

Technicoil Corporation

SECOND QUARTER INTERIM REPORT AND NEWS RELEASE FOR THE PERIOD ENDED JUNE 30, 2005

Management's Discussion & Analysis

The following discussion is management's assessment of Technicoil Corporation's financial condition and operating results for the six months ended June 30, 2005 and has been prepared with information available up to and as at August 11, 2005. The interim Management's Discussion and Analysis (MD&A) should be read in conjunction with our unaudited interim consolidated financial statements and notes and in conjunction with our audited consolidated financial statements and MD&A contained in our annual report for the year ended December 31, 2004 and the unaudited interim report for the periods ended March 31, 2005 and June 30, 2005. Unless otherwise disclosed, all financial information in this section has been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and is presented in Canadian dollars. Additional information relating to Technicoil Corporation can be found on SEDAR at www.sedar.com.

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by Technicoil Corporation at the time of preparation, may prove to be incorrect and actual results may differ, possibly materially, from expectations. The reader should be aware that historical results are not necessarily indicative of future performance.

SUMMARY

(\$ except as noted) (unaudited)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Number of rigs owned at end of period	11	9	11	9
Average number of rigs available during the period	9.4	7.2	9.2	7.8
Revenue	6,090,519	5,020,651	13,312,434	10,613,745
EBITDA ¹	1,379,063	1,644,813	2,963,031	3,665,136
Net income	413,910	781,356	1,069,826	1,740,328
Earnings per share, basic and diluted	0.01	0.02	0.02	0.04
Funds flow from operations ²	1,491,937	1,415,313	2,970,509	3,043,362
Shares outstanding at end of period	57,152,753	50,337,122	57,152,753	50,337,122
Weighted average shares – basic	57,126,131	39,578,880	56,945,671	39,441,701
Weighted average shares – diluted	58,449,818	41,078,763	58,518,322	40,952,032
	June 30, 2005		Dec. 31, 2004	
Total assets	59,516,810		56,937,729	
Long-term financial liabilities	1,530,000		–	
Debt to equity ratio ³	0.22		0.21	

1 EBITDA, or earnings before interest, taxes, depreciation and amortization, is considered to be 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. Management believes EBITDA is useful for providing investors with a measure of results generated by the company's principal business activities prior to consideration of how these activities are financed or taxed. Technicoil calculates EBITDA as follows:

(\$ except as noted) (unaudited)	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Coil tubing service and drilling revenue	\$ 6,090,519	\$ 5,020,651	\$ 13,312,434	\$ 10,613,745
Less: Operating expenses	3,893,160	3,018,440	8,867,387	6,274,247
General and administrative expenses	818,296	397,519	1,482,016	754,391
Bad debt expense	–	(40,121)	–	(80,029)
EBITDA	\$ 1,379,063	\$ 1,644,813	\$ 2,963,031	\$ 3,665,136

2 Funds flow from operations (formerly cash flow from operations) is defined as net income before depreciation, gain or loss on sale of capital assets, stock-based compensation expense, non-cash director compensation and future income tax. A reconciliation of the calculation to net income is shown on the Consolidated Statement of Cash Flows. Funds 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. Management believes that funds flow from operations is useful for providing investors with an indication of working capital available for capital commitments, debt repayments and other obligations.

3 Debt to equity ratio is defined as total liabilities, including current liabilities, debt and future income taxes, 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.

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HIGHLIGHTS

The second quarter of 2005 was challenged by wet weather as we earned net income of \$0.4 million or \$0.01 per share compared to net income of \$0.8 million or \$0.02 per share in the second quarter of 2004. Our revenue increased by 21% in the second quarter of 2005 compared to the second quarter of 2004, with our gross margin increasing by 10% over the same period as a result of having a greater number of rigs available for work and from rate increases. Our utilization rate and our gross margin as a percentage of revenue declined when compared to the second quarter of 2004 as spring breakup conditions in April and wet weather in June limited our activity levels in 2005. In spite of a reduction in our net income, our funds from operations in the second quarter of 2005 exceeded our funds from operations in the second quarter of 2004. Non-cash expenses such as depreciation, stock based compensation expense and future income tax were 70% higher in 2005 than in 2004 and reduced our net income without affecting cash flow.

