technicoil

Technicoil Corporation

Symbol: TEC
Exchange: TSX Venture Exchange

Release date: May 12, 2004

Technicoil Releases First Quarter Report – March 31, 2004

The following discussion has been prepared with information available up to and including May 11, 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.

	Three Months Ended Mar. 31	
	2004	**2003***
Number of rigs owned at end of quarter	**9**	10
Average number of rigs available during the quarter	**8**	13
Revenue	**$5,593,094**	$5,864,483
EBITDA[1]	**$2,020,323**	$1,291,060
Net income	**$958,972**	$70,073
Basic earnings per share	**$0.02**	$0.00
Diluted earnings per share	**$0.02**	$0.00
Cash flow from operations[2]	**$1,628,049**	$555,304
Shares outstanding at end of period	**39,337,122**	39,203,789
Weighted average shares – basic	**39,304,522**	38,990,456
Weighted average shares – diluted	**40,610,571**	39,208,918

	March 31, 2004	**Dec. 31, 2003**
Total assets	**$30,875,517**	$30,506,266
Total long-term financial liabilities	**$2,786,854**	$3,069,649
Debt to equity ratio[3]	**0.42**	0.47

* *Restated for change in accounting policy.*

HIGHLIGHTS

The year started strong for us as we earned net income of almost $1 million or $0.02 per share in the first quarter of 2004 compared to $0.1 million or $0.00 per share in the first quarter of 2003. Our revenue decreased by 5% compared to the first quarter of 2003, however our revenue per rig increased by 46% over the same period. Both the drilling and fracturing rigs had high utilization rates for the quarter until the arrival of spring breakup in the second week of March. Nevertheless, we were able to keep several fracturing rigs working throughout the breakup period which mitigated the impact spring breakup normally has each year.

Our EBITDA increased by 56% ($0.7 million) over the first quarter of 2003 as a result of our conscious effort to reduce expenses over the past year and an increase in our drilling margins. With both drilling rigs completed the retrofit process and fully operational, our drilling gross margin increased from –6% in the first quarter of 2003 to 32% this quarter.

Strong cash flow from operations of $1.6 million helped to support the continued ascent of our working capital ratio, which reached 2.4 at March 31, 2004 compared to 1.0 at March 31, 2003 and 2.0 at December 31, 2003. We plan to use our operating cash flow to support future growth, having placed an order for a third drilling rig in April 2004, with the possibility of ordering additional rigs in the upcoming months.

RESULTS OF OPERATIONS

Revenue

Three months ended March 31 ($)	**2004**	2003
Canada		
Fracturing	**3,278,524**	3,225,788
Drilling	**2,314,570**	1,731,406
Total Canada	**5,593,094**	4,957,194
United States		
Fracturing	–	907,289
Total United States	–	907,289
Consolidated Revenue	**5,593,094**	5,864,483

Revenue for the first quarter of 2004 decreased by only 5% ($0.3 million) despite a 38% reduction in our average available rig fleet, from 13 in the first quarter of 2003 to 8 in the first quarter of 2004. The decrease in our available rig fleet is due to the sale of five rigs early in 2003, and one fracturing rig undergoing a major structural conversion starting in February 2004. Our revenue per rig increased by 46% over the same period. We attribute the increase to higher utilization rates in both the drilling and fracturing segments, with the first quarter of 2004 generating our highest drilling revenue since the first quarter of 2001. As expected, the growth of our drilling operations has resulted in greater revenue diversification as drilling revenue provided 41% of total revenue for the first quarter of 2004 compared to 30% in the first quarter of 2003 and 23% in the fourth quarter of 2003.

Our fracturing revenue decreased by 21% ($0.9 million) compared to the first quarter of 2003 as the five rigs sold in 2003 were used primarily for fracturing. However, our fracturing revenue per rig increased by 35% over the same period. Canadian fracturing revenue increased just slightly over the first quarter in 2003 due to an increase in utilization. In February 2004, we renewed an agreement with Calfrac Well Services Ltd. to provide rigs on a first call basis over the next three years. This agreement should facilitate high levels of utilization in the upcoming years.

Spring breakup arrived in the second week of March, just slightly earlier than in 2003. We were able to keep several fracturing rigs working on the Suffield Block in Southern Alberta throughout the breakup period which partially mitigated the normally low revenue during spring breakup each year. The increase in Canadian fracturing revenue was offset by a $0.9 million decrease in U.S. fracturing revenue over the first quarter of 2003 as we have not operated in the U.S. since June 2003.

