



# TECHNICOIL CORPORATION

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## TECHNICOIL CORPORATION ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR THE THREE AND SIX MONTH PERIOD ENDED June 30, 2009

Technicoil Corporation (“Technicoil” or the “Corporation”) announces its financial and operating results for the three and six months ended June 30, 2009 and the continued strengthening of the balance sheet amidst the economic slowdown, reducing gross long-term debt by \$4.5 million to \$12.1 million as at June 30, 2009 from \$16.6 million as at March 31, 2009 and by \$10.2 million compared to December 31, 2008.

Technicoil is an oil and gas services company operating primarily in the Western Canadian Sedimentary Basin (“WCSB”). The Corporation’s business is conducted through two divisions: Well Servicing and Drilling.

### SELECT FINANCIAL & OPERATING INFORMATION

(\$ thousands, except per share data)(unaudited)	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	2009	2008	% Change
Revenue	<b>\$3,441</b>	\$6,420	(46%)	<b>\$20,449</b>	\$23,888	(14%)
Gross margin	<b>(\$1,088)</b>	\$379	(387%)	<b>\$3,643</b>	\$6,538	(44%)
Gross margin %	<b>(32%)</b>	6%	(633%)	<b>18%</b>	27%	(33%)
General and administrative costs	<b>\$720</b>	\$681	6%	<b>\$1,583</b>	\$1,540	3%
EBITDA (1)	<b>(\$1,824)</b>	(\$639)	185%	<b>\$1,664</b>	\$4,946	(66%)
Net loss	<b>(\$3,276)</b>	(\$2,253)	45%	<b>(\$2,614)</b>	(\$63)	4049%
Per share – basic	<b>(\$0.05)</b>	(\$0.03)	67%	<b>(\$0.04)</b>	\$0.00	-
Per share – diluted	<b>(\$0.05)</b>	(\$0.03)	67%	<b>(\$0.04)</b>	\$0.00	-
Funds flow from operations (2)	<b>(\$1,706)</b>	\$447	(482%)	<b>\$1,536</b>	\$5,171	(70%)
Well servicing operating hours	<b>4,298</b>	5,707	(25%)	<b>17,842</b>	18,139	(2%)
Drilling operating days	<b>21</b>	83	(75%)	<b>238</b>	346	(31%)
				<b>As at June 30, 2009</b>	<b>As at December 31, 2008</b>	<b>% Change</b>
Total assets				<b>\$97,014</b>	\$112,409	(14%)
Long-term debt (including current portion)				<b>\$12,100</b>	\$22,300	(46%)
Debt to equity ratio (3)				<b>0.40</b>	0.56	(29%)

- (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) Funds flow from operations is defined as cash from operating activities before changes in non-cash working capital, as presented on the Corporation's Statement of Cash Flows. Funds flow from operations is a measure that provides investors additional information regarding the Corporation's liquidity and its ability to generate funds to finance its operations. Funds from operations does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures provided by other companies.
- (3) 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.

## OVERVIEW OF RESULTS

Technicoil continued to weather the economic downturn which has impacted the resource industry in western Canada. The Corporation attained the following results during the second quarter of 2009, a period traditionally impacted by seasonal reductions in activity in the Western Canadian Sedimentary Basin ("WCSB"):

- Continued to strengthen the Corporation's balance sheet, reducing long-term debt (including current portion) by \$4.5 million or 27% relative to March 31, 2009, resulting in a debt balance of \$12.1 million and a debt to equity ratio of 0.40:1;
- Renewed the Corporation's credit facilities providing Technicoil with sufficient financial flexibility to fund ongoing business requirements;
- Reported second quarter revenue of \$3.4 million on 4,298 well servicing operating hours and 21 drilling operating days in comparison with revenue of \$6.4 million on 5,707 well servicing operating hours and 83 drilling operating days for the second quarter of 2008;
- Increased coiled tubing service rig operating hours for non-fracturing activities relative to the second quarter of 2008 as a result of continued success in the Montney and Horn River resource plays and drilling support for Steam Assisted Gravity Drainage ("SAGD") operations;
- Implemented cost saving initiatives during and subsequent to the six month period ended June 30, 2009 to respond to the weak economic environment including compensation reductions for office and field employees, senior management and directors, and reducing overhead staffing levels by approximately 10%.

