



# TECHNICOIL CORPORATION

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## TECHNICOIL CORPORATION ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 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 September 30 |          | Nine months ended September 30 |                      |
|--|---------------------------------|----------|--------------------------------|----------------------|
|  | 2006                            | 2005     | 2006                           | 2005                 |
| Number of rigs owned as at September 30            | 25                              | 13       | 25                             | 13                   |
| Average number of rigs available during the period | 24.7                            | 12.3     | 23.8                           | 10.2                 |
| Revenue  | \$10,316                        | \$10,700 | \$34,269                       | \$24,012             |
| Gross margin                                       | \$4,398                         | \$4,309  | \$13,872                       | \$8,754              |
| Gross margin %                                     | 43%                             | 40%      | 40%                            | 36%                  |
| General and administrative expenses                | \$934                           | \$899    | \$3,155                        | \$2,381              |
| EBITDA(1)  | \$4,227                         | \$3,405  | \$11,507                       | \$6,425              |
| Net income   | \$1,505                         | \$1,478  | \$4,749                        | \$2,548              |
| Earnings per share – basic                         | \$0.03                          | \$0.03   | \$0.08                         | \$0.04               |
| Earnings per share – diluted                       | \$0.03                          | \$0.03   | \$0.08                         | \$0.04               |
| Funds flow from operations                         | \$3,513                         | \$3,319  | \$10,715                       | \$6,289              |
|  |                                 |          | September 30,<br>2006          | December 31,<br>2005 |
| Total assets                                       |                                 |          | \$89,618                       | \$82,958             |
| Long-term financial liabilities                    |                                 |          | \$14,760                       | \$7,500              |
| Debt to equity ratio (2)                           |                                 |          | 0.52                           | 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. Prior to the current quarter, the Corporation excluded gain/losses on the sale of assets, foreign exchange and interest income from its calculation of EBITDA. During the current quarter, the Corporation has amended its calculation of EBITDA to include these items, which is consistent with industry practice. For consistency, comparative numbers have been restated accordingly.
- (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

Recent increases in natural gas prices during October and November are cause for optimism moving into the final quarter of 2006 and into 2007, however, these improved prices are in stark contrast to the low prices seen in the second and third quarters of 2006. Natural gas prices have weakened throughout 2006 from the highs posted in the fourth quarter of 2005. These declines are a result of a warmer than normal winter in 2005/2006, which reduced heating demand for natural gas during the 2005/2006 winter and resulted in historically high natural gas inventory storage levels exiting the winter heating season. This surplus supply in the market has caused natural gas prices to decline throughout 2006 and, during the third quarter of 2006, natural gas prices were 35% to 40% lower than prices in the third quarter of 2005. These lower prices have negatively impacted operating cash flows for oil and gas exploration and development companies, resulting in the majority of companies curtailing their 2006 natural gas drilling programs. This is especially true for shallow natural gas programs which saw a 37% decline in activity in the third quarter of 2006 versus the third quarter of 2005.

While these broader based industry factors have created a challenging environment for oil and gas services companies subsequent to the first quarter of 2006, the Corporation continues to improve its financial performance. Specifically, the Corporation's consolidated gross margin as a percentage of revenue and funds flow from operations both increased during the quarter to 43% and \$3.5 million, respectively, versus 40% and \$3.3 million, respectively, in the third quarter of 2005, while revenue decreased slightly by 4% during the quarter to \$10.3 million. In addition, EBITDA(1) increased by 24% to \$4.2 million from \$3.4 million in the third quarter of 2005, with a 2% increase being realized even after removing the \$0.7 million gain on the sale of assets which occurred during the fourth quarter. These positive results in an adverse environment demonstrates the Corporation's ability to manage through adversity and shows the financial strength of its core operations.

During the quarter, the Corporation benefited from having two separate service lines as activity declines in its drilling division were offset by activity increases from its fracturing ("service") rigs. During the quarter, service revenue increased to 69% of revenue versus 51% of revenue in the third quarter of 2005. Margins generated in the service division are higher than those generated in the drilling division, thus positively impacting the Corporation's consolidated gross margin in the quarter. In addition management continues to focus on controlling costs and maximizing operational efficiencies which has helped offset the effect of the lower activity levels currently being experienced in the business areas in which the Corporation operates.