Our 2005 capital expansion produced two drilling rigs this quarter to bring our total rig count to four coil drilling rigs and seven coil fracturing rigs. Our remaining two coil drilling rigs under construction were completed in July and August, respectively. We also have two coil fracturing rigs scheduled for completion in the third quarter and nine in the fourth quarter. In June, we secured a \$16.5 million debt facility from our bank and raised our operating line to \$2.0 million from \$0.2 million in order to finance a portion of our current capital expansion. The debt facility consists of a revolving loan until December 31, 2005, at which time the outstanding indebtedness will be converted into a 60 month term loan.

Subsequent to the quarter end, one of our newly constructed drilling rigs suffered extensive damage during transport by a third party carrier. The rig was removed from service in July and is estimated to be out of service for approximately three months. The repair costs are expected to be reimbursed by insurance proceeds however the rig did not carry loss of use insurance.

RESULTS OF OPERATIONS

FRACTURING OPERATIONS

<i>Three months ended June 30 (\$ except as noted) (unaudited)</i>	2005	2004	05/04	Change
Fracturing Revenue	4,529,284	3,947,564	581,720	15%
Operating Expenses	2,375,998	2,094,268	281,730	13%
Gross Margin	2,153,286	1,853,296	299,990	16%
Utilization %	49%	55%	(6%)	(11%)
Average number of rigs available during the quarter	7.0	5.2	1.8	35%
Number of wells completed	446	465	(19)	(4%)

<i>Six months ended June 30 (\$ except as noted) (unaudited)</i>	2005	2004	05/04	Change
Fracturing Revenue	9,209,360	7,226,088	1,983,272	27%
Operating Expenses	5,325,035	3,785,985	1,539,050	41%
Gross Margin	3,884,325	3,440,103	444,222	13%
Utilization %	51%	50%	1%	2%
Average number of rigs available during the period	7.0	5.8	1.2	21%
Number of wells completed	847	841	6	1%

Our fracturing revenue increased by 15% in the second quarter of 2005 compared to the second quarter of 2004, and by 27% for the first six months of 2005 compared to the first six months of 2004. The second quarter revenue growth is due to an increase in rig rates and ancillary services provided as the number of wells completed in the second quarter of 2005 decreased when compared to the second quarter of 2004. Our utilization rate was 49% in the second quarter of 2005 compared to 55% in the second quarter of 2004 as we were unable to repeat our 2004 activity level during the 2005 spring breakup period. Extensive rainfall in central and southern Alberta this year also limited our fracturing activity for most of June and resulted in our lowest

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month of operating hours in over two years. Nevertheless, high demand and favourable weather conditions in May resulted in an 80% utilization rate for the month, with May contributing 54% of the quarter's revenue. On a year to date basis, our fracturing revenue has increased by 27% to \$9.2 million over the first six months of 2004 due to a combination rate increases from providing additional ancillary services to our customers since the middle of 2004, and higher utilization of a greater number of rigs available for work.

Our fracturing gross margin increased by 16% to \$2.2 million over the second quarter of 2004, consistent with the 15% increase in revenue over the same period. Gross margin as a percentage of revenue was 48% in the second quarter of 2005 compared to 47% in the second quarter of 2004. On a year to date basis, our gross margin was 42% of revenue in the first six months of 2005 compared to 48% of revenue in the first six months of 2004 due to low margins in the first quarter of this year. Our repair and maintenance costs were lower in the second quarter of 2005 versus the first quarter of 2005 as we performed extensive maintenance in March at the start of the spring breakup period. Our labour costs were also lower in the second quarter of 2005 compared to recent quarters. We have been overstaffing our fracturing crews since late in 2004 in order to train additional personnel for our 11 new fracturing rigs coming into service this year. High activity levels in May kept our fracturing employees sufficiently busy without overstaffing our crews for that month, resulting in a better utilization of our employee labour costs this quarter compared to the last two quarters.

Similar to the first quarter of 2005, our operations overhead costs were higher this quarter than in 2004 as we increased our field and office staff in anticipation of supporting our new rigs. Delays in the delivery of our fracturing equipment has resulted in an increase in overhead costs without the benefit of increased fracturing revenue. These increased overhead costs will have a much smaller impact on our gross margin in upcoming quarters as we bring new fracturing and drilling rigs into service.

