



TECHNICOIL  
CORPORATION

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**TECHNICOIL CORPORATION ANNOUNCES FINANCIAL AND OPERATING RESULTS  
FOR THE FIRST QUARTER ENDED MARCH 31, 2006**

*This news release contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may include estimates, plans expectations, forecasts, guidance or other statements that are not statements of fact. Such information, although considered reasonable by Technicoil Corporation (“Technicoil” or “the Corporation”) at the time of preparation is subject to certain risks and uncertainties and 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. The Corporation does not undertake an obligation to update its forward-looking statements except as required by law.*

SUMMARY

(\$ thousands except per share data) (unaudited)	Three months ended March 31	
	2006	2005
Number of rigs owned as at March 31	24	9
Average number of rigs available during the period	22.8	8.4
Revenue	\$17,672	\$7,222
Gross margin	\$8,263	\$2,248
Gross margin %	47%	31%
General and administrative expenses	\$1,151	\$664
EBITDA <sup>1</sup>	\$7,112	\$1,584
Net income	\$3,516	\$656
Earnings per share – basic	\$0.06	\$0.01
Earnings per share – diluted	\$0.06	\$0.01
Funds flow from operations	\$5,895	\$1,478
	<b>March 31, 2006</b>	December 31, 2005
Total assets	\$91,981	\$82,958
Long-term financial liabilities	\$12,925	\$7,500
Debt to equity ratio <sup>2</sup>	0.61	0.55

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 Corporation’s principal business activities prior to consideration of how these activities are financed, taxed or depreciated.

2 Debt to equity ratio is defined as total liabilities, including current liabilities, long-term 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.

## HIGHLIGHTS

During the quarter Technicoil took delivery of the final two coiled tubing fracturing rigs from its 2005 capital expansion program, bringing the Corporation's total fleet size to 24 coiled tubing rigs, six of which are coiled tubing drilling rigs and the remaining 18 are coiled tubing fracturing rigs. As a result of the increased fleet size, revenue increased by 145% in the quarter over the first quarter of 2005 with drilling revenue increasing by 308% and fracturing revenue increasing by 56%. The Corporation's \$17.7 million of revenue this quarter marks the highest revenue ever reported by the Corporation in a quarter and contributed to the Corporation achieving record net income and EBITDA<sup>1</sup> in a quarter. The Corporation's net income of \$3.5 million (\$0.06 per share) is a 436% increase over the \$0.7 million (\$0.01 per share) earned in the first quarter of 2005. The Corporation's EBITDA<sup>1</sup> increased by 349% to \$7.1 million versus the \$1.6 million reported in the first quarter of 2005. The net income and EBITDA<sup>1</sup> generated in the first quarter of 2006 represents 82% and 68%, respectively, of the net income and EBITDA<sup>1</sup> earned in the full fiscal 2005 year.

The drilling division experienced the largest quarter over quarter growth due to the drilling fleet being 200% larger in the first quarter of 2006 versus the first quarter of 2005. This increased fleet size, combined with high customer demand for the Corporation's drilling equipment, produced strong results for the division in the quarter. The first quarter is traditionally busy for the Corporation's drilling operations as drilling equipment can only be moved into certain northern Alberta areas during the winter months when the ground is frozen. In comparison, although the Corporation's fracturing fleet was 163% larger in the first quarter of 2006 versus the first quarter of 2005, wet ground conditions combined with lower overall fracturing activity in southern Alberta, where the Corporation's fracturing rigs operate, resulted in lower than expected activity levels for the Corporation's fracturing rigs during the quarter. As a result of the high demand for the Corporation's drilling rigs, the drilling operations provided 59% of the Corporation's revenue in the first quarter of 2006 compared to 35% in first quarter of 2005. Fracturing revenue is expected to account for the majority of the Corporation's revenue for the remainder of the year as fracturing activity traditionally increases during May through November.