During the quarter the Corporation also sold one of its older original body-style service rigs constructed in 2000 to an independent company that operates in the northeastern United States. Proceeds from the sale were \$2.1 million and resulted in a before tax gain of \$0.7 million. With the improved design of the Corporation's trailer-style rigs introduced in 2004, these new trailer-style rigs have become the rig of choice for the Corporation's customers due to their versatility and efficiency. As a result, management chose to act on the opportunity to reduce the number of older less efficient body-style rigs in the Corporation's fleet and reinvest the proceeds into the newer more agile trailer-style service rigs currently being constructed by the Corporation. Subsequent to the end of the quarter, a second body-style rig was also sold to this same company.

The improved margins in the quarter and the gain from the sale of the body-style rig allowed the Corporation to generate \$1.5 million in net income, or \$0.03 per share, during the quarter which was consistent with the income generated in the third quarter of 2005. This result was achieved despite lower industry activity and increased depreciation and interest expenses of \$0.8 million and \$0.2 million, respectively, associated with the Corporation's increased fleet size in 2006 over 2005.

On a year to date basis, revenue has increased by 43% to \$34.3 million versus \$24.0 million in the comparable period in 2005. This increase in revenue is due to a combination of the Corporation's increased fleet size in 2006 versus 2005 and increased revenue rates in 2006. Although the Corporation's average rig fleet increased by 133% to 23.8 rigs for the nine months ended September 30, 2006 versus the comparative period in 2005, lower commodity prices in 2006 have curtailed industry activity levels and, therefore, the Corporation has not been able to benefit to the fullest extent possible in 2006 from this increased fleet size. However, management believes the

Corporation is well positioned to benefit from this increased capacity when industry activity increases in the future. In the meantime, management remains focused on cost management and operating an efficient organization, which has resulted in an 11% increase in gross margin as a percentage of revenue to 40% year to date versus 36% in the comparative period in 2005. These efforts have allowed the Corporation to increase EBITDA(1) and funds flow from operations to \$11.5 million and \$10.7 million, respectively, year to date versus \$6.4 million and \$6.3 million, respectively, in the nine months ended September 30, 2005. In the first nine months of 2006, the Corporation has earned \$4.7 million in net income, or \$0.08 per share, which exceeds the net income generated in the full fiscal year of 2005 and is 86% higher than the net income generated in the first nine months of 2005.

## RESULTS OF OPERATIONS

### WELL SERVICING OPERATIONS

| <i>Three months ended September 30 (\$ thousands) (unaudited)</i> | 2006    | 2005    | Variance | % Change |
|---|---------|---------|----------|----------|
| Service revenue   | \$7,131 | \$5,477 | \$1,654  | 30%      |
| Operating expenses  | 3,785   | 2,792   | 993      | 36%      |
| Gross margin  | \$3,346 | \$2,685 | \$661    | 25%      |
| Gross margin %  | 47%     | 49%     | (2%)     | (4%)     |
| Utilization %   | 27%     | 60%     | (33%)    | (55%)    |
| Average number of rigs available during the period                | 18.7    | 7.0     | 11.7     | 167%     |
| Number of wells completed   | 613     | 532     | 81       | 15%      |

  

| <i>Nine months ended September 30 (\$ thousands) (unaudited)</i> | 2006     | 2005     | Variance | % Change |
|--|----------|----------|----------|----------|
| Service revenue  | \$17,482 | \$14,686 | \$2,796  | 19%      |
| Operating expenses   | 10,195   | 8,117    | 2,078    | 26%      |
| Gross margin   | \$7,287  | \$6,569  | \$718    | 11%      |
| Gross margin %   | 42%      | 45%      | (3%)     | (7%)     |
| Utilization %  | 25%      | 54%      | (29%)    | (54%)    |
| Average number of rigs available during the period               | 17.8     | 7.0      | 10.8     | 154%     |
| Number of wells completed  | 1,462    | 1,379    | 83       | 6%       |

Service revenue increased by 30% to \$7.1 million in the quarter compared to \$5.5 million in the third quarter of 2005. As discussed above, low natural gas prices resulted in a significant decrease in shallow natural gas activity during the quarter as oil and natural gas exploration companies curtailed their shallow natural gas programs. This decrease in activity resulted in a 27% utilization of the Corporation's average service rig fleet of 18.7 rigs during the quarter versus 60% utilization of an average fleet size of 7.0 rigs in the third quarter of 2005. During the quarter, the Corporation completed services on 613 wells in comparison to 532 wells in the third quarter of 2005. The number of Coal Bed Methane ("CBM") wells fractured by the Corporation remained consistent at 207 wells during the current quarter versus the third quarter of 2005.