DRILLING OPERATIONS

<i>Three months ended June 30 (\$ except as noted) (unaudited)</i>	2005	2004	05/04	Change
Drilling Revenue	1,561,235	1,073,087	488,148	45%
Operating Expenses	1,517,162	924,172	592,990	64%
Gross Margin	44,073	148,915	(104,842)	(70%)
Utilization %	43%	42%	1%	0%
Average number of rigs available during the quarter	2.4	2.0	0.4	20%
Number of wells completed	40	42	(2)	(5%)

<i>Six months ended June 30 (\$ except as noted) (unaudited)</i>	2005	2004	05/04	Change
Drilling Revenue	4,103,074	3,387,657	715,417	21%
Operating Expenses	3,542,352	2,488,262	1,054,090	42%
Gross Margin	560,722	899,395	(338,673)	(38%)
Utilization %	57%	58%	(1%)	(2%)
Average number of rigs available during the period	2.2	2.0	0.2	10%
Number of wells completed	86	111	(25)	(23%)

Our drilling revenue increased by 45% in the second quarter of 2005 compared to the second quarter of 2004, and by 21% for the first six months of 2005 compared to the first six months of 2004. The revenue growth is attributed to higher drilling rates in 2005 and a 20% increase in the average number of rigs available in the second quarter of 2005 compared to the second quarter of 2004. Our first new drilling rig started operations in late May, bringing our total drilling fleet to three rigs. Our fourth drilling rig was completed and ready for work at the end of June but was unable to work until July due to wet weather. Our remaining two drilling rigs under construction at the end of the second quarter were completed in July and August, respectively.

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Our 43% utilization rate in the second quarter of 2005 was consistent with the 42% utilization rate in the second quarter of 2004. On a year to date basis, our 57% utilization rate in the first six months of 2005 is comparable to the 58% utilization rate in the first six months of 2004 despite a 23% decrease in the number of wells drilled over the same period. Our average time per well is higher in 2005 versus 2004 due to performing more winter work in northern Alberta this year where the wells are shallow but take longer to drill than wells in southern Alberta. Spring breakup limited March and April activity in both 2005 and 2004. Escalating oil prices over the past two years resulted in high demand for our drilling rigs once the breakup periods were completed. Our drilling rigs performed at 83% utilization in May 2005 until extensive rainfall in southern and central Alberta throughout June limited our ability to move and operate our equipment.

Our drilling gross margin decreased by 70% in the second quarter of 2005 compared to the second quarter of 2004 despite a 45% increase in revenue over the same period. On a year to date basis, our gross margin decreased by 38% in the first six months of 2005 compared to the first six months of 2004 despite a 21% increase in revenue over the same period. Our low gross margin this year is a result of high repairs and maintenance and operating overhead costs. Much of our annual preventative maintenance plan is completed during the spring breakup period each year. The cost of our preventative maintenance and annual certifications completed in the 2005 breakup period exceeded the 2004 breakup period expenditures as our drilling rigs had just completed major retrofits late in 2003 and required only minimal expenditures in the 2004 breakup period. Similar to the first quarter of 2005, our operations overhead costs were also higher this quarter versus 2004 as we increased our field and office staff in anticipation of supporting our new rigs. These increased overhead costs were partially absorbed with the addition of our two new drilling rigs this quarter, and will have a much smaller impact on our gross margin in upcoming quarters as we bring additional drilling and fracturing rigs into service.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses increased by 106% to \$0.8 million in the second quarter of 2005 from \$0.4 million in the second quarter of 2004. The increase is consistent with the 96% increase over 2004 on a year to date basis. Almost half of the increase in our general and administrative expenses over the prior year is attributed to stock-based compensation expense, which increased by \$0.2 million or nine times over the 2004 amount, as a result of issuing stock options to employees, officers and Directors and from issuing shares to outside Directors as part of their compensation package. Legal expenses and consulting fees were also higher in 2005 than in 2004, especially in the second quarter of 2005, due to obtaining legal advice regarding several outstanding lawsuits and for various other professional services. Our general and administrative expenses also rose slightly as we upgraded our infrastructure and systems in preparation for our fleet expansion. General and administrative expenses were 13% of revenue in the second quarter of 2005 compared to 9% in the first quarter of 2005 and 8% in the second quarter of 2004. Our general and administrative expenses as a percentage of revenue should decline in upcoming quarters as we bring additional rigs into service.