As indicated above, the Corporation earned a record \$3.5 million in net income for the quarter. This result is not only due to the increased revenue in the quarter, but is also a result of the improved operating performance from the Corporation's drilling rigs and the reduction of high initial training and infrastructure costs incurred throughout 2005 related to the build up of the Corporation's drilling and fracturing businesses. These improved cost efficiencies allowed the Corporation to generate a 47% gross margin as a percentage of revenue in the quarter versus 31% in the first quarter of 2005.

The higher revenue and gross margin percentage this quarter were slightly offset by a \$0.5 million increase in general and administrative expenses associated with the larger organization and increased stock option compensation expense. Funds flow from operations increased by 299% to \$5.9 million in the quarter versus \$1.5 million in the first quarter of 2005.

## RESULTS OF OPERATIONS

### FRACTURING OPERATIONS

<i>Three months ended March 31 (\$ thousands) (unaudited)</i>	2006	2005	Variance	% Change
Fracturing revenue	\$7,290	\$4,680	\$2,610	56%
Operating expenses	\$4,033	\$2,949	\$1,084	37%
Gross margin	\$3,257	\$1,731	\$1,526	88%
Gross margin %	45%	37%	8%	22%
Utilization %	35%	52%	(17%)	(33%)
Average number of rigs available during the period	16.8	6.4	10.4	163%
Number of wells completed	570	401	169	42%

Fracturing revenue increased by 56% to \$7.3 million in the quarter compared to \$4.7 million in the first quarter of 2005. This revenue growth is primarily due to an increase in the number of rigs available in 2006 versus 2005. The average revenue per well increased to \$12,790 in the quarter from \$11,671 per well in the first quarter of 2005 as a result of an improved pricing environment. Despite having an average of 10.4 additional rigs available in the quarter compared to the same quarter in 2005, the Corporation only fractured 169 more wells this quarter versus the first quarter of 2005. Abnormally warm weather in January and February created wet ground conditions in southern Alberta which prevented fracturing equipment from being moved onto certain well locations. In addition, the Corporation's customers also reallocated a significant amount of pressure pumping equipment into northern locations in response to high demand for fracturing services in those locations during the quarter, thus removing pressure pumping capacity in southern Alberta where the Corporation's fracturing rigs operate. Wells in northern locations are traditionally fractured using conventional service rigs versus coiled tubing rigs.

In an effort to expand the Corporation's service offerings and increase utilization, the Corporation converted one of its fracturing rigs in March, for a nominal cost, to provide deep well stimulation services for a customer in the Northwest Territories. This rig was able to operate on a 24 hour basis and generated margins consistent with those seen in the Corporation's core fracturing business operations. Due to demand, a second rig was also converted late in March to provide similar services. These conversions will allow the Corporation to provide services such as well acidization and cleanouts which are traditionally done by conventional service rigs or smaller coiled tubing service rigs. The large capacity design of the Corporation's fracturing rigs allows the rigs to carry up to 7,000 meters of 1½ inch coiled tubing, which exceeds the capacity of the smaller coiled tubing service rigs used in industry, and enables the Corporation's rigs to reach well depths that were traditionally only available to conventional service rigs. Similar to the Corporation's coiled tubing drilling rigs, the speed advantages inherent with coiled tubing versus conventional service rigs provides the Corporation's customers with an alternative tool to complete their well servicing activities. Similar conversions will be completed on additional rigs if demand warrants such conversions. These conversions do not prevent the rigs from being utilized for future fracturing operations.

The Corporation's fracturing gross margin increased to \$3.3 million in the quarter versus \$1.7 million in the first quarter of 2005. Despite an increase in labor rates in October 2005, gross margin as a percentage of revenue increased to 45% in the quarter compared to 37% in the first quarter of 2005. The fracturing division benefited from lower repair and maintenance costs on the new rig fleet and increased economies of scale in the first quarter of 2006 versus the first quarter of 2005 as the Corporation invested in additional support personnel, infrastructure and training costs throughout 2005 in preparation for the expansion of its fracturing business. With the completion of the Corporation's rig expansion program, staffing levels and infrastructure are now appropriate for the number of rigs operated by the Corporation and margins have begun to return to historical averages. Although the majority of the Corporation's

operating costs are variable, gross margins were slightly impacted during the quarter due to fixed costs becoming a higher portion of the cost base in the quarter as a result of the lower fracturing activity levels during the quarter.

