918,034)	(450,265)	(4,200,829)	(6,367,793)
	6,350,582	(450,265)	6,081,787	(6,332,793)
Investing activities:				
Acquisition of capital assets	(1,610,345)	(540,939)	(2,144,058)	(774,733)
Proceeds on sale of capital assets	-	1,375,030	76,000	6,999,600
	(1,610,345)	834,091	(2,068,058)	6,224,867
Net increase in cash and cash equivalents	7,270,128	1,110,519	7,319,539	2,058,869
Cash and cash equivalents (bank operating loan), beginning of period	2,689,947	(813,126)	2,640,536	(1,761,476)
Cash and cash equivalents, end of period	\$9,960,075	\$297,393	\$9,960,075	\$297,393
Cash interest paid	\$42,780	\$86,749	\$99,889	\$233,280
Cash income taxes paid (received)	\$13,158	\$(763,841)	\$166,292	\$(881,974)

¹ Restated for change in accounting policy.

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