DEPRECIATION AND GAIN ON SALE OF ASSETS

Depreciation expense increased by 24% over the second quarter of 2004, comparable to the increase in depreciable assets over the same period. Significant capital items being depreciated in the second quarter of 2005 and the first six months of 2005 that were not depreciated in the second quarter of 2004 or the first six months of 2004 include the conversion costs for three of our fracturing rigs into trailer-style units and a general increase in our office furnishings, computer hardware and computer software in order to support our expansion. Our newly built drilling rig also increased depreciation expense in the second quarter of 2005 over to the prior year.

In March 2005, we realized a small gain on the sale of assets as we assigned certain technology and patent rights pertaining to methods for drilling, fracturing and servicing oil and gas wells with coiled tubing to an unrelated company for nominal cash proceeds and a royalty-free perpetual license to continue to use the technology and intellectual property.

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INTEREST, FOREIGN CURRENCY AND TAXES

We had only a small amount of interest expense in the second quarter and the first half of 2005 as we had no debt outstanding until late in June. We earned interest income from investing our excess funds during the second quarter and the first half of 2005 as payment terms for our equipment under construction, combined with construction delays, did not necessitate a use for our funds during that time.

Our foreign exchange loss is due to unfavourable declines in the exchange rate at times when we had unhedged U.S. dollar denominated payables outstanding for equipment purchases.

Our effective tax rate was 45.0% for the second quarter of 2005 compared to 28.4% for the second quarter of 2004. On a year to date basis, our effective tax rate was 40.4% in the first six months of 2005 compared to 29.8% for the first six months of 2004. The effective tax rate increase over the prior year is due to stock-based compensation expense, a non-deductible expense for tax purposes, increasing from 2% of our pre-tax income in 2004 to 19% of our pre-tax income in 2005. Our current tax rate was 16.9% in the second quarter of 2005 compared to 20.0% in the second quarter of 2004 due to claiming higher capital cost allowance in 2005. Our current tax rate will continue to decrease throughout the year as our new rigs are put into service and become depreciable assets for tax purposes.

SUMMARY OF QUARTERLY RESULTS

Three months ended \$(unaudited)	2003*			2004				2005	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	2,330,845	5,586,539	4,877,232	5,593,094	5,020,651	6,598,166	8,685,577	7,221,915	6,090,519
Net income	(607,149)	1,256,661	587,747	958,972	781,356	1,360,090	1,629,030	655,916	413,910
Basic earnings per share	\$(0.02)	\$0.03	\$0.01	\$0.02	\$0.02	\$0.03	\$0.03	\$0.01	\$0.01
Diluted earnings per share	\$(0.02)	\$0.03	\$0.01	\$0.02	\$0.02	\$0.03	\$0.03	\$0.01	\$0.01

* Restated for change in inventory accounting policy.

As an oilfield services company, our activity levels are directly related to the exploration and development spending of our customers, with the whole industry's activity levels dependent on the current and anticipated future crude oil and natural gas prices.

We are also subject to seasonality throughout the year, as are all companies in the oil and gas industry, due to restrictive weather conditions. There is greater demand for drilling services in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. However, if unseasonably warm weather prevents sufficient freezing, our drilling rigs may not be able to access well sites creating unpredictability in activity and utilization rates in the fourth and first quarters. As well, many wells are fractured with water-based fluid carrying sand that limits the ability to perform fracturing work in temperatures below approximately -25°C. Our fracturing revenue is often volatile in the first and fourth quarters as a result, depending on the favourability of weather conditions. Coal bed methane wells are fractured with nitrogen instead of water, which does not freeze in cold weather. We expect that the growth of CBM production will help to mitigate the seasonality of our fracturing operations.

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" impacts industry 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.

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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.

SUMMARY OF 2005 QUARTERLY RESULTS

The high crude prices realized throughout 2004 continued into the first half of 2005. Industry demand for our fracturing rigs remained strong in the first half of 2005, similar to the second half of 2004. Unfortunately, weather issues limited our ability to maximize our fracturing operations in both the first and second quarters of 2005. Cold weather during parts of January limited our ability to perform fracturing work on non-CBM wells. Warm weather at the end of February and early March caused sporadic spring-breakup like conditions, resulting in less than full utilization during this period. By the middle of March, road bans were pervasive throughout the province and lasted throughout most of April. We were able to keep the equivalent of one fracturing rig working in the Suffield Block in southern Alberta during the road ban period, but were unable to repeat the 2004 spring breakup activity levels when we had the equivalent of up to six rigs (two rigs working 24 hours a day) working in the Suffield Block. May's operating hours were the highest ever achieved by our seven rig fracturing fleet as demand was high after spring breakup and the weather did not limit our operations. However, record rainfall and extensive flooding in June throughout south and central Alberta severely hindered our ability to work and resulted in our lowest month of fracturing operating hours since May 2003.

