



Technicoil Corporation

Symbol: TEC
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Technicoil Releases Third Quarter Report – September 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion has been prepared with information available up to and including November 16, 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 Sept. 30		Nine Months Ended Sept. 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	8	8	8	10
Revenue	\$6,598,166	\$5,586,539	\$17,211,911	\$13,781,867
EBITDA ²	\$2,621,482	\$2,532,972	\$6,286,618	\$4,004,916
Net income	\$1,360,090	\$1,256,661	\$3,100,418	\$719,585
Basic earnings per share	\$0.03	\$0.03	\$0.07	\$0.02
Diluted earnings per share	\$0.03	\$0.03	\$0.07	\$0.02
Cash flow from operations ²	\$2,110,216	\$1,994,013	\$5,153,578	\$3,047,125
Shares outstanding at end of period	50,400,355	39,203,789	50,400,355	39,203,789
Weighted average shares – basic	50,347,007	39,203,789	43,103,336	39,133,459
Weighted average shares – diluted	52,054,837	39,214,791	44,630,608	39,190,343
			Sept. 30, 2004	Dec. 31, 2003
Total assets			\$40,681,385	\$30,506,266
Long-term financial liabilities			-	3,069,649
Debt to equity ratio ²			-	0.47

¹ Restated for change in accounting policy. See Note 2 of our interim consolidated financial statements.

² These measures do not have a standardized meaning prescribed by GAAP. The reader is referred to page 19 of our 2003 Annual Report for detailed definitions.

HIGHLIGHTS

We improved upon our third quarter results from a year ago, despite rainy weather this quarter, as we earned net income of \$1.4 million or \$0.03 per share compared to net income of \$1.3 million or \$0.03 per share in the third quarter of 2003. Our revenue increased by 18% over the third quarter of 2003 due to growth in our drilling operations, as only one drilling rig was operational at a time in 2003. While our EBITDA² increased by \$0.1 million, it did not increase by the same magnitude as our revenue. Wet weather caused many work stoppages and starts, causing labour costs to be higher than in the prior year. As well, operating overhead costs continued to increase as we prepare for our fleet expansion.

On November 2, 2004, we announced that we had entered into a financing agreement on a bought deal basis to issue 5.65 million common shares at a price of \$1.95/share, for approximately \$11.0 million in gross proceeds. The private placement is expected to close on November 22, 2004. The proceeds, combined with future debt facilities and cash flow from operations, will be used to fund the construction of six additional coil fracturing rigs. These six fracturing rigs are in addition to our previously announced construction of four new coil drilling rigs and five new coil fracturing rigs. We currently operate a fleet of seven fracturing rigs and two drilling rigs. Upon completion of all construction, our fleet will consist of eighteen fracturing rigs and six drilling rigs. These additional rigs are required to meet the increasing demand for our rigs, driven primarily by the increase in coal bed methane activity.

Our conversion of Rig 4 to a tractor/trailer style fracturing unit was completed in mid-August and represented our second rig to complete this process. Also in August, one of our fracturing rigs (Rig 6) incurred significant damage during transport by a third party carrier. After assessing the damage, a decision was made to convert the unit to the new tractor/trailer style rather than repairing it to its original condition due to the demonstrated success of the other two converted units. It is the company's best estimate at this time that the insurance proceeds will be adequate to cover any repair costs. The conversion cost for Rig 6 is expected to be similar to the cost of the first two conversions. The rig is not expected to be operational until February 2005.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2004	2003	2004	2003
Canada				
Fracturing	\$4,785,264	\$4,529,247	\$12,011,352	\$9,134,225
Drilling	1,812,902	1,033,313	5,200,559	3,159,885
Total Canada	6,598,166	5,562,560	17,211,911	12,294,110
United States				
Fracturing	-	-	-	1,397,831
Other	-	23,979	-	89,926
Total United States	-	23,979	-	1,487,757
Consolidated Revenue	\$6,598,166	\$5,586,539	\$17,211,911	\$13,781,867

Revenue for the third quarter of 2004 increased by \$1.0 million or 18% over the third quarter of 2003. Our revenue growth was primarily in the drilling sector as both drilling rigs were undergoing a major retrofit throughout much of 2003 and only one drilling rig was available in the third quarter of last year.

The 6% increase in fracturing revenue over the third quarter of 2003 was achieved with an average of six available rigs, compared to seven available rigs in 2003. Our second fracturing rig completed its conversion to a tractor/trailer style unit during the quarter, while our third unit to be converted was removed from service in mid-August. Revenue per available rig increased 23% over the third quarter of 2003 as we benefited from rate increases for the use of our tractor/trailer style units and for providing our own fracturing iron to most customers. Our utilization rate decreased from 63% in the third quarter of 2003 to 57% this quarter, but showed an increase to 67% when adjusted for having only six rigs available for work. Demand was high as our customers struggled to complete their summer projects after a wet spring. Nevertheless, bouts of rain throughout the quarter limited us from reaching our fracturing revenue potential as many parts of Southern Alberta recorded their wettest year in over half a century.