The traditionally slow second quarter in the WCSB was further impacted by the poor economic environment and weak commodity prices. Industry drilling rig utilization in the WCSB fell considerably in the quarter, averaging only 11%, the lowest second quarter utilization rate since 1992 when utilization averaged 16% (source: Daily Oil Bulletin). With the continued weakness in commodity prices and limited access to capital, the majority of exploration and production ("E&P") companies continue to limit their capital spending plans for 2009 which are being funded primarily by internally generated cash flow. Service companies, including Technicoil, continue to experience significant pricing pressure resulting in lower charge-out rates and customers more closely scrutinizing contractor performance. To respond to the weak economic environment, the Corporation implemented wage reductions for senior management, directors and field employees in the second quarter of 2009. Additional measures were taken during the quarter to reduce variable costs including realigning crew configurations on the drilling rigs and the Corporation's approach to crew training. Technicoil maintains a variable cost field labour structure resulting in field labour costs only being incurred during periods when field workers are required. Other cost saving initiatives implemented, including a 10% reduction in overhead staffing levels since year end, contributed to a 13% reduction in operations overhead in the quarter relative to the same period of 2008.

The Corporation continues to maintain a sound balance sheet, a desirable product offering and a team focused on generating solid returns to shareholders. Capital investment continues to be curtailed, while maintenance and discretionary spending will be directed only towards those initiatives necessary to sustain operational efficiency or to pursue expansion opportunities including those in the Montney, Horn River and SAGD drilling support operations.

## FINANCIAL AND OPERATING RESULTS

### FOR THE THREE MONTHS ENDED JUNE 30, 2009

#### **REVENUE**

The Corporation generated revenue of \$3.4 million in the second quarter of 2009 in comparison with \$6.4 million for the comparable period of the prior year. Revenue declines were experienced across both of the Corporation's business segments in the second quarter as a result of the low level of industry activity and downward pressure on charge-out rates. Operating hours in the second quarter of 2009 for the Well Servicing Segment were 4,298 in comparison with 5,707 in the comparable period of the prior year, representing a decline of 25%. The vast majority of the Well Servicing Segment's operating hours were generated from services other than the Corporation's historical fracturing through coil services. Expansion and diversification into conventional service rigs, and into new basins with the coiled tubing service rigs, including the Montney and Horn River, account for the non-fracturing hours. The Drilling Segment experienced a reduction in operating days as E&P companies curtailed drilling programs, recording only 21 operating days in the second quarter of 2009 in comparison with 83 operating days for the same period of the prior year. The majority of industry drilling activity that took place in the WCSB in the second quarter was directed towards deeper horizontal wells which Technicoil's rigs are not capable of performing.

#### **GROSS MARGIN**

The Corporation reported a negative gross margin of \$1.1 million, or (32%) of revenue, in the second quarter of 2009 in comparison with a positive gross margin of \$0.4 million, or 6% of revenue, for the comparable period of the prior year. Continued downward pressure on charge-out rates, customers more aggressively managing costs associated with capital and service programs, and reduced activity levels over which to absorb lower overhead costs contributed to the reduction in gross margin in comparison with the second quarter of the prior year. Also impacting the gross margin during the period is a higher proportion of non-fracturing work performed in northeastern British Columbia, where the Corporation does not have an established field operating base, which tends to result in more standby time and travel related costs which cannot be recovered from customers. In response to the weak economic environment, wage reductions for field workers were implemented in the second quarter of 2009 and training programs for rig crews were revamped which helped alleviate some of the margin erosion. The Corporation's variable cost structure results in labour costs being incurred only during periods when field workers are required. The Corporation utilized crew standby and non-operating days to perform routine fleet maintenance throughout the year to maintain quality standards resulting in a reduction in spring maintenance project costs relative to the same quarter of 2008. The Corporation implemented cost reduction measures which contributed to a 13% reduction in operations overhead costs in the quarter relative to the same period of 2008.

## **GENERAL AND ADMINISTRATIVE EXPENSE**

General and Administrative (“G&A”) expense was \$0.7 million for the three months ended June 30, 2009, consistent with the same period of the prior year. As a percentage of revenue, G&A expense increased from 11% of revenue in the second quarter of 2008 to 21% in the second quarter of 2009, largely as a result of the reduction in revenue. The Corporation’s G&A structure remained consistent relative to the prior year. In comparison with the second quarter of 2009, G&A spending was curtailed in the majority of cost categories in response to the slowdown in industry activity. The Corporation did incur higher legal costs related to general corporate matters in the second quarter of 2009 relative to the same period of the prior year.

## **DEPRECIATION AND AMORTIZATION**

Depreciation and amortization expense of \$2.4 million for the second quarter of 2009 compares with \$2.3 million for the same period of the prior year. The increase in depreciation expense is a result of the capital program from 2008 and the completion of the ninth conventional service rig in March 2009.