Industry demand for our drilling rigs also remained strong for January and February and our rigs worked steadily throughout the first two months. Spring breakup arrived in early March this year, with road bans sporadically in effect throughout the province for the entire month of March and the majority of April. High industry demand and co-operative weather resulted in a very profitable May, which was then followed by very low operating hours in June due to the excessive rain throughout southern Alberta.

Despite an increase in revenue in the first two quarters of 2005 over the first two quarters of 2004, our net income was negatively affected by high overhead costs as we expanded our personnel, infrastructure and systems in preparation for our fleet expansion. Delays in our equipment delivery resulted in high costs without any corresponding revenue. Our profitability is expected to improve once our new rigs start field operations.

SUMMARY OF 2004 QUARTERLY RESULTS

The 2004 year was impacted by record high crude prices, resulting in very strong industry demand. Our rigs were in high demand by our customers throughout the year, with weather acting as the main lever affecting our financial results.

The year 2004 started with fairly typical winter weather for January and February. Spring break-up arrived in early March and shut 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 throughout the breakup period, resulting in above average results for April. Despite the early end to spring breakup, excessive rainfall continued throughout May and June and caused sporadic work stoppages and lower than anticipated utilization for both our drilling and fracturing rigs. The rainfall continued into the third quarter as parts of southern Alberta experienced their wettest year in over half a century, only to be exceeded again in 2005. The wet weather limited both the drilling and fracturing activity for a portion of July, most of August and the first half of September. Nevertheless, our third quarter results were still better than the prior year as only one drilling rig was working at any time in the third quarter of 2003 due to ongoing retrofits. Dry and moderate winter weather in the fourth quarter of 2004 produced ideal weather conditions for both our drilling and fracturing operations. Our fracturing rigs were able to work consistently throughout November and December, resulting in a strong fourth quarter.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW FROM OPERATING ACTIVITIES

We ended the second quarter of 2005 with \$0.2 million in cash. Our funds flow from operations⁴ in the second quarter of 2005 exceeded our funds flow from operations⁴ in the second quarter of 2004 in spite of a reduction in our net income over the same period. Non-cash expenses such as depreciation, stock based compensation expense and future income tax were much higher in 2005 than in 2004 and reduced our net income without affecting cash flow.

Cash flow from operating activities (including the net change in non-cash working capital) resulted in a \$1.3 million outflow of cash in the second quarter of 2005 compared to a \$2.3 million inflow of cash in the second quarter of 2004. The difference year over year is attributed to several non-cash working capital items. Our accounts receivable provided a \$0.4 million source of cash in the second quarter of 2004 compared to a \$2.1 million use of cash in the second quarter of 2005. Payment from one of our major customers was received earlier than normal at the end of the first quarter of 2005, resulting in a lower than normal receivable balance at March 31, 2005 and creating a large negative change in non-cash working capital in the second quarter of 2005. Income taxes provided a \$0.2 million source of cash in the second quarter of 2004 compared to a \$0.4 million use of cash in the second quarter of 2005 as our income taxes moved from a net payable position in 2004 to a net receivable position in 2005. Our 2005 required tax installments exceed our current taxes payable, creating a net tax receivable position, as our 2005 current tax rate is lower than in 2004 because of high capital cost allowance claims.

CASH FLOW FROM INVESTING AND FINANCING ACTIVITIES

We received \$5.0 million in proceeds from our revolving term loan late in June to help fund a portion of our \$10.8 million of capital expenditures during the quarter. Prior to June 30, 2005, we repaid \$3.3 million of the revolving term loan resulting in \$1.7 million of debt outstanding at the end of the second quarter. Year to date capital expenditures for 2005 totaled \$17.0 million.

Proceeds from the exercise of stock options also provided a small amount of cash in the second quarter of 2005 and \$0.3 million for the first six months of 2005. As at June 30, 2005, we had 57,152,753 common shares issued and outstanding. We also had 2,760,101 stock options issued and outstanding, 1,138,096 of which were vested, after issuing 545,000 stock options during the quarter.