Our drilling revenue grew by 75% as both of our drilling rigs were available for work in the third quarter of 2004 compared to only one rig available in the third quarter of 2003. Our revenue per available rig actually decreased by 12% over this same period. Rain was our, and the industry's, main foe for the quarter and prevented us meeting our expected utilization targets despite high demand for our services. Our 70% utilization rate still exceeded the CAODC industry average utilization of 46% over the same period. By comparison, the third quarter of 2003 was unusually dry and did not present the same weather challenge for our drilling rigs.

Operating Expense and Gross Margin

Despite an 18% increase in revenue, our gross margin increased only marginally over the third quarter of 2003. Our drilling operations traditionally have lower margins than our fracturing operations, and represented 27% of revenue this quarter compared to 18% of revenue in the comparable quarter of 2003. The growth in our drilling operations, combined with a decrease in our fracturing margins, caused our overall gross margin to decrease from 51% of revenue to 44%.

The fracturing operations achieved a 50% gross margin this quarter compared to a 57% gross margin in the third quarter of 2003. Sporadic rain throughout the quarter caused many work stoppages and starts, resulting in higher labour costs than the steady work we encountered last summer when the weather was dry. As well, injector expenditures have been higher than normal this year as five of our fracturing injectors have been rebuilt.

Our drilling operations achieved a 28% gross margin this quarter compared to 27% in the third quarter of 2003. Although our overhead costs were spread over significantly higher revenue this quarter, the gross margin was partially eroded by the purchase of several hydraulic pumps and a continual increase in overhead costs in preparation for our fleet expansion.

General and Administrative Expense and Bad Debt Recovery

Our general and administrative expense decreased by 9% in the third quarter of 2004 compared to the third quarter of 2003 but would have increased if not for a non-recurring severance payment in 2003. The

current quarter's general and administrative expense includes a stock-based compensation expense related to options issued in 2003 that vest over the next three years due to the new accounting requirements that were adopted at the end of 2003. The general and administrative expense was 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 debt 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. The final payment was received this quarter.

Depreciation Expense

Depreciation expense for the third quarter of 2004 increased 13% over the third quarter of 2003, consistent with the increase in gross assets over the same period. Significant items being amortized in 2004 which were not amortized in 2003 include the drilling rig retrofit costs and the fracturing rig conversion costs.

Interest Expense and Foreign Currency

Our interest expense has changed from a net expense position in the third quarter of 2003 to a net income position this quarter as we did not draw on any long or short-term debt during the quarter, and were able to invest our excess funds into short-term deposits.

Our exposure to foreign currency risk has been reduced significantly now that we no longer operate in the U.S.

SUMMARY OF QUARTERLY RESULTS

	2002				2003				2004
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Three months ended ¹ (\$)									
Revenue	4,459,590	6,467,649	5,864,483	2,330,845	5,586,539	4,877,232	5,593,094	5,020,651	6,598,166
Net income	(506,217)	(2,115,111)	70,073	(607,149)	1,256,661	587,747	958,972	781,356	1,360,090
Basic earnings per share	\$ (0.01)	\$ (0.05)	\$ 0.00	\$ (0.02)	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03
Diluted earnings per share	\$ (0.01)	\$ (0.05)	\$ 0.00	\$ (0.02)	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03

¹ Restated for change in accounting policy. See Note 2 of our interim consolidated financial statements.

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, our primary operating area. Wells are normally 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. Coal bed methane wells, on the other hand, are fractured with nitrogen instead of water, which does not freeze in cold weather. The growth of coal bed methane will help to mitigate the seasonality of our fracturing operations in the future.

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 in 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 during this period as several of our fracturing rigs were able to work 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 second quarter. The rain continued into the third quarter, with parts of Southern Alberta experiencing their wettest year in over half a century. The rain limited both the drilling and fracturing activity for most of August and the first half of September, as well as parts of July.

The year 2003 followed the normal seasonality pattern, taking into consideration the decline in our rig fleet after the first quarter. Although revenue was high in the first quarter of 2003, losses from the drilling rigs resulted in only a small net income. A decision was made at that time to retrofit the drilling rigs in order to correct some of the design issues that were contributing to the low margins. We were also challenged with the sale of five rigs and with repatriating all remaining rigs from the United States during the first quarter. Our second quarter of 2003 was our lowest quarter of the year due to a combination of a long spring breakup, the ongoing drilling rig retrofits and the impairment of capital assets. The third quarter was our best quarter of the year as a reduced infrastructure combined with high utilization and high margins from both the drilling and fracturing rigs for positive results. Our encouraging results continued into the fourth quarter of 2003 as our margins remained high but were affected by lower utilization than the third quarter.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We ended the third quarter of 2004 with \$5.2 million in cash after spending \$6.2 million on capital expenditures related to the construction of our new rigs and the conversion of our second coil fracturing unit. The total conversion cost for the two fracturing units was \$1.3 million.