The Corporation continues to diversify its service offerings beyond the traditional fracturing services provided with its service rigs. During the quarter the Corporation completed non-fracturing services on 10 wells, which provided revenue of \$0.2 million. Year to date, the Corporation has completed non-fracturing services on 22 wells which provided revenue of \$0.8 million. These services included well extensions, acid stimulations and coil tubing installations into SAGD (Steam Assisted Gravity Drainage) wells in Fort

McMurray. The Corporation has received positive feedback from its customers for these services and believes that there are significant opportunities to continue to develop these business lines as the market becomes more aware of the Corporation's abilities in these areas.

During the quarter, revenue per well increased by 13% to an average of \$11,633 versus \$10,293 for the third quarter of 2005. The average revenue per well rates were positively impacted by approximately \$700 per well from revenue generated from non-fracturing services performed during the quarter and revenue earned on a take-or-pay contract for one of the Corporation's service rigs during the quarter. Only one well was completed under this take-or-pay contract, with the minimum contract value being in excess of the revenue generated from this well. Revenue from the non-fracturing services is generally higher on a per well basis as these wells take more time and are more technical. On a year to date basis, the average revenue per well has averaged \$11,958 in the first nine months of 2006 versus \$10,649 in the comparable period of 2005. The average revenue per well is higher during 2006 due to cost escalation in 2006 combined with higher revenue associated with non-fracturing services and revenue generated on the take-or-pay contract. The increased average revenue rate per well combined with the additional revenue from non-fracturing services has allowed the Corporation to increase its total revenue in the service division by 19% to \$17.5 million for the first nine months of 2006 versus \$14.7 million in the first nine months of 2005. This increase has been achieved while only completing services on 6% more wells in the period.

The Corporation's gross margin increased to \$3.3 million in the quarter versus \$2.7 million in the third quarter of 2005. This increase is primarily due to higher revenue in the quarter as gross margin as a percentage of revenue decreased slightly to 47% in the quarter from 49% in the third quarter of 2005. The decline in gross margin as a percentage of revenue is due to the Corporation choosing to overstaff some of its operating rigs during slower periods in the quarter to retain experienced staff, combined with fixed costs increasing to 10% of revenue in the current quarter versus only 7% of revenue in the third quarter of 2005. This increase in fixed costs corresponds to the increase in the Corporation's fleet. In addition, a greater portion of shared operating overhead costs are being allocated to the service division in the current year as a result of the service rigs comprising a larger portion of the total rig fleet in the current year versus the prior year. On a year to date basis, fixed operating costs have averaged 11% of revenue in the current year versus 8% of revenue in the comparable period in 2005.

On a year to date basis, gross margin as a percentage of revenue has averaged 42% versus 45% in the comparative period in 2005. Low activity levels for shallow natural gas during 2006 combined with increased fixed costs as a percentage of revenue have caused gross margins to decline slightly in the current year.

**DRILLING OPERATIONS**

| <i>Three months ended September 30 (\$ thousands) (unaudited)</i> | 2006    | 2005    | Variance  | % Change |
|---|---------|---------|-----------|----------|
| Drilling revenue  | \$3,185 | \$5,223 | (\$2,038) | (39%)    |
| Operating expenses  | 2,133   | 3,599   | (1,466)   | (41%)    |
| Gross margin  | \$1,052 | \$1,624 | (\$572)   | (35%)    |
| Gross margin %  | 33%     | 31%     | 2%        | 6%       |
| Utilization %   | 28%     | 65%     | (37%)     | (57%)    |
| Average number of rigs available during the period                | 6.0     | 5.3     | 0.7       | 13%      |
| Number of wells completed   | 61      | 168     | (107)     | (64%)    |