## **OTHER ITEMS**

Interest on long-term debt was \$0.2 million in the second quarter of 2009, a reduction of 37% in comparison with \$0.3 million incurred during the same period of the prior year. Lower average drawings on the long-term debt facility, combined with lower interest rates, account for the decrease in interest expense in the second quarter of 2009 in comparison with the same period of the prior year. Drawings on the long-term debt facility averaged \$12.5 million during the second quarter of 2009 in comparison with \$17.8 for the same period of 2008, with the average effective interest rate falling to 3.2% in comparison with 5.5% over the same period.

The Corporation recorded an income tax recovery of \$1.1 million in the second quarter of 2009 in comparison with a recovery of \$0.9 million for the same period of 2008. An increase in the pre-tax loss resulted in a higher tax recovery during the period. The Corporation’s effective tax rate in the quarter of 25.6% is lower than the statutory rate of 29.5% as a result of lower future tax rates in effect when temporary differences between the Corporation’s accounting and tax values are anticipated to reverse, net of the impact of non-deductible items.

The Corporation recorded a net loss of \$3.3 million for the second quarter of 2009 compared with a net loss of \$2.3 million reported for the second quarter of 2008, representing a loss per share of \$0.05 and \$0.03, respectively.

## **FOR THE SIX MONTHS ENDED JUNE 30, 2009**

### **REVENUE**

Technicoil generated \$20.4 million in revenue for the first six months of 2009, a decline of 14% in comparison with revenue of \$23.9 million during the same period of 2008. Consistent with the second quarter results, revenue declines were experienced across both of the Corporation’s business segments due to lower activity levels and downward pressure on charge-out rates. The Corporation’s Well Servicing Segment managed to maintain operating hours only slightly lower than the first six months of 2008, with such activity being generated primarily from non-fracturing services from the Corporation’s conventional rig fleet and services provided by the coiled tubing service rigs in the Montney and Horn River resource plays and in SAGD drilling support operations. In aggregate, 17,842 operating hours were generated by the Well Servicing Segment year-to-date in comparison with 18,139 hours for the first half of 2008. Drilling activity in the WCSB has been significantly curtailed, particularly for shallow drilling, resulting in a 31% decrease in operating days for the Drilling Segment from 346 during the first six months of 2008 to 238 in the current period.

## **GROSS MARGIN**

The Corporation realized a gross margin of \$3.6 million, or 18% of revenue during the first six months of 2009, in comparison with \$6.5 million, or 27% of revenue for the comparable period of the prior year. The lower gross margin percentage is attributable to lower charge-out rates, customers more closely scrutinizing contractor performance and a reduction in revenue over which to absorb lower overhead costs. In response to the lower industry activity, the Corporation instituted measures which helped alleviate some of the margin erosion including wage reductions for field employees, revised crew configurations and a revamped approach to crew training. Discretionary spending was curtailed and employee incentive programs reduced resulting in a 9% decrease in operations overhead costs for the first six months of 2009 relative to the same period of the prior year.

## **GENERAL AND ADMINISTRATIVE EXPENSE**

Cumulatively, G&A expense was \$1.6 million to June 30, 2009 in comparison with \$1.5 million for the first half of 2008. As a percentage of revenue, G&A expense averaged 8% for the first six months of 2009 in comparison with 6% for the same period of the prior year. In comparison with the first six months of 2008, compensation expense was lower by \$0.2 million as a result of lower employee incentive compensation expense, legal costs increased by \$0.2 million for general corporate matters and litigation, while other charges remained relatively consistent.

## **DEPRECIATION AND AMORTIZATION**

The Corporation recorded depreciation and amortization expense of \$4.8 million for the first half of 2009 in comparison with \$4.6 million for the same period of the prior year. The increase in depreciation expense is a result of the capital program from 2008 and the completion of the ninth conventional service rig in March 2009. During the first quarter of 2009, the Corporation disposed of some redundant pressure control equipment for proceeds of \$0.1 million resulting in a loss on sale of \$0.1 million.

## **OTHER ITEMS**

The Corporation recorded a provision for bad debts of \$0.2 million in the first half of 2009. No similar charge was recorded in the prior year.

The Corporation's interest on long-term debt decreased by 43% from \$0.6 million in the first half of 2008 to \$0.4 million for the six months ended June 30, 2009. The reduction is attributable to lower average drawings on the long-term debt facilities combined with lower interest rates in comparison with the same period of the prior year. Drawings from long-term debt facilities averaged \$15.6 million during the first half of 2009 in comparison with \$19.8 million for the same period of 2008, with the average effective interest rate falling to 3.5% in comparison with 6.0% over the same period.