#### **DRILLING OPERATIONS**

<i>Three months ended March 31 (\$ thousands) (unaudited)</i>	2006	2005	Variance	% Change
Drilling revenue	\$10,382	\$2,542	\$7,840	308%
Operating expenses	\$5,376	\$2,025	\$3,351	165%
Gross margin	\$5,006	\$517	\$4,489	868%
Gross margin %	48%	20%	28%	140%
Utilization %	88%	74%	14%	19%
Average number of rigs available during the period	6.0	2.0	4.0	200%
Number of wells completed	158	46	112	243%

Drilling revenue increased by 308% to \$10.4 million in the quarter compared to \$2.5 million in the first quarter of 2005. This revenue growth is due primarily to an increase in fleet size from an average of 2.0 rigs operating in the first quarter of 2005 to 6.0 rigs operating this quarter. In addition, the average day rate increased by 16% to \$21,950 per operating day versus \$18,970 per operating day in the first quarter of 2005. This increase was in response to a general pricing increase in the industry and high industry demand for the Corporation's drilling rigs. As a result of the high demand, the Corporation's drilling rigs earned operating revenue or standby revenue on virtually every available day throughout the quarter.

The Corporation's drilling gross margin increased by 868% in the quarter to \$5.0 million compared to \$0.5 million in the first quarter of 2005. This increase exceeds the 308% increase in revenue over the same period as the division benefited from improved operating performance of the Corporation's drilling rigs and greater economies of scale with the increased rig fleet. Gross margin as a percentage of revenue was 48% in the quarter compared to 20% in the first quarter of 2005. In addition, similar to the fracturing division, the drilling division incurred higher costs related to training and infrastructure in the first quarter of 2005 in preparation of the expansion of the Corporation's drilling fleet. These initial investment costs were not incurred in this quarter as the Corporation's drilling fleet expansion was completed in the third quarter of 2005.

#### **General and Administrative Expenses**

General and administrative expenses increased by 73% to \$1.2 million in the quarter from \$0.7 million in the first quarter of 2005. Approximately one third of the increase in the Corporation's general and administrative expenses is attributed to non-cash stock-based compensation expense which increased by \$0.2 million in the quarter versus the first quarter of 2005. Approximately \$0.1 million in additional costs were also incurred during the quarter versus the first quarter of 2005 related to additional corporate filing and regulatory costs as a result of the Corporation being listed on the TSX versus the TSX Venture Exchange and the introduction of new regulatory requirements since the first quarter of 2005. The remaining increase is due to the larger organization in the current quarter versus the first quarter of 2005. General and administrative expenses as a percentage of revenue decreased to 7% of revenue in the quarter compared to 9% in the first quarter of 2005.

## **Depreciation**

Depreciation expense increased by 155% to \$1.5 million in the quarter from \$0.6 million in the first quarter of 2005. Depreciable assets increased by 146% over the same period due to the addition of four new drilling rigs and 11 new fracturing rigs since the first quarter of 2005.

## **Interest, Foreign Currency and Taxes**

The Corporation incurred \$0.1 million of interest expense in the quarter as payments for the rigs delivered in the fourth quarter of 2005 and the first quarter of 2006 required the Corporation to draw on its long-term debt facilities.

The Corporation realized a nominal foreign exchange loss in 2006 due to unfavorable changes in the exchange rates at the time of payment of invoices for U.S. dollar denominated payables outstanding for equipment purchases. The Corporation's operations are currently based in Canada, therefore, it has limited exposure to foreign currency risk at this time.