  

| <i>Nine months ended September 30 (\$ thousands) (unaudited)</i> | 2006     | 2005    | Variance | % Change |
|--|----------|---------|----------|----------|
| Drilling revenue   | \$16,787 | \$9,326 | \$7,461  | 80%      |
| Operating expenses   | 10,202   | 7,141   | 3,061    | 43%      |
| Gross margin   | \$6,585  | \$2,185 | \$4,400  | 201%     |
| Gross margin %   | 39%      | 23%     | 16%      | 70%      |
| Utilization %  | 47%      | 61%     | (14%)    | (23%)    |
| Average number of rigs available during the period               | 6.0      | 3.2     | 2.8      | 88%      |
| Number of wells completed  | 275      | 254     | 21       | 8%       |

Similar to the well servicing division, the drilling division was negatively impacted by lower industry activity caused by low natural gas prices. In particular, a number of the Corporation's core summer drilling customers cancelled their summer shallow natural gas drilling programs resulting in less work for the Corporation's drilling rigs during the quarter. As a result of this lower activity, utilization for the Corporation's drilling rigs was only 28% in the quarter versus 65% in the third quarter of 2005. Activity has improved during the first half of the fourth quarter and the Corporation's drilling rigs have achieved higher utilization levels subsequent to the end of the third quarter. Wet weather during the middle of October has curtailed activity levels, however, current demand and expressed demand from customers for this upcoming winter drilling season indicates that utilization of the Corporation's drilling rigs should allow the Corporation to meet or possibly exceed average industry utilization levels during this period.

As a result of the lower activity levels, the Corporation was only able to complete 61 wells during the quarter versus 168 in the third quarter of 2005. While the number of wells drilled by the Corporation decreased by 64%, revenue only decreased by 39% to \$3.2 million versus \$5.2 million in the third quarter of 2005. A combination of higher revenue rates in the current quarter, a 12% increase in the average well depth to 921 meters and more technical wells drilled in the current quarter versus the third quarter of 2005 helped to offset some of the reduced number of wells completed. Day rates continue to exceed the rates earned in 2005, with the average revenue per operating day increasing to \$20,289 in the quarter versus \$16,688 per operating day in the third quarter of 2005. On a year to date basis, average revenue per operating day has averaged \$21,915 versus \$17,335 in the comparable period in 2005.

The Corporation's drilling gross margin as a percentage of revenue increased to 33% in the quarter versus 31% in the third quarter of 2005. However, the gross margin decreased to \$1.1 million due to lower revenue in the quarter from \$1.6 million in the third quarter of 2005. The increase in gross margin as a percentage of revenue is due to improvements in operating cost management and improved operational efficiencies in the current year versus the prior year as the new drilling rigs have now been operating in the field for a full twelve months. This increase in gross margin as a percentage of revenue was achieved despite the Corporation choosing to overstaff some of its operating rigs during the slow period in order to retain staff. In addition, as a result of the lower activity levels, fixed costs

as a percentage of revenue averaged 7% in the quarter versus 6% in the third quarter of 2005. This increase occurred despite a smaller portion of shared overhead costs being allocated to the drilling division in the current year. On a dollar basis, fixed costs actually decreased to \$0.2 million in the quarter versus \$0.3 million in the third quarter of 2005. Year to date, fixed costs have averaged 5% of revenue versus 8% in the comparative period in 2005. Management expects fixed costs as a percentage of revenue to return to the current year to date average level as activity increases in the upcoming winter drilling season.