Other income recorded in 2008 of \$0.3 million primarily related to the forfeiture of a non-refundable deposit paid by a prospective purchaser of the Corporation's last remaining body-style coiled tubing service rig. No similar item was recorded in 2009.

Technicoil recorded an income tax recovery of \$0.9 million for the six months ended June 30, 2009 in comparison with a recovery of \$0.2 million for first half of 2008. A higher pre-tax loss resulted in an increase in the tax recovery during the period.

For the six month period ended June 30, 2009, the Corporation incurred a net loss of \$2.6 million (or \$0.04 per share) in comparison with a net loss of \$0.1 million (or \$0.00 per share) for the same period of the prior year.

## SEGMENTED RESULTS

### WELL SERVICING SEGMENT

The Well Servicing Segment provides coiled tubing and conventional service rigs to the WCSB. Well Servicing is the largest division of the Corporation. The key performance indicators for this segment include rig utilization, revenue and gross margin percentage. At June 30, 2009, the Corporation had a modern rig fleet comprised of 18 coiled tubing service units and nine conventional service units, with an average age of less than five years.

The Corporation's coiled tubing service rigs are capable of performing a broad array of services beyond the traditional fracturing through coil applications. These expanded services include activities such as "rigless" completions and various well completion services performed on new gas wells, such as perforations and drill outs. These services have typically been performed by conventional service rigs, however with the efficiencies that coiled tubing provides, a number of oil and gas companies are utilizing coiled tubing to complete some of their gas wells. The Corporation's high capacity masted coiled tubing units have proven an ideal fit for this application and have enabled Technicoil to deploy its coiled tubing rigs in the Montney resource play and the Horn River Basin. The Corporation has also been successful in deploying its coiled tubing service rigs in Steam Assisted Gravity Drainage drilling operations. By equipping the coil with electrical line services, or "e-line", Technicoil is able to transmit a signal via an imaging tool attached to the end of the e-line to the drilling operator to guide the drilling of the producing well pair. Related benefits of the expanded conventional service work that the coiled tubing units perform include 24 hour operations and wells requiring multiple days to complete. Complementing the coiled tubing units is the Corporation's modern fleet of nine conventional service rigs, including the recently completed free standing mobile double service rig capable of servicing wells with depths of 4,000 metres, providing services such as completions, production work, workovers and abandonments.

<i>Three months ended June 30 (\$ thousands except for revenue per operating hour)(unaudited)</i>	<b>2009</b>	<b>2008</b>	<b>Variance</b>	<b>% Change</b>
Well servicing revenue	\$3,218	\$5,095	(\$1,877)	(37%)
Operating expenses	3,880	4,552	(\$672)	(15%)
Gross margin	(\$662)	\$543	(\$1,205)	(222%)
Gross margin %	(21%)	11%	(32%)	(291%)
Utilization %	17%	24%	(7%)	(29%)
Operating hours	4,298	5,707	(1,409)	(25%)
Revenue per operating hour	\$749	\$893	(\$144)	(16%)
Number of wells serviced during the period	84	186	(102)	(55%)

Technicoil reported second quarter revenue in 2009 for the Well Servicing Segment of \$3.2 million on 4,298 operating hours in comparison with revenue of \$5.1 million on 5,707 operating hours for the three months ended June 30, 2008. Activity during the quarter was almost exclusively generated from non-fracturing activities. Historically, the Corporation's coiled tubing rigs predominantly serviced the shallow fracturing through coil market. There was very limited activity in this market during the second quarter of 2009, accounting for 55% of the reduction in operating hours for the division in comparison with the second quarter of 2008. The Corporation successfully increased non-fracturing operating hours for the coiled tubing rigs during the quarter in comparison with the second quarter of 2008, largely as a result of work performed direct for E&P companies in the Montney and Horn River resource plays and for SAGD drilling support operations. The Corporation's conventional service rigs outperformed industry utilization which averaged 28% (source: CAODC) in the second quarter of 2009. Overall, utilization rates for the well servicing fleet averaged 17% during the second quarter of 2009 in comparison with 24% for the same period of the prior year. Revenue rates realized in the second quarter of 2009 averaged \$749 per hour in comparison with \$893 per hour in

2008, a 16% decrease per hour. The decline in average revenue per operating hour is a result of downward pressure on rates and a higher proportion of conventional service work relative to fracturing through coil services.