CASH REQUIREMENTS AND RESOURCES

Our commitment made in 2004 to build 15 new rigs by the end of 2005 is our predominant cash need. Cash flow from operations and the proceeds from our two private placements in 2004 were sufficient to finance our capital payments until June 2005. In June 2005, we secured a \$16.5 million debt facility from our bank and raised our operating line to \$2.0 million from \$0.2 million. The debt facility includes a revolving loan until December 31, 2005, at which time the outstanding indebtedness will be converted into a 60 month term loan. The debt facility will be used to finance a portion of our current capital expansion. Our debt to equity ratio⁵ would be approximately 0.5 if we were to draw on the maximum amount of debt under our facility. We believe that our debt levels are still conservative and that we have sufficient liquidity to operate our business and execute our strategic plan for the foreseeable future.

4 *Funds flow from operations (formerly cash flow from operations) is defined as net income before depreciation, gain or loss on sale of capital assets, stock-based compensation expense, non-cash director compensation and future income tax. A reconciliation of the calculation to net income is shown on the Consolidated Statement of Cash Flows. Funds 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.*

5 *Debt to equity ratio is defined as total liabilities, including current liabilities, debt and future income taxes, 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.*

FINANCIAL INSTRUMENTS

Our financial instruments include only primary financial instruments, specifically receivables, payables and debt. We have not entered into any derivative financial instrument contracts in 2005, nor did we have any derivative financial instrument contracts outstanding as of June 30, 2005. We did hold a foreign currency forward contract at the end of 2004 that was settled in January 2005 in accordance with the original settlement terms.

Our 2004 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 credit risk and economic dependence and foreign exchange risk as of June 30, 2005 is virtually unchanged from our exposure at December 31, 2004. Our exposure to interest rate risk and fair values has changed slightly due to our new debt facility.

INTEREST RATE RISK

We are not exposed to interest rate price risk as both our revolving term loan and our operating line have floating interest rate terms. However, the floating interest rate terms do give rise to interest rate cash flow risk as interest payments are recalculated as the market rates change. We currently do not see this risk as significant due to Canada's history of reasonably stable interest rates and our expectations of future interest rates.

FAIR VALUES

The fair values of our accounts receivable, accounts payable and accrued liabilities and income taxes payable approximate their carrying values due to their short-term nature. The fair value of our operating line and our revolving term loan approximate their carrying values due to the floating interest rate terms.

TRANSACTIONS WITH RELATED PARTIES

We have not entered into any transactions with related parties during 2005, nor did we have any balances outstanding with related parties as of June 30, 2005.

RISKS AND UNCERTAINTIES

Like any company in a growth mode, we are subject to a number of risks and uncertainties that 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 debt obligations. Given that downturns in the industry 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, which helps to mitigate some of the seasonality risk prevalent in the oil and gas industry.

A shortage 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 been training additional personnel on our current rigs for numerous months in order to meet the demand for our new rigs. The additional training has resulted in and will continue to result in higher operating costs over the next few months, but is necessary in order to ensure the 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 has helped to attract new skilled labour to our company.

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Our business relies, in part, on the use of our proprietary intellectual property. In the ordinary course of business there may be challenges to our intellectual property rights. An impairment in our ability to use our intellectual property rights may have an adverse effect with respect to certain aspects of our business. In recent months we initiated two lawsuits related to intellectual property. In March 2005, we commenced proceedings in conjunction with an unrelated company to impeach the validity of a patent recently granted to a company with respect to certain coiled tubing technology. In April 2005, we commenced proceedings in conjunction with an unrelated company against the same company named in the first lawsuit, as well as against that company's wholly owned subsidiary and against two former Technicoil Corporation employees for misappropriation of coiled tubing technology. The company named in both lawsuits also commenced proceedings against us in March 2005 for an alleged patent infringement. In May 2005, the same company and one of its wholly owned subsidiaries also filed a claim against us and others regarding a breach of a confidentiality agreement by another party and taking issue with our assignment of certain intellectual property to another party. The outcome of these claims and any resulting consequences are not determinable at this time.

OUTLOOK AND FUTURE RISKS

As an oilfield services company, we are dependent on the capital spending of our customers, with the whole oil and gas industry dependent on the current and anticipated future crude oil and natural gas prices. Early in 2005, industry watchers had anticipated that the record setting crude oil and natural gas prices present in 2004 would likely subside somewhat in 2005, although the prices were still expected to remain strong compared to past years. Predictions of declining prices were proven incorrect in the second quarter as the price of crude oil reached record levels, exceeding US \$60 per barrel in June 2005. At some point, oil prices will increase to a level that will hinder global economic growth and thus prices will subside. However, it does not appear that prices have reached that level yet. Industry analysts are now predicting that prices may not subside in 2005, but will remain strong for the rest of the year. The high prices will likely mean high capital spending by our customers, which should result in a ready market for our 15 new rigs coming into service this year.