The Corporation's effective tax rate was 35.7% for the quarter compared to 37.2% in the first quarter of 2005. The decrease over the prior year is due to stock-based compensation expense, a non-deductible expense for tax purposes, decreasing from 13% of pre-tax income in the first quarter of 2005, to 6% of the Corporation's pre-tax income in the current quarter.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Corporation ended the quarter with \$2.0 million in cash and \$16.2 million in total long-term debt compared to \$3.0 million in cash and \$9.0 million in total long-term debt as at December 31, 2005. The reduced cash and increased debt is a result of payments being made during the quarter for the rigs delivered in December and the final two rigs delivered during the quarter.

Funds flow from operations increased by 299% to \$5.9 million in the quarter versus \$1.5 million in the first quarter of 2005. This increase in funds flow from operations is due to the increased revenue and profitability generated in the quarter versus the first quarter of 2005. Cash flow from operating activities (including the net change in non-cash working capital) remained relatively unchanged quarter over quarter and did not increase by the same magnitude as funds flow from operations. This is due to the majority of the first quarter revenue being collected in the second quarter as a result of slower payment cycles typically seen in the Corporation's drilling business versus its fracturing business.

Property, plant and equipment expenditures for the quarter were only \$4.6 million as the majority of the 2005 fleet expansion was completed in 2005. During the quarter, the Corporation made initial payments on the six additional coiled tubing fracturing rigs scheduled to be delivered during the second half of 2006. The current total estimated cost of these rigs and support equipment is \$16.5 million, which is an increase of approximately \$1.5 million over initial estimates due to manufacturing cost increases and minor design enhancements. To help fund the 2006 fleet expansion, the Corporation secured an additional \$8.0 million long-term debt facility during the quarter. As at March 31, 2006, no amount was outstanding on this facility. The Corporation expects that this debt facility, combined with operating cash flow, will be sufficient to finance this expansion.

Proceeds from the exercise of stock options provided \$0.1 million in the quarter. As at March 31, 2006, the Corporation had 57,778,519 common shares issued and outstanding. The Corporation also had 2,670,335 stock options issued and outstanding of which 1,177,332 were vested. No new stock options have been issued subsequent to March 31, 2006.

## **RISKS AND UNCERTAINTIES**

A complete discussion on the business risks faced by the Corporation can be found in Technicoil's 2005 annual report.

## OUTLOOK AND FUTURE RISKS

As an oilfield services company, the Corporation is dependent on the capital spending of its customers, with the whole oil and gas industry largely influenced by current and anticipated future crude oil and natural gas prices. The oil and gas industry activity benefited from high crude oil and natural gas prices throughout 2005 and this high commodity price environment has continued into 2006. Analysts expect commodity prices to remain high throughout 2006. At some point, oil prices may increase to a level that will hinder global economic growth and thus prices will subside. However, the level and the timing of when this pricing level will be reached is unknown. In the meantime, management believes that high prices will continue to result in high capital spending by the Corporation's customers, which should result in continued demand for the Corporation's rigs. Current analyst forecasts estimate approximately 26,500 wells will be drilled in the Western Canadian Sedimentary Basin in 2006 and 27,500 wells in 2007.

In September 2005, the Corporation announced plans to construct an additional six coiled tubing fracturing rigs in 2006. These rigs are scheduled for completion in the second half of 2006. Management believes the demand for both coiled tubing drilling and coiled tubing fracturing rigs is sufficient to support the Corporation's recent and current capital additions, especially with coiled tubing drilling and coiled tubing well servicing becoming more of a proven alternative to conventional drilling and well servicing. Coal Bed Methane ("CBM") production in western Canada is also quickly becoming more established as a valuable resource. CBM wells require fracturing, with coiled tubing fracturing established as the preferred and most economical method. The Corporation's equipment is ideally suited for both the drilling and fracturing of CBM wells, which should allow the Corporation to benefit from the estimated 5,400 CBM wells to be drilled in 2006.