### **General and Administrative Expenses**

General and administrative expenses remained consistent at \$0.9 million in the current quarter versus the third quarter of 2005. The general and administrative expenses includes \$0.2 million of non-cash stock based compensation expense which was \$0.1 million lower than the amount recorded in the third quarter of 2005. The lower amount is due to a reduction in the amount of options being issued and vesting in the recent quarters versus the prior year. This reduction in stock based compensation expense in the quarter was offset by \$0.1 million in costs associated with preparing the Corporation for compliance with Multilateral Instrument 52-109 (“CSox”), \$0.1 million in higher legal costs and \$0.1 million in increased miscellaneous costs. In the third quarter of 2005, \$0.2 million was incurred for TSX listing fees which were not incurred in the current quarter. On a year to date basis, general and administrative expenses have increased by \$0.8 million over the comparative period in 2005. This increase is primarily due to \$0.2 million in external costs associated with CSox compliance, \$0.3 million associated with increased staffing since the third quarter of 2005, and \$0.5 million from higher costs such as audit fees, legal, travel and public company costs associated with operating a larger organization. These increases were offset by \$0.2 million in non-recurring TSX listing fees that were incurred in 2005.

On a year to date basis, general and administrative expenses as a percentage of revenue have averaged 9% versus 10% in 2005.

### **Depreciation**

Depreciation expense increased by 86% to \$1.8 million in the quarter from \$0.9 million in the third quarter of 2005, and is \$4.8 million year to date versus \$2.2 million in the first nine months of 2005. This increase is a result of the increase in depreciable assets over the same period due to the addition of 13 new service rigs since the third quarter of 2005.

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

The Corporation incurred \$0.3 million of interest expense in the quarter as the Corporation drew on its long-term debt facilities to fund its 2006 capital additions. The Corporation’s average outstanding long-term debt balance during the quarter was \$17.2 million. On a year to date basis, the Corporation incurred \$0.6 million of interest expense on an average outstanding debt balance of \$14.8 million.

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

The Corporation’s effective tax rate during the quarter was 32% versus a year to date average of 22% and a statutory rate of 33%. During the current year the Corporation has recorded a one-time \$0.9 million reduction to its future income tax expense as a result of corporate tax rate reductions enacted during the second quarter by the federal and provincial governments. The majority of this reduction was recorded in the second quarter, with nominal adjustments recorded in the third quarter. If the impact of these adjustments is removed, the effective rate in the third quarter would have been adjusted to 36% and the year to date effective tax rate would be 37%. The Corporation’s adjusted year to date effective tax rate is above the statutory rate due to stock based compensation being a non-deductible item for tax purposes. Year to date, current taxes have accounted for only 15% of the Corporation’s income tax provision versus 49% in the first nine months of 2005. This reduction is due to the Corporation benefiting from increased tax deductions in the current year associated with depreciation from the Corporation’s 2005 and 2006 capital expansion programs.

## LIQUIDITY AND CAPITAL RESOURCES

The Corporation ended the quarter with \$1.6 million in cash and \$18.7 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 increased debt is a result of funding for the Corporation's 2005 and 2006 capital expansion programs. Although long-term debt has increased since December 31, 2005, the Corporation's debt to equity ratio has declined to 0.52 at September 30, 2006, from 0.55 at December 31, 2005. Management remains focused on maintaining a strong balance sheet and management believes that its existing debt facilities and funds flow from operations are sufficient to finance its announced capital plans.

Although activity levels have been lower than expected, funds flow from operations continues to remain strong. During the quarter the Corporation generated \$3.5 million in funds flow from operations versus \$3.3 million in the third quarter of 2005. On a year to date basis, the Corporation has generated \$10.7 million in funds flow from operations, which is a 70% increase over the \$6.3 million recorded in the first nine months of 2005.

Property, plant and equipment expenditures for the quarter were \$5.3 million primarily related to completing construction on the two new service rigs delivered in the quarter and beginning construction on the final two service rigs to be delivered in the fourth quarter of 2006. The Corporation took delivery of the third rig in early November and the final rig is scheduled for delivery by the end of November. At this time no other commitments have been made for further rig construction other than the new drilling rig to be delivered late in the second quarter of 2007. The Corporation will be assessing its 2007 capital expenditure program during the review of its 2007 budget currently scheduled for early December.