The Well Servicing Segment recorded a negative gross margin of \$0.7 million in the second quarter of the year in comparison with a positive gross margin of \$0.5 million for the same period of 2008. The decrease in gross margin is attributable to lower average per hour revenue rates and higher per hour operating costs. The increase in per hour operating costs is attributable to higher labour costs relative to the second quarter of 2008 due to wage increases in the fall of 2008 which were recently rolled back, and an increase in the number of crew standby days. The increased proportion and complexity of the non-fracturing work performed in northeastern British Columbia also contributed to the lower gross margin as this work tends to have more standby days with crew travel and equipment mobilization requirements. Routine maintenance was performed during the standby or non-operating days to maintain the equipment at a high standard.

<i>Six months ended June 30 (\$ thousands except for revenue per operating hour)(unaudited)</i>	<b>2009</b>	<b>2008</b>	<b>Variance</b>	<b>% Change</b>
Well servicing revenue	\$16,479	\$17,900	(\$1,421)	(8%)
Operating expenses	13,189	12,421	768	6%
Gross margin	\$3,290	\$5,479	(\$2,189)	(40%)
Gross margin %	20%	31%	(11%)	(35%)
Utilization %	37%	39%	(2%)	(5%)
Operating hours	17,842	18,139	(297)	(2%)
Revenue per operating hour	\$924	\$987	(\$63)	(6%)
Number of wells serviced during the period	759	1,145	(386)	(34%)

Year-to-date revenue for Well Servicing was \$16.5 million, representing an 8% reduction relative to the \$17.9 million generated for the first six months of 2008. Operating hours for the period were 17,842, with 82% of hours from non-fracturing activities, representing a decrease of only 2% relative to the 18,139 operating hours reported for the first half of 2008 when 65% of activity was generated from services other than fracturing through coil. The Corporation realized a 20% increase in operating hours for non-fracturing services in the first six months of 2009 relative to the prior year, largely as a result of work performed direct for E&P companies in the Montney and Horn River resources plays and for SAGD drilling support operations. Cumulative shallow gas fracturing through coil activity in 2009 was 47% lower than the same period of the prior year as a result of a reduction in activity in southern Alberta. Overall, utilization for the well servicing fleet averaged 37% for the first six months of 2009, down only two percentage points relative to the same period of the prior year. Product mix, customers more aggressively managing capital and service projects, and downward pressure on rates contributed to the reduction in year-to-date revenue per operating hour from \$987 to \$924. Gross margin for the first half of 2009 of \$3.3 million or 20% of revenue compares with \$5.5 million or 31% of revenue for the same period of 2008. The same factors impacting gross margin in the second quarter account for the decrease in gross margin year-to-date.

## DRILLING SEGMENT

The Drilling Segment provides hybrid drilling rigs to the WCSB. Results of the Drilling Segment tend to be more volatile than the Well Servicing Segment due in part to seasonal restrictions on moving equipment and fluctuations in drilling programs of exploration and production companies. The key performance indicators for this segment include rig utilization, revenue and gross margin percentage. At June 30, 2009, the Corporation owned seven drilling rigs. The Corporation removed one rig from service in 2008 in order to potentially convert it into a high capacity coiled tubing service rig capable of handling jointed pipe. The conversion of this rig has been postponed until such time as the WCSB market once again begins to expand or a long-term commitment is made by a customer.

The Corporation's hybrid drilling rigs are capable of drilling with both jointed pipe or coiled tubing. The majority of activity for these rigs is drilling shallow natural gas wells, heavy oil drilling, oilsands coring and shallow directional drilling.

<i>Three months ended June 30 (\$ thousands except for revenue per operating day)(audited)</i>	<b>2009</b>	<b>2008</b>	<b>Variance</b>	<b>% Change</b>
Drilling revenue	\$223	\$1,325	(\$1,102)	(83%)
Operating expenses	649	1,489	(840)	(56%)
Gross margin	(\$426)	(\$164)	\$262	160%
Gross margin %	(191%)	(12%)	179%	1492%
Utilization %	4%	13%	(9%)	(69%)
Operating days	21	83	(62)	(75%)
Revenue per operating day	\$10,619	\$15,964	(\$5,345)	(33%)
Number of wells completed during the period	14	28	(14)	(50%)