Cash flow from operations generated \$2.1 million this quarter compared to \$2.0 million in the third quarter of 2003, consistent with the increase in earnings over the same period.

Cash Requirements and Resources

Our growth capital program, totaling approximately \$50 million, to build fifteen new rigs over the next year is our predominant cash need. Our first drilling rig is scheduled for completion in the first quarter of 2005, with one additional rig scheduled for completion in the second quarter and the remaining two drilling rigs scheduled in the third quarter. Our first series of five new fracturing rigs are also scheduled for completion by the fall of next year with one rig scheduled for completion in the first quarter, three in

the second quarter and one in the third quarter of 2005. The completion dates for our recently announced fracturing units have not been finalized at this time. It is anticipated that these six rigs will be completed in the second half of 2005. The addition of fifteen new rigs will improve profitability as we capture efficiencies, especially on the drilling side where we currently have only two rigs.

Our upcoming capital expenditures will be financed through a combination of operating cash flow, the proceeds from our two recent private placements, and future debt facilities. 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. We anticipate having debt financing in place in the first quarter of 2005.

RISKS AND UNCERTAINTIES AND RELATED FINANCIAL INSTRUMENTS

As of September 30, 2004, our financial instruments recorded in the Consolidated Balance Sheet included only primary financial instruments, specifically receivables and payables. We also entered into a foreign currency forward contract in July 2004 to purchase \$691,295 USD between January 5 – 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 accounting entry is required until the equipment is received.

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. This risk exposure has been updated in each of our interim reports. Our exposure to risk as of September 30, 2004 is virtually unchanged from our exposure at June 30, 2004.

COMMON SHARES AND OTHER SECURITIES

As of November 16, 2004, we had 51,007,021 common shares issued and outstanding. An additional 5.65 million shares will be issued as part of our private placement that was announced on November 2, 2004 and is expected to close on November 22, 2004. We also had 2,218,134 common stock options issued and outstanding of which 1,174,228 were vested. We have not issued any new stock options subsequent to December 31, 2003.

TRANSACTIONS WITH RELATED PARTIES

At September 30, 2004, \$24,944 remained outstanding in accounts receivable from one of our shareholders. The amount pertains to common expenditures incurred during our private placement and our shareholder's concurrent secondary offering in June 2004. The proportionate amount of common expenditures were charged back to our shareholder at their carrying amount and were subject to normal credit terms. The amount was received in full subsequent to the quarter end. We did not enter into any other related party transactions during the quarter.

OUTLOOK AND FUTURE RISKS

Our outlook for the remainder of 2004 is positive as record oil prices and a wet spring and summer have resulted in a backlog of both drilling and fracturing work. Our rigs continue to make an impression, especially our newly converted fracturing rigs, and we have no shortage of customers interested in our services. We expect to be very busy for the remainder of the year as long as the weather co-operates.

Our long-term vision is to create shareholder value through growth, as we increase our profitability by capturing efficiencies. We are adding fifteen new rigs in 2005, with a possibility of further expansion in the years following. We believe demand for both coil drilling and coil fracturing rigs is sufficient to support our strategy, especially with the promise that coal bed methane holds. Coal bed methane production in Western Canada is quickly 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 strongly believe industry demand is sufficient to support our future growth.

Like any company in a growth mode, several risks exist which could have negative consequences for our company. We are subject to the normal cycles of the oil and gas industry. While a downturn in the oil and gas market would hurt most companies in our industry, our exposure may be greater over the next year due to our capital commitments and forthcoming debt obligations. Given that downturns are rarely predicted in advance, management is addressing this risk on an ongoing basis by keeping debt to manageable levels, structuring costs so that they are variable instead of fixed where possible, and attempting to diversify our customer base. As well, the fracturing and drilling operations have slightly different operating cycles throughout the year, helping to mitigate some of the seasonality risk.

The lack of skilled labour in the industry also poses a potential risk for our company as we more than double the size of our fleet. Management is aware of this risk and has started training additional personnel on our current rigs in order to meet the demand for our new rigs. The additional training may result in slightly higher operating costs over the next few months, but is necessary in order to ensure efficient and safe operation of the new rigs. As well, we believe the coil drilling and coil fracturing rigs have several design advantages over conventional rigs in the industry, making them more appealing to employees. The design of our new rigs only enhances these advantages and should help to attract new skilled labour to our company.