We completed construction of two new coil drilling rigs in the second quarter of 2005. Our remaining two coil drilling rigs under construction were completed in July and August, respectively, bringing our total drilling fleet to six rigs. Subsequent to the quarter end, one of our newly constructed drilling rigs suffered extensive damage during transport by a third party carrier. The rig was removed from service in early July and is estimated to be out of service for approximately three months. The repair costs are expected to be reimbursed by insurance proceeds however the rig did not carry loss of use insurance.

We currently have 11 fracturing rigs under construction. Two fracturing rigs are scheduled for completion in the third quarter with an additional nine fracturing rigs scheduled for completion in the fourth quarter of 2005. Our fracturing fleet will consist of 18 rigs by the end of 2005.

We believe the demand for both coil drilling and coil fracturing rigs is sufficient to support our capital additions, especially with coil drilling and coil well servicing becoming more of a proven alternative to conventional drilling and well servicing. Coal bed methane production in western Canada is also quickly becoming more established as a valuable resource to our customers. CBM wells require fracturing, with coil fracturing established as the preferred and most economical method. Our equipment is ideally suited for both the drilling and fracturing of coal bed methane wells. In the first quarter of 2005, we revised a previous operating agreement with one of our customers to give our customer the right of first refusal on twelve of our fracturing rigs by the end of 2005. This agreement is partially in response to the growth of CBM, and should help to facilitate high utilization for our new fracturing rigs over the term of the agreement.

Our long-term vision is to create shareholder value through growth, as we increase our profitability by capturing efficiencies. The addition of 15 new rigs currently in progress is the first step in our strategic plan to create shareholder value. CBM production is expected to provide additional opportunities for us in the long term, and we fully anticipate adding additional rigs in 2006. Management also believes that the addition of a complementary third product line would be beneficial in order to facilitate further growth, and will evaluate opportunities for acquisition or organic growth as they arise.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

<i>As at</i>	June 30, 2005 <i>(unaudited)</i>	December 31, 2004 <i>(audited)</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 157,333	\$ 15,807,019
Accounts receivable	5,248,756	3,744,809
Income taxes receivable	334,610	–
Inventory	612,882	292,096
Prepaid expenses	494,382	201,324
	<u>6,847,963</u>	<u>20,045,248</u>
Capital assets under construction	23,161,191	12,659,255
Capital assets	29,507,656	24,233,226
	<u>\$ 59,516,810</u>	<u>\$ 56,937,729</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	5,264,926	4,649,352
Income taxes payable	–	1,768,984
Current portion of long-term debt <i>(note 3)</i>	170,000	–
	<u>5,434,926</u>	<u>6,418,336</u>
Long-term debt <i>(note 3)</i>	1,530,000	–
Future income taxes	3,582,987	3,291,473
	<u>10,547,913</u>	<u>9,709,809</u>
Shareholders' equity		
Share capital <i>(note 4)</i>	37,903,583	37,572,585
Contributed surplus	658,002	317,849
Retained earnings	10,407,312	9,337,486
	<u>48,968,897</u>	<u>47,227,920</u>
	<u>\$ 59,516,810</u>	<u>\$ 56,937,729</u>

(See accompanying notes to the consolidated financial statements)

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

<i>(unaudited)</i>	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Coil tubing service and drilling revenue	\$ 6,090,519	\$ 5,020,651	\$ 13,312,434	\$ 10,613,745
Expenses:				
Operating	3,893,160	3,018,440	8,867,387	6,274,247
General and administrative	818,296	397,519	1,482,016	754,391
Bad debt	–	(40,121)	–	(80,029)
Depreciation	637,941	515,674	1,223,489	990,459
(Gain) loss on sale of capital assets	–	–	(8,233)	111,097
Interest on long-term debt	966	78,333	966	143,345
Other interest	(34,851)	(10,168)	(103,278)	(19,252)
Foreign exchange loss (gain)	22,444	(30,535)	53,666	(38,102)
	<u>5,337,956</u>	<u>3,929,142</u>	<u>11,516,013</u>	<u>8,136,156</u>
Net income before income tax	752,563	1,091,509	1,796,421	2,477,589
Income tax expense				
Current	127,322	217,802	435,081	587,647
Future	211,331	92,351	291,514	149,614
	<u>338,653</u>	<u>310,153</u>	<u>726,595</u>	<u>737,261</u>
Net income for the period	413,910	781,356	1,069,826	1,740,328
Retained earnings, beginning of period	9,993,402	5,567,010	9,337,486	4,608,038
Retained earnings, end of period	<u>\$ 10,407,312</u>	<u>\$ 6,348,366</u>	<u>\$ 10,407,312</u>	<u>\$ 6,348,366</u>
Earnings per share				
Basic	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.04
Diluted	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.04