Drilling activity in the WCSB in the second quarter was minimal as a result of companies either delaying or cancelling drilling programs due to weak commodity prices, limited access to capital, continual changes to the royalty regime in Alberta and normal spring break-up conditions. Industry rig utilization rates in the second quarter of 2009 averaged 11%, the lowest level for the second quarter since 1992 (source: CAODC). The majority of drilling activity in the WCSB in the second quarter, which traditionally is the slowest quarter of the calendar year due to seasonal factors, was directed towards deeper horizontal wells which the Corporation's rigs are not capable of performing. Revenue reported for the Drilling Segment in the second quarter of 2009 of \$0.2 million compares with \$1.3 million for the same period of 2008. The reduction in revenue is due to fewer operating days (21 in comparison with 83) and reductions in drilling day rates as a result of competitive pressures. Base day rates for drilling rigs in the WCSB continue to come under significant pressure due to an excess of available equipment. The Corporation's average revenue per operating day of \$10,619 compares with \$15,964 during the second quarter of 2008. The Corporation's revenue per operating day includes revenues from supporting services, many of which are pass-through cost items charged to the customer. Contributing to the lower revenue per operating day was fewer pass-through cost items charged to the customer in the current period relative to the prior year. Excluding pass-through items, revenue per operating day decreased by 17% in comparison with the second quarter of 2008. Depending on the individual contract, these items may or may not be provided directly by the customer, thus they can significantly skew the average revenue per operating day rate.

The Drilling Segment recorded a negative gross margin of \$0.4 million in the second quarter of 2009 compared with a negative gross margin of \$0.2 million in the prior year second quarter. The completion of annual maintenance programs and a lower revenue and activity base to absorb overhead costs contributed to the reduction in gross margin for the quarter. The Corporation implemented a number of measures to combat the downward pressure on rates and low activity levels including wage rollbacks, smaller crew configurations and a revamped approach to crew training. These measures helped alleviate some of the margin erosion.

<i>Six months ended June 30 (\$ thousands except for revenue per operating day)(audited)</i>	<b>2009</b>	<b>2008</b>	<b>Variance</b>	<b>% Change</b>
Drilling revenue	\$3,970	\$5,988	(\$2,018)	(34%)
Operating expenses	3,617	4,929	(1,312)	(27%)
Gross margin	\$353	\$1,059	(\$706)	(67%)
Gross margin %	9%	18%	(9%)	(50%)
Utilization %	22%	28%	(6%)	(21%)
Operating days	238	346	(108)	(31%)
Revenue per operating day	\$16,681	\$17,306	(\$625)	(4%)
Number of wells completed during the period	104	118	(14)	(12%)

For the first half of 2009, the Drilling Segment reported revenue of \$4.0 million in comparison with \$6.0 million for the same period of the prior year. The general decline in drilling activity in the WCSB, during which year-to-date industry drilling rig utilization averaged only 23% (source: CAODC), and the focus on deeper wells resulted in the Corporation recording only 238 operating days in comparison with 346 days for the same period of the prior year, a reduction of 31%. Year-to-date revenue per operating day averaged \$16,681 compared with \$17,306 for the first half of 2008. Cumulative gross margin of \$0.4 million is lower than the \$1.0 million reported for the first half of 2008 largely as a result of fewer operating days and the impact of lower charge-out rates. Gross margin averaged 9% for the first six months of 2009, half the level achieved in the prior year. Lower revenue and charge-out rates, combined with higher labour costs earlier in the year, contributed to the lower average gross margin percentage.

#### LIQUIDITY AND CAPITAL RESOURCES

The Corporation's primary sources of liquidity and capital resources are funds generated from continuing operations, bank financing and operating lines of credit, and the issuance of equity instruments. As at August 10, 2009, Technicoil had 72,683,848 common shares issued and outstanding and 3,551,000 options issued and outstanding of which 1,954,330 were vested.

On May 27, 2009, the Corporation renewed its credit facilities. The renewal extends the Corporation's \$4 million operating facility and \$31 million revolving term facility to May 29, 2010. To the extent the revolving term facility is not renewed on May 29, 2010, the outstanding debt would be repayable over a two-year period, based on a two year amortization schedule. The financial terms of the renewed facilities enable the Corporation to borrow by either floating prime rate based advances or through Bankers Acceptances in Canadian dollars. Depending on certain financial ratios, the facilities bear interest at the bankers' prime rate plus 1.75% to 3.25% or the bankers' acceptance rate plus a stamping fee of 3.00% to 4.50%. The renewed credit facilities covenant and security requirements remain unchanged from the terms disclosed in the notes to the December 31, 2008 annual consolidated financial statements.