In addition, the conversion of two of the Corporation's fracturing rigs to enable them to perform deep well stimulation services will expand the markets in which the Corporation's fracturing rigs can operate. Additional conversions are also being considered to enable the fracturing rigs to operate with 3/4 inch coiled tubing in order to operate in the expanding high flow and high pressure fluid fracturing market. The Corporation is also considering converting a rig to run 2 inch coiled tubing which will allow it to perform additional well cleanout services. All of these initiatives are being completed in response to industry demand for rigs that can offer these services and are allowing the Corporation to diversify its business beyond its traditional fracturing services into the larger well servicing market. These conversions do not prevent the rigs from being utilized for the Corporation's traditional fracturing operations.

In addition to expanding service offerings with the Corporation's existing fleet, the Corporation continues to seek and evaluate acquisition opportunities which will further expand and diversify the Corporation's business operations.

# TECHNICOIL CORPORATION

## Consolidated Balance Sheets

(Thousands)	March 31, 2006	December 31, 2005
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,030	\$ 2,979
Accounts receivable	15,704	8,308
Income taxes receivable	—	897
Inventory	1,396	1,144
Prepaid expenses	616	535
	19,746	13,863
Property, plant and equipment	72,235	69,095
	\$ 91,981	\$ 82,958
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,521	\$ 15,444
Income taxes payable	248	—
Current portion of long-term debt	3,300	1,500
	16,069	16,944
Long-term debt	12,925	7,500
Future income taxes	5,740	5,155
	34,734	29,599
Shareholders' equity:		
Share capital	38,534	38,445
Contributed surplus	1,556	1,273
Retained earnings	17,157	13,641
	57,247	53,359
	\$ 91,981	\$ 82,958

# TECHNICOIL CORPORATION

## Consolidated Statements of Operations and Retained Earnings

Three months ended March 31

(Thousands, except per share data) (unaudited)	2006	2005
Coiled tubing service and drilling revenue	\$ 17,672	\$ 7,222
Operating expenses	9,409	4,974
Gross margin	8,263	2,248
General and administrative expenses	1,151	664
Depreciation	1,491	585
Gain on sale of assets	—	(8)
Interest on long-term debt	147	—
Other interest income	(4)	(68)
Foreign exchange loss	7	31
Net income before income tax	5,471	1,044
Income tax expense:		
Current	1,370	308
Future	585	80
	1,955	388
Net income	3,516	656
Retained earnings, beginning of period	13,641	9,337
Retained earnings, end of period	\$ 17,157	\$ 9,993
Earnings per share:		
Basic	\$ 0.06	\$ 0.01
Diluted	\$ 0.06	\$ 0.01

# TECHNICOIL CORPORATION

## Consolidated Statements of Cash Flows

Three months ended March 31

(Thousands) (unaudited)	2006	2005
Cash provided by (used in):		
Operating activities:		
Net income for the period	\$ 3,516	\$ 656
Add (deduct) non-cash items:		
Depreciation	1,491	585
Gain on sale of assets	–	(8)
Stock-based compensation expense	303	165
Future income tax	585	80
Funds flow from operations	5,895	1,478
Net change in non-cash working capital from operations	(6,367)	(1,804)
Cash flow from operating activities	(472)	(326)
Financing activities:		
Common shares issued	69	252
Net proceeds from revolving long-term debt	7,500	–
Repayment of long-term debt	(275)	–
Cash flow from financing activities	7,294	252
Investing activities:		
Acquisition of property, plant and equipment	(4,636)	(6,244)
Proceeds on sale of property, plant and equipment	5	25
Net change in non-cash working capital from the purchase of property, plant and equipment	(3,140)	312
Cash flow from investing activities	(7,771)	(5,907)
Net decrease in cash and cash equivalents	(949)	(5,981)
Cash and cash equivalents, beginning of period	2,979	15,807
Cash and cash equivalents, end of period	\$ 2,030	\$ 9,826
Cash interest paid	\$ 139	\$ –
Cash income taxes paid	\$ 225	\$ 1,983

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