The cost of capital poses a potential risk for our company as approximately half of our capital growth will be financed through debt. In attempt to control this risk, we have focused on the importance of project management in order to meet our capital budgets and minimize the amount of debt required.

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.

Consolidated BALANCE SHEETS

	September 30, 2004 (unaudited)	December 31, 2003 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$5,158,581	\$2,640,536
Accounts receivable	4,498,124	3,433,194
Income taxes receivable	-	1,758
Inventory	344,074	343,023
Prepaid expenses	257,306	241,007
	10,258,085	6,659,518
Capital assets under construction	5,972,511	-
Capital assets	24,450,789	23,846,748
	\$40,681,385	\$30,506,266
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,772,568	\$2,164,119
Income taxes payable	1,055,085	106,052
Current portion of long-term debt	-	1,131,180
	2,827,653	3,401,351
Long-term debt	-	3,069,649
Future income taxes	3,323,428	3,242,798
Shareholders' equity		
Share capital	26,708,994	16,122,005
Contributed surplus	112,854	62,425
Retained earnings	7,708,456	4,608,038
	34,530,304	20,792,468
	\$40,681,385	\$30,506,266

Consolidated Statements of OPERATIONS and RETAINED EARNINGS

(unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2004	2003	2004	2003
		<i>(Restated – note 2)</i>		<i>(Restated – note 2)</i>
Coil tubing service and drilling revenue	\$ 6,598,166	\$ 5,586,539	\$ 17,211,911	\$ 13,781,867
Expenses:				
Operating	3,689,076	2,727,759	9,963,323	8,919,595
General and administrative	296,799	325,808	1,051,190	783,612
Bad debts (recovery)	(9,191)	-	(89,220)	73,744
Depreciation	540,717	479,654	1,531,176	1,446,214
Impairment of capital assets	-	-	-	269,310
Loss on sale of capital assets	4,521	-	115,618	336,600
Interest on long-term debt	-	81,610	143,345	310,791
Other interest, net	(29,507)	2,643	(48,759)	37,442
Foreign exchange loss (gain)	6,861	(11,672)	(31,241)	352,038
	4,499,276	3,605,802	12,635,432	12,529,346
Net income before income tax	2,098,890	1,980,737	4,576,479	1,252,521
Income tax expense				
Current	559,845	466,378	1,147,492	225,120
Future	178,955	257,698	328,569	307,816
	738,800	724,076	1,476,061	532,936
Net income for the period	1,360,090	1,256,661	3,100,418	719,585
Retained earnings, beginning of period	6,348,366	2,763,630	4,608,038	3,300,706
Retained earnings, end of period	\$ 7,708,456	\$ 4,020,291	\$ 7,708,456	\$ 4,020,291
Earnings per share				
Basic	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.02
Diluted	\$ 0.03	\$ 0.03	\$ 0.07	\$ 0.02

Consolidated Statements of CASH FLOWS

(unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2004	2003	2004	2003
		<i>(Restated – note 2)</i>		<i>(Restated – note 2)</i>
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 1,360,090	\$ 1,256,661	\$ 3,100,418	\$ 719,585
Add non-cash items:				
Depreciation	540,717	479,654	1,531,176	1,446,214
Impairment of capital assets	-	-	-	269,310
Loss on sale of capital assets	4,521	-	115,618	336,600
Stock-based compensation expense	25,932	-	77,797	-
Future income tax	178,955	257,698	328,569	307,816
Cash flow from operations	2,110,215	1,994,013	5,153,578	3,079,525
Net change in non-cash working capital	(785,488)	927,616	(523,040)	2,008,899
	1,324,727	2,921,629	4,630,538	5,088,424
Financing activities:				
Common shares issued	29,066	-	43,066	35,000
Private placement	-	-	11,000,000	-
Share issue costs	-	-	(731,384)	-
Repayment of long-term debt	-	(282,795)	(4,200,829)	(6,650,588)
	29,066	(282,795)	6,110,853	(6,615,588)
Investing activities:				
Acquisition of capital assets	(6,184,631)	(986,325)	(8,328,690)	(1,761,058)
Proceeds on sale of capital assets	29,344	-	105,344	6,999,600
	(6,155,287)	(986,325)	(8,223,346)	5,238,542
Net (decrease) increase in cash and cash equivalents	(4,801,494)	1,652,509	2,518,045	3,711,378
Cash and cash equivalents, beginning of period	9,960,075	297,393	2,640,536	(1,761,476)
Cash and cash equivalents, end of period	\$ 5,158,581	\$ 1,949,902	\$ 5,158,581	\$ 1,949,902
Cash interest paid	-	\$77,255	\$99,889	\$310,535
Cash income taxes paid (received)	\$ 30,000	\$ (207,430)	\$ 196,292	\$ (1,089,404)

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