Technicoil continued to strengthen its financial position during the second quarter of 2009, exiting the quarter with a long-term debt balance including current portion of \$12.1 million, a 27% reduction in comparison with the \$16.6 million outstanding as at March 31, 2009. The Corporation expects to generate sufficient cash from operations to fund liabilities as they become due and finance planned investing activity throughout 2009. Additional liquidity, if necessary, is available under the Corporation's operating facility and revolving term facility. The Corporation was in compliance with all debt covenants as at June 30, 2009.

## **Operating Activities**

Cash flow from operating activities was \$4.9 million for the three months ended June 30, 2009 compared with \$5.7 million for the same period of the prior year. Excluding the impact of changes in non-cash working capital from operations, funds flow from operations was negative \$1.7 million in the second quarter of 2009 in comparison with \$0.4 million in 2008. During the quarter, Technicoil continued to focus on applying excess cash generated towards debt reduction.

## **Financing Activities**

The Corporation repaid \$4.5 million of its revolving term loan during the quarter, reducing this facility from \$16.6 million at March 31, 2009 to \$12.1 million at June 30, 2009.

## **Investing Activities**

Cash used in investing activities for the three months ended June 30, 2009 was \$0.7 million as compared with \$0.9 million for the comparative period of the prior year. Investing activities in the quarter related primarily to modifications performed on coiled tubing service rigs to service the Montney and Horn River resource plays and to support SAGD drilling support operations.

## **OUTLOOK**

The market Technicoil services continues to be impacted by the global economic recession, limited access to capital, low natural gas commodity prices, and uncertainties arising from the continual revisions to the royalty regime in Alberta. These factors have contributed to the Corporation's primary customer base of oil and natural gas companies restricting their capital spending plans for 2009. Industry groups are forecasting drilling activity in Canada to fall below 9,000 wells in 2009. With a significant decrease in demand for drilling and service rigs, competitive pressures between service companies intensified resulting in lower rates for services.

In response to the economic environment, the Corporation implemented a number of measures to reduce costs during the first half of 2009 including wage and staff reductions and a curtailment of discretionary spending. The organizational structure was re-aligned resulting in efficiency gains. Technicoil will continue to assess and adapt to the environment through a process of continual improvement in all aspects of the business. While the market is soft, opportunities exist. Technicoil has an adaptable and desirable service offering which is positioned to capitalize on opportunities such as the Montney and Horn River resource plays in northeastern British Columbia which continue, albeit at a slower pace. Furthermore, the Corporation is positioned to participate in long-term programs associated with SAGD drilling support operations.

The Corporation is confident that industry activity levels will strengthen, albeit the timing and pace of the eventual upturn remains difficult to predict. Technicoil is well positioned to prosper when markets recover. The Corporation's financial position is strong and credit facilities are in place providing financial flexibility to pursue business opportunities as they arise. The Corporation's adaptable equipment and demonstrated operational advantages differentiate the Corporation from its peers which will facilitate further market penetration and growth in the prominent shale plays in Canada, such as the Montney and Horn River.

## FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements within the meaning of securities laws, including the "safe harbour" provision of Canadian securities legislation. Forward-looking statements or information are often, but not always, identified by the use of words such as "anticipate", "expect", "plan", "forecast", "target", "project", "seek", "may", "intend", "will", "should", "could", "believe", "estimate", "predict" or similar expressions, statements that are based on current expectations and estimates about the markets in which the Corporation operates or statements of the Corporation's belief, intentions and expectations about developments, results and events which will, or may occur in the future. Such forward-looking statements are based on Technicoil's current beliefs, as well as certain assumptions made by, and information currently available to, Technicoil concerning statements with respect to future capital expenditures, including the amount and nature thereof; oil and gas prices and demand; other development trends of the oil and gas industry; business strategy; expansion and growth of the Corporation's business and operations, including the Corporation's market share and position in the oilfield service markets; the ability to obtain financing on acceptable terms, and other such matters. In addition, other written or oral statements which constitute forward-looking statements may be made from time to time by and on behalf of the Corporation. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, such forward-looking statements are subject to important risks and uncertainties that predictions, projections, forecasts and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these statements as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, without limitation: the impact of general economic conditions; industry conditions, including the adoption of new environmental, tax, royalty and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and gas prices; oil and gas product supply and demand; inadequate insurance coverage; risks inherent in the Corporation's ability to generate sufficient cash flow from operations to meet its current and future obligations; increases in debt service charges; the Corporation's ability to access external sources of debt and equity capital; increased competition; counterparty risk; the lack of availability of qualified personnel or management; labor unrest; fluctuations in foreign exchange or interest rates; stock market volatility; opportunities available to, or pursued by, the Corporation and other factors, many of which are beyond the control of the Corporation.