Our drilling revenue increased by 34% ($0.6 million) compared to the first quarter of 2003 and by 107% compared to the fourth quarter of 2003. Both of our drilling rigs completed their major retrofits in December 2003 and demonstrated considerable improvements this quarter in operational performance and profitability compared to prior operations. The rigs operated at 71% utilization for the first two months of 2004 (with utilization defined as the time from spud to rig release and excluding mobilization time) and we received very positive comments from several large customers who were impressed with our efficiency and reliability. The early arrival of the spring breakup period hindered our first quarter revenue somewhat as neither drilling rig worked for the last three weeks of March.

Operating Expenses and Gross Margin

Our gross margin increased by 57% ($0.9 million) over the first quarter of 2003 as a result of our improved operational performance and a conscious effort to reduce overhead expenses over the past year. On a percentage basis, our gross margin showed a noticeable increase rising from 25% of revenue in the first quarter of 2003 to 42% of revenue in the first quarter of 2004. Our gross margin increase is even more impressive when considering that the product mix has diversified away from the higher margin fracturing operations over the past year. We have made significant changes to our operating overhead infrastructure since the first quarter of 2003, and the profitability of our drilling rigs has improved considerably because of the retrofits.

The fracturing operations continued to lead the way in profitability, achieving a 48% gross margin this quarter compared to a 38% margin in the first quarter of 2003. The increase is attributed to the increase in utilization over the same period, from 39% to 50%, respectively.

However, it is the increase in our drilling gross margin that is our most recent success story. Our drilling gross margin was 32% this quarter compared to -6% in the first quarter of 2003 and 3% for the fourth quarter of 2003. The gross margin increase is due to increased utilization over the prior year, more experienced crews, a reduced infrastructure of fixed operating costs and limited downtime from the newly retrofitted rigs.

General and Administrative Expenses and Bad Debt Recovery

Our general and administrative expenses increased by $0.2 million over the first quarter of 2003 due to timing of our bonus accruals and our stock-based compensation expense. The first quarter of 2004 includes an amount accrued for the 2004 bonus plan. There was no such amount accrued in the first quarter of 2003. The first quarter of 2003 also included a reversal of bonuses accrued at the end of 2002 as management determined no bonuses would be paid relating to 2002. We also adopted the new accounting requirements for stock-based compensation expense at the end of 2003. The general and administrative expenses in the first quarter of 2004 include a stock-based compensation expense related to options issued in 2003 that vest over the next three years. The general and administrative expenses for the first quarter of 2004 were comparable to the corresponding period in 2003 if not for these entries.

Our recovery of bad debts relates to a U.S. receivable that had been fully reserved for in prior years. In 2004 we reached an agreement with the owing party to recover the majority of the reserved balance. As of March 31, 2004, we had received $30,000 USD of the agreed upon $67,000 USD settlement. The remaining payments are scheduled to be received during the second quarter of 2004. No entry has been made to recognize the unreceived portion of the payments given their contingent nature.

Depreciation and Loss on Sale of Assets

Depreciation expense for the first quarter of 2004 is comparable to the first quarter of 2003 as there have been no material changes in the gross value of the depreciable assets between the two periods. The five rigs sold in 2003 were classified as assets held for sale at December 31, 2002 and were not being depreciated in the first quarter of 2003.

A $0.1 million loss on the sale of assets was realized this quarter as several pieces of customized equipment related to drilling operations were sold. We determined that we no longer had a use for these assets after deciding upon the structure and design of our new drilling rig and some related equipment.

Interest Expense and Foreign Currency Loss

Interest on long-term debt decreased by 55% from the first quarter of 2003, consistent with our 56% decrease in the average debt balance outstanding for the same period. Our decrease in debt was offset by a slight increase in our interest rates over the first quarter of 2003 as our rates increased from prime plus 0.75% to prime plus 1.25% for our equipment loans and from prime plus 0.5% to 1% for our operating line of credit. In April 2004, our lender lowered our interest rates to prime plus 0.75% for the equipment loans and prime plus 0.5% for the operating line upon reviewing our 2003 consolidated audited financial statements. We also reduced our operating line of credit in April 2004 from $3 million to $0.2 million given that we have not used the line since July 2003 and we do not anticipate using the line in 2004. The reduced operating line will further reduce our financing expenses through lower standby charges and administration fees.

Other interest refers to interest on short-term debt net of any interest income. Other interest changed from a net expense position in the first quarter of 2003 to a net income position this quarter as we have not drawn on our operating line in 2004 and 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. The effect of foreign currency was minimal this quarter.