During the quarter, the Corporation sold one of its original body-style service rigs to an independent company that operates in the northeastern United States. Proceeds from this sale were \$2.1 million, which resulted in a before tax gain of \$0.7 million being recorded in the Corporation's third quarter results. On November 13, 2006, the Corporation's board of directors approved the sale of a second body-style service rig to the same company. The proceeds from this sale are \$2.1 million as well. Proceeds from these sales will be used to fund the Corporation's current capital expansion program rather than drawing on the Corporation's debt facilities. The sale of these body-style rigs is part of the management's efforts to maximize the efficiencies of the Corporation's existing fleet of assets. These body-style rigs are less efficient than the Corporation's newer trailer-style rigs that were introduced in 2004. As such, management took this opportunity to sell two of the Corporation's less utilized assets in favor of reinvesting the proceeds from these sales into the newer rigs currently being manufactured by the Corporation. After the sale of these body-style rigs, the Corporation will have two body-style service rigs remaining in its rig fleet. Management is currently evaluating opportunities for these rigs which may include future conversion into trailer-style rigs, sale of the rigs or use on specialized projects.

Proceeds from the exercise of stock options provided nominal cash inflows in the quarter. As at September 30, 2006, the Corporation had 57,840,187 common shares issued and outstanding. The Corporation also had 2,732,000 stock options issued and outstanding of which 1,352,231 were vested. No new stock options have been issued subsequent to September 30, 2006.

## RISKS AND UNCERTAINTIES

A complete discussion on the business risks faced by the Corporation can be found in Technicoil's annual report for the year ended December 31, 2005, and the Corporation's Annual Information Form dated March 16, 2006, each of which are available on SEDAR.

## OUTLOOK AND FUTURE RISKS

Subsequent to the end of the third quarter, natural gas prices have begun to increase and colder temperatures have caused earlier than normal withdrawals from natural gas storage to occur during the last two weeks of October. These recent events have contributed to natural gas prices more than doubling from the lows seen during the third quarter of 2006 and is a reversal of the declining trend for natural gas prices seen throughout 2006. While it is uncertain how long this increased pricing trend will last, the current increased price supports the general industry expectation for strong activity during the upcoming winter drilling season. In addition, this expectation is supported by the current demands being expressed by the Corporation's customers for the Corporation's drilling rigs for the remainder of the fourth quarter of 2006 and into the first quarter of 2007.

Beyond the first quarter of 2007, industry analyst's forecasts as to what 2007 industry activity levels will be can be summarized as "uncertain" at best. Current analyst forecasts range from approximately 19,000 to 25,000 wells to be drilled in 2007 versus approximately 24,000 wells anticipated to be drilled in 2006. The wide range of activity predictions are a product of the uncertainty of what the natural gas prices will be in 2007. If the current increase in natural gas prices and increased withdrawals from natural gas storage continue, activity levels in 2007 could be stronger than the generally bearish sentiment overlying the current forecasts for 2007. There is a very tight North American supply/demand balance for natural gas and as such natural gas prices can fluctuate widely and respond quickly, which was evidenced in 2005 and 2006. Drilling and well servicing activities for natural gas wells will respond accordingly to the changes in natural gas prices. Given the majority of wells drilled in the Western Canadian Sedimentary Basin are natural gas, changes in natural gas pricing will have a wide impact on oil and gas services in the industry as a whole, which will result in not only changes in activity levels but changes to pricing of services provided by oil and gas service companies.

Which forecast is closest to the actual 2007 results will only be known once 2007 is complete. This uncertainty in 2007 will create opportunities for companies with strong balance sheets to not only survive any potential downturn, but to also take advantage of strategic opportunities to enhance their companies through mergers, acquisitions or other business combinations. It is with this in mind that the Corporation undertook to engage Peters & Co. Limited on October 5, 2006, as its financial advisor, to explore the Corporation's strategic alternatives. To assist in this effort, the board of directors has established a special committee consisting of four independent members to review alternatives identified by the Corporation's financial advisor. Management believes the Corporation is well positioned to prosper once a sustained recovery in natural gas prices is obtained and shallow natural gas and CBM activity increases. As such the Corporation's assets and business may be considered attractive by other potential parties and the Corporation could potentially benefit from some form of a business combination. Alternatively, continued strong fiscal management will allow the Corporation to survive a potential slowdown in 2007, and during this period or upon exiting this slower period, management believes there will be opportunities for the Corporation to expand upon its existing business and generate the financial returns management believes the Corporation is capable of delivering.