Further information regarding these factors may be found under the heading "Risks and Uncertainties" in the MD&A of the Corporation for the year ended December 31, 2008 and in the Corporation's most recent annual information form, information circular, quarterly reports, material change reports and news releases. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, the Corporation will derive therefrom. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. Any forward-looking information contained herein is expressly qualified by this cautionary statement. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Corporation. Readers are cautioned that such statements may not be appropriate, and should not be used for other purposes.

## *Consolidated* **BALANCE SHEETS**

<i>(Thousands) (unaudited)</i>	June 30, 2009	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$1,198
Accounts receivable	6,164	18,665
Income taxes receivable	135	12
Inventory	2,286	2,210
Prepaid expenses	865	377
	9,450	22,462
Intangible assets	685	1,002
Property, plant and equipment	85,842	88,945
Future income taxes	1,037	-
	\$97,014	\$112,409
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$184	\$ -
Accounts payable and accrued liabilities	3,812	6,824
Current portion of long-term debt	504	3,252
	4,500	10,076
Long-term debt	11,596	19,048
Future income taxes	11,442	11,195
	27,538	40,319
<i>Contingencies</i>		
Shareholders' equity:		
Share capital	51,491	51,491
Contributed surplus	2,197	2,197
Retained earnings	15,788	18,402
	69,476	72,090
	\$97,014	\$112,409

**Consolidated Statements  
of  
OPERATIONS and RETAINED EARNINGS**

<i>(Thousands except per share data) (unaudited)</i>	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenue	\$3,441	\$6,420	\$20,449	\$23,888
Operating expenses	4,529	6,041	16,806	17,350
Gross margin	(1,088)	379	3,643	6,538
General and administrative expenses	720	681	1,583	1,540
Bad debt expense	-	-	234	-
Stock-based compensation	-	321	-	386
Depreciation and amortization	2,417	2,292	4,813	4,597
Loss on sale of assets	-	-	127	-
Interest on long-term debt	160	253	355	628
Other expenses (revenue)	16	16	35	(334)
Net loss before income tax	(4,401)	(3,184)	(3,504)	(279)
Income tax (recovery) expense:				
Current	(278)	(1,314)	(100)	(811)
Future	(847)	383	(790)	595
	(1,125)	(931)	(890)	(216)
Net loss and comprehensive loss	(3,276)	(2,253)	(2,614)	(63)
Retained earnings, beginning of period	19,064	23,972	18,402	21,782
Retained earnings, end of period	\$15,788	\$21,719	\$15,788	\$21,719
Earnings per share				
Basic	\$(0.05)	\$(0.03)	\$(0.04)	\$0.00
Diluted	\$(0.05)	\$(0.03)	\$(0.04)	\$0.00

**Consolidated Statements  
of  
CASH FLOWS**

<i>(Thousands) (unaudited)</i>	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash provided by (used in):				
Operating activities:				
Net loss for the period	\$(3,276)	\$(2,253)	\$(2,614)	\$(63)
Add non-cash items:				
Depreciation and amortization	2,417	2,292	4,813	4,597
Loss on sale of assets	-	-	127	-
Stock-based compensation expense	-	25	-	42
Future income tax	(847)	383	(790)	595
	(1,706)	447	1,536	5,171
Net change in non-cash working capital from operations	6,587	5,248	9,627	4,358
Cash flow from operating activities	4,881	5,695	11,163	9,529
Financing activities:				
Common shares issued	-	9	-	104
Net repayment of revolving term loans	(4,500)	(4,200)	(10,200)	(5,700)
Cash flow from financing activities	(4,500)	(4,191)	(10,200)	(5,596)
Investing activities:				
Acquisition of property, plant and equipment	(202)	(338)	(1,630)	(1,280)
Proceeds on sale of property, plant and equipment	-	-	110	-
Net change in non-cash working capital from the purchase of property, plant and equipment	(526)	(558)	(825)	(2,019)
Cash flow from investing activities	(728)	(896)	(2,345)	(3,299)
Net (decrease) increase in cash	(347)	608	(1,382)	634
Cash, beginning of period	163	414	1,198	388
Cash (bank indebtedness), end of period	\$(184)	\$1,022	\$(184)	\$1,022
Cash interest paid	\$103	\$252	\$282	\$634
Cash income taxes (recovered) paid	\$(45)	\$154	\$(5)	\$1,624

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