SUMMARY OF QUARTERLY RESULTS

	2002				2003				2004
Three months ended* ($)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	8,365,878	3,269,433	4,459,590	6,467,649	5,864,483	2,330,845	5,586,539	4,877,232	5,593,094
Net income	1,840,608	(830,027)	(506,217)	(2,115,111)	70,073	(607,149)	1,256,661	587,747	958,972
Basic earnings per share	$0.05	$(0.02)	$(0.01)	$(0.05)	$0.00	$(0.02)	$0.03	$0.01	$0.02
Diluted earnings per share	$0.04	$(0.02)	$(0.01)	$(0.05)	$0.00	$(0.02)	$0.03	$0.01	$0.02

* *Restated for change in accounting policy.*

Like most 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 -25ºC. 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.

Our first quarter of 2004 has generally followed our normal seasonality pattern. The weather co-operated for most of January and February, with the exception of the last week in January when weather shut down our fracturing operations for almost a week. Spring breakup arrived in the second week of March this year, hindering our March results as the drilling rigs did not work for the last three weeks of the quarter. However, our fracturing operations were not shut down entirely as a result of spring breakup as we had several of our fracturing rigs working on the Suffield Block in Southern Alberta throughout the breakup period. The drilling rigs returned to work at the end of April, only to be shut down in early May due to poor weather.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We ended the first quarter of 2004 with $2.7 million in cash compared with $2.6 million in cash at December 31, 2003 and net indebtedness of $0.8 million at March 31, 2002. Cash flow from operations generated $1.6 million this quarter and continued to provide all necessary cash to fund our debt repayments and capital expenditures. We spent $0.5 million on capital expenditures during the quarter, with the majority spent on converting two of the coil fracturing rigs to tractor/trailer style units. We also spent $0.3 million of cash this quarter to repay our long-term debt, which has decreased by 25% over the past year, from $5.2 million at March 31, 2003 to $3.9 million at March 31, 2004.

Our interest rates were reviewed by our lender in April 2004 and were reduced from prime plus 1.25% to prime plus 0.75% for the equipment loans and from prime plus 1% to prime plus 0.5% for the operating line of credit. We were in compliance with all of our debt covenants as of March 31, 2004.

Our working capital ratio continued its climb and reached 2.4 at March 31, 2004. The positive trend represents our continuing efforts towards improving the profitability of operations, collecting receivables and paying down debt.

Cash Requirements and Resources

Our primary cash need continues to be for capital expenditures in order to expand our business. We are currently converting two of our coil fracturing rigs into tractor/trailer style units. The conversion will lighten the equipment considerably and will increase maneuverability, giving greater mobility when restricted road bans are in effect. The total cost to convert the two units is $1.3 million, with the units expected to be completed in June and July 2004, respectively.

We have also ordered a third coil tubing drilling rig which is projected to be ready by February 2005. The rig has a total cost of $4.5 million and will be very similar to our current drilling rigs. The third drilling rig will allow us to capture economies of scale as we do not anticipate any significant changes to our current overhead structure in order to support the new rig.

Our current cash position and expected future cash flow from operations should be sufficient to finance all of our committed capital expenditures. We also have a $0.2 million operating line of credit available.

OUTLOOK AND FUTUE RISKS

Our outlook for 2004 continues to be positive as the industry is predicting another record setting year similar to 2003 and our recent performance has been meeting our high expectations. The spring breakup period had less of an impact on our results as it did in prior years due to our fracturing activity and we expect to be able to keep both our drilling and fracturing rigs busy for the majority of the year. Our drilling rigs are proving to be a reliable choice for our customers and we have been working hard to strengthen our relationships with key customers.

We now have our sights set on growth. Our operations are generating a steady source of profits and cash flow, and our balance sheet is in a strong position. In April 2004, we placed an order for the purchase of a third drilling rig. The rig will be purchased out of operating cash flow and we anticipate the rig will be operational in the first quarter of 2005. We are also considering the possibility of adding additional rigs, including fracturing rigs. 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 most economical and preferred method. Our equipment is ideally suited for both drilling and fracturing coal bed methane wells and we believe industry demand is sufficient to support 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 believe we have built a foundation for success and are excited about the possibilities for the future.

FORWARD-LOOKING STATEMENTS

Any statements in this document that may be considered forward-looking are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated.