(See accompanying notes to the consolidated financial statements)

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(unaudited)</i>	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 413,910	\$ 781,356	\$ 1,069,826	\$ 1,740,328
Add (deduct) non-cash items:				
Depreciation	637,941	515,674	1,223,489	990,459
(Gain) loss on sale of capital assets	–	–	(8,233)	111,097
Stock-based compensation expense	212,186	25,932	345,223	51,864
Non-cash director compensation	16,569	–	48,690	–
Future income tax	211,331	92,351	291,514	149,614
Funds flow from operations	1,491,937	1,415,313	2,970,509	3,043,362
Net change in non-cash working capital	(2,793,111)	900,788	(4,598,306)	274,375
Cash flow from operating activities	(1,301,174)	2,316,101	(1,627,797)	3,317,737
Financing activities:				
Common shares issued	25,319	11,000,000	277,238	11,014,000
Share issue costs	–	(731,384)	–	(731,384)
Proceeds from long-term debt	5,000,000	–	5,000,000	–
Repayment of long-term debt	(3,300,000)	(3,918,034)	(3,300,000)	(4,200,829)
Cash flow from financing activities	1,725,319	6,350,582	1,977,238	6,081,787
Investing activities:				
Acquisition of capital assets	(10,772,941)	(1,610,345)	(17,016,622)	(2,144,058)
Proceeds on sale of capital assets	–	–	25,000	76,000
Net change in non-cash working capital from the purchase of capital assets	680,143	213,790	992,495	(11,927)
Cash flow from investing activities	(10,092,798)	(1,396,555)	(15,999,127)	(2,079,985)
Net (decrease) increase in cash and cash equivalents	(9,668,653)	7,270,128	(15,649,686)	7,319,539
Cash and cash equivalents, beginning of period	9,825,986	2,689,947	15,807,019	2,640,536
Cash and cash equivalent, end of period	\$ 157,333	\$ 9,960,075	\$ 157,333	\$ 9,960,075
Cash interest paid	–	\$ 42,780	–	\$ 99,889
Cash income taxes paid	\$ 555,981	\$ 13,158	\$ 2,539,401	\$ 166,292

(See accompanying notes to the consolidated financial statements)

SEGMENTED INFORMATION (*000's*)

The Company operates in two areas in the oil and gas service industry – well fracturing (servicing) and drilling. The same accounting procedures and policies are applied to well fracturing and drilling segments.

<i>\$000's</i>	Three months ended June 30, 2005			Three months ended June 30, 2004		
	Servicing	Drilling	Total	Servicing	Drilling	Total
Revenue from external customers	4,529	1,561	6,090	3,947	1,073	5,020
Operating costs	2,376	1,517	3,893	2,094	924	3,018
Gross margin	2,153	44	2,197	1,853	149	2,002
Non-operating costs			1,783			1,221
Net income			414			781

<i>\$000's</i>	Six months ended June 30, 2005			Six months ended June 30, 2004		
	Servicing	Drilling	Total	Servicing	Drilling	Total
Revenue from external customers	9,209	4,103	13,312	7,225	3,388	10,613
Operating costs	5,325	3,542	8,867	3,786	2,488	6,274
Gross margin	3,884	561	4,445	3,439	900	4,339
Non-operating costs			3,375			2,599
Net income			1,070			1,740

<i>\$000's</i>	As at June 30, 2005			As at June 30, 2004		
	Servicing	Drilling	Total	Servicing	Drilling	Total
Capital assets under construction	9,634	13,527	23,161	539	378	917
Capital assets:						
Rigs and equipment	10,224	17,527	27,751	9,594	13,035	22,629
Shared assets			1,757			1,267
			29,508			23,896