While management is cautious about the potential for the continuation of existing industry activity levels over the next 12 months, management believes a number of factors such as increasing demand for natural gas from users such as oil sands producers combined with rapid decline curves for natural gas production in the Western Canadian Sedimentary Basin will result in a rebalancing of the supply and demand relationship for natural gas, thus creating a more positive long-term outlook for natural gas pricing and activity levels. In the meantime, management continues to expand its customer base for both its service and drilling operations and is focusing on diversifying its business operations beyond its traditional shallow natural gas market. This diversification strategy includes expansion into traditional well servicing activities and participation in heavy oil drilling projects. While the majority of the Corporation's business activities will still be focused on shallow natural gas activities, these initiatives will assist in improving utilization for the Corporation's rigs during the current temporary slow down in the shallow natural gas industry.

Management believes that through its experienced and loyal staff, newer fleet of high quality equipment and strong relationships with its customers, the Corporation is well positioned to benefit from the eventual increase in shallow natural gas activities. Further, as

evidenced by the Corporation's positive financial results during the recent period of lower industry activity, management believes the Corporation's financial and operational performance will further improve as industry activity levels increase in the future. Management is excited about the Corporation's potential in 2007 and beyond.

*Consolidated*  
**BALANCE SHEETS**

| <i>(Thousands)</i>                          | September 30, 2006 | December 31, 2005 |
|---|--------------------|-------------------|
|   | (unaudited)        |                   |
| <b>Assets</b>                               |                    |                   |
| Current assets:                             |                    |                   |
| Cash and cash equivalents                   | \$1,591            | \$2,979           |
| Accounts receivable                         | 6,439              | 8,308             |
| Income taxes receivable                     | 584                | 897               |
| Inventory                                   | 2,212              | 1,144             |
| Prepaid expenses                            | 1,135              | 535               |
|   | 11,961             | 13,863            |
| Property, plant and equipment               | 77,657             | 69,095            |
|   | <b>\$89,618</b>    | <b>\$82,958</b>   |
| <b>Liabilities and Shareholders' Equity</b> |                    |                   |
| Current liabilities:                        |                    |                   |
| Accounts payable and accrued liabilities    | \$5,662            | \$15,444          |
| Current portion of long-term debt           | 3,915              | 1,500             |
|   | 9,577              | 16,944            |
| Long-term debt                              | 14,760             | 7,500             |
| Future income taxes                         | 6,275              | 5,155             |
|   | 30,612             | 29,599            |
| Shareholders' equity:                       |                    |                   |
| Share capital                               | 38,586             | 38,445            |
| Contributed surplus                         | 2,030              | 1,273             |
| Retained earnings                           | 18,390             | 13,641            |
|   | 59,006             | 53,359            |
|   | <b>\$89,618</b>    | <b>\$82,958</b>   |

*Consolidated Statements*  
*of*  
**OPERATIONS and RETAINED EARNINGS**

| <i>(Thousands, except per share data) (unaudited)</i> | Three Months Ended<br>September 30, 2006 | Three Months Ended<br>September 30, 2005 | Nine Months Ended<br>September 30, 2006 | Nine Months Ended<br>September 30, 2005 |
|---|--|--|---|---|
| Coil tubing service and drilling revenue              | \$10,316                                 | \$10,700                                 | \$34,269                                | \$24,012                                |
| Operating expenses                                    | 5,918                                    | 6,391                                    | 20,397                                  | 15,258                                  |
| Gross margin  | 4,398                                    | 4,309                                    | 13,872                                  | 8,754                                   |
| General and administrative expenses                   | 934                                      | 899                                      | 3,155                                   | 2,381                                   |
| Depreciation  | 1,751                                    | 941                                      | 4,800                                   | 2,164                                   |
| Gain on sale of assets                                | (743)                                    | -  | (743)                                   | (8)                                     |
| Interest on long-term debt                            | 256                                      | 33                                       | 638                                     | 34                                      |
| Other interest (income) expense                       | (13)                                     | 8  | (46)                                    | (95)                                    |
| Foreign exchange (gain) loss                          | (7)                                      | (3)                                      | (1)                                     | 51                                      |
| Net income before income tax                          | 2,220                                    | 2,431                                    | 6,069                                   | 4,227                                   |
| Income tax (recovery) expense:                        |  |  |   |   |
| Current   | (51)                                     | 396                                      | 200                                     | 831                                     |
| Future  | 766                                      | 557                                      | 1,120                                   | 848                                     |
|   | 715                                      | 953                                      | 1,320                                   | 1,679                                   |
| Net income for the period                             | 1,505                                    | 1,478                                    | 4,749                                   | 2,548                                   |
| Retained earnings, beginning of period                | 16,885                                   | 10,407                                   | 13,641                                  | 9,337                                   |
| Retained earnings, end of period                      | \$18,390                                 | \$11,885                                 | \$18,390                                | \$11,885                                |
| Earnings per share                                    |  |  |   |   |
| Basic   | \$0.03                                   | \$0.03                                   | \$0.08                                  | \$0.04                                  |
| Diluted   | \$0.03                                   | \$0.03                                   | \$0.08                                  | \$0.04                                  |