1 *EBITDA, or earnings before interest, taxes, depreciation and amortization, is calculated by adding back these items to reported net income. Currency losses, impairment of assets, and loss on sale of assets are also added back as these are not considered operating costs. EBITDA is considered to be a non-GAAP (Generally Accepted Accounting Principles) measure that does not have a standardized meaning prescribed by GAAP, and therefore may not be comparable to similar measures presented by other issuers.*

2 *Cash flow from operations is defined as net income before amortization, impairment of assets, loss on sale of assets, stock-based compensation expense and future income tax. Cash flow from operations is a non-GAAP measure that does not have a standardized meaning prescribed by GAAP, and therefore may not be comparable to similar measures presented by other issuers.*

3 *Debt to equity ratio is defined as total liabilities divided by shareholders' equity. Debt to equity ratio is a non-GAAP measure that does not have a standardized meaning prescribed by GAAP, and therefore may not be comparable to similar measures presented by other issuers.*

Consolidated Balance Sheets

	March 31, 2004 (unaudited)	December 31, 2003 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$2,689,947	$2,640,536
Accounts receivable	3,896,462	3,433,194
Income tax recoverable	1,778	1,758
Inventory	333,353	343,023
Prepaid expenses	235,398	241,007
	7,156,938	6,659,518
Property, plant and equipment under construction	360,790	-
Property, plant and equipment	23,357,789	23,846,748
	$30,875,517	$30,506,266
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	1,543,287	2,164,119
Income taxes payable	322,763	106,052
Current portion of long-term debt	1,131,180	1,131,180
	2,997,230	3,401,351
Long-term debt	2,786,854	3,069,649
Future income taxes	3,300,061	3,242,798
Shareholders' equity		
Capital stock	16,136,005	16,122,005
Contributed surplus	88,357	62,425
Retained earnings	5,567,010	4,608,038
	21,791,372	20,792,468
	$30,875,517	$30,506,266

Consolidated Statements of Operations and Retained Earnings

(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003*
Coil tubing service and drilling revenue	$5,593,094	$5,864,483
Expenses:		
Operating	3,255,807	4,379,213
General and administrative	356,872	194,210
Bad debts (recovery)	(39,908)	-
Depreciation	474,785	478,387
Impairment of property, plant and equipment	-	94,310
Loss on sale of property, plant and equipment	111,097	317,219
Interest on long-term debt	65,012	145,239
Other interest, net	(9,084)	20,838
Foreign exchange loss (gain)	(7,567)	121,330
	4,207,014	5,750,746
Net income	1,386,080	113,737
Income tax expense (recovery)		
Current	369,845	448,349
Future	57,263	(404,685)
	427,108	43,664
Net income for the period	958,972	70,073
Retained earnings, beginning of period	4,608,038	3,300,706
Retained earnings, end of period	$5,567,010	$3,370,779
Earnings per share		
Basic	$0.02	$0.00
Diluted	$0.02	$0.00

* *Restated for change in accounting policy*

Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003*
Cash provided by (used in):		
Operating activities:		
Net income for the period	$958,972	$70,073
Add (deduct) non-cash items:		
Depreciation	474,785	478,387
Impairment of property, plant and equipment	-	94,310
Loss on sale of property, plant and equipment	111,097	317,219
Stock-based compensation expense	25,932	-
Future income tax	57,263	(404,685)
Cash flow from operations	1,628,049	555,304
Net change in non-cash working capital	(852,130)	884,798
	775,919	1,440,102
Financing activities:		
Common shares issued	14,000	35,000
Repayment of long-term debt	(282,795)	(5,917,528)
	(268,795)	(5,882,528)
Investing activities:		
Acquisition of property, plant and equipment	(533,713)	(233,794)
Proceeds on sale of property, plant and equipment	76,000	5,624,570
	(457,713)	5,390,776
Net increase in cash and cash equivalents	49,411	948,350
Cash and cash equivalents (bank operating loan), beginning of period	2,640,536	(1,761,476)
Cash and cash equivalent (bank operating loan), end of period	$2,689,947	$(813,126)
Cash interest paid	$57,109	$146,531
Cash income taxes paid (received)	$153,134	$(118,133)

* *Restated for change in accounting policy*

For further information, please contact:

Arthur E. Dumont
Chairman & Chief Executive Officer
Tel: (403) 509-0705
E-mail: adumont@technicoilcorp.com

Marvin D. Clifton
President & Chief Operating Officer
Tel: (403) 509-0702
E-mail: mclifton@technicoilcorp.com

Melanie Rakochy
Vice President, Finance & Administration
Tel: (403) 548-2240 Ext. 107
E-mail: mrakochy@technicoilcorp.com