*Consolidated Statements*  
*of*  
**CASH FLOWS**

| <i>(Thousands) (unaudited)</i>  | Three Months Ended<br>September 30, 2006 | Three Months Ended<br>September 30, 2005 | Nine Months Ended<br>September 30, 2006 | Nine Months Ended<br>September 30, 2005 |
|---|--|--|---|---|
| Cash provided by (used in):   |  |  |   |   |
| Operating activities:   |  |  |   |   |
| Net income for the period   | \$1,505                                  | \$1,478                                  | \$4,749                                 | \$2,548                                 |
| Add (deduct) non-cash items:  |  |  |   |   |
| Depreciation  | 1,751                                    | 941                                      | 4,800                                   | 2,164                                   |
| Gain on sale of assets  | (743)                                    | -  | (743)                                   | (8)                                     |
| Stock-based compensation expense  | 234                                      | 343                                      | 789                                     | 737                                     |
| Future income tax   | 766                                      | 557                                      | 1,120                                   | 848                                     |
| Funds flow from operations  | 3,513                                    | 3,319                                    | 10,715                                  | 6,289                                   |
| Net change in non-cash working capital from operations                                    | (835)                                    | 324                                      | (214)                                   | (4,274)                                 |
| <b>Cash flow from operating activities</b>  | <b>2,678</b>                             | <b>3,643</b>                             | <b>10,501</b>                           | <b>2,015</b>                            |
| Financing activities:   |  |  |   |   |
| Common shares issued  | 1  | 330                                      | 109                                     | 607                                     |
| Proceeds from long-term debt  | 1,100                                    | 11,800                                   | 11,600                                  | 13,500                                  |
| Repayment of long-term debt   | (825)                                    | -  | (1,925)                                 | -                                       |
| <b>Cash flow from financing activities</b>  | <b>276</b>                               | <b>12,130</b>                            | <b>9,784</b>                            | <b>14,107</b>                           |
| Investing activities:   |  |  |   |   |
| Acquisition of property, plant and equipment  | (5,296)                                  | (9,812)                                  | (14,762)                                | (26,829)                                |
| Proceeds on sale of property, plant and equipment   | 2,138                                    | -  | 2,143                                   | 25                                      |
| Net change in non-cash working capital from the purchase of property, plant and equipment | (2,691)                                  | 4,809                                    | (9,054)                                 | 5,802                                   |
| <b>Cash flow from investing activities</b>  | <b>(5,849)</b>                           | <b>(5,003)</b>                           | <b>(21,673)</b>                         | <b>(21,002)</b>                         |
| Net (decrease) increase in cash and cash equivalents                                      | (2,895)                                  | 10,770                                   | (1,388)                                 | (4,880)                                 |
| Cash and cash equivalents, beginning of period  | 4,486                                    | 157                                      | 2,979                                   | 15,807                                  |
| <b>Cash and cash equivalent, end of period</b>  | <b>\$1,591</b>                           | <b>\$10,927</b>                          | <b>\$1,591</b>                          | <b>\$10,927</b>                         |
| Cash interest paid  | \$260                                    | \$36                                     | \$627                                   | \$36                                    |
| Cash income taxes (received) paid   | (\$661)                                  | \$564                                    | (\$211)                                 | \$3,103                                 |

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