



# TECHNICOIL CORPORATION

1510, 555 – 4<sup>th</sup> Avenue S.W.  
 Calgary, AB, Canada T2P 3E7  
 Tel: (403) 509-0700  
 Fax: (403) 509-0701  
 Email: info@technicoilcorp.com  
 Website: www.technicoilcorp.com

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## TECHNICOIL CORPORATION REPORTED FINANCIAL AND OPERATING RESULTS FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2009

Technicoil Corporation (“Technicoil” or the “Corporation”) reported financial and operating results for the three and nine months ended September 30, 2009. The Corporation maintained a strong balance sheet and increased operating hours for conventional services performed by the coiled tubing service rigs relative to prior year levels through growth in the Montney, Horn River and oilsands regions during a period of continued economic weakness.

Technicoil is an oil and gas services company operating 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 September 30			Nine months ended September 30		
	2009	2008	% Change	2009	2008	% Change
Revenue	<b>\$10,167</b>	\$17,691	(43%)	<b>\$30,616</b>	\$41,579	(26%)
Gross margin	<b>\$2,945</b>	\$5,968	(51%)	<b>\$6,588</b>	\$12,506	(47%)
Gross margin %	<b>29%</b>	34%	(15%)	<b>22%</b>	30%	(27%)
General and administrative costs	<b>\$552</b>	\$627	(12%)	<b>\$2,135</b>	\$2,167	(1%)
EBITDA (1)	<b>\$2,210</b>	\$5,677	(61%)	<b>\$3,874</b>	\$10,623	(63%)
Net (loss) income	<b>(\$323)</b>	\$2,321	(114%)	<b>(\$2,937)</b>	\$2,258	(230%)
Per share – basic	<b>\$0.00</b>	\$0.03	(100%)	<b>(\$0.04)</b>	\$0.03	(233%)
Per share – diluted	<b>\$0.00</b>	\$0.03	(100%)	<b>(\$0.04)</b>	\$0.03	(233%)
Funds flow from operations (2)	<b>\$1,969</b>	\$4,940	(60%)	<b>\$3,505</b>	\$10,111	(65%)
Well servicing operating hours	<b>10,100</b>	13,134	(23%)	<b>27,942</b>	31,273	(11%)
Drilling operating days	<b>19</b>	270	(93%)	<b>257</b>	616	(58%)
				<b>As at September 30, 2009</b>	As at December 31, 2008	% Change
Total assets				<b>\$95,595</b>	\$112,409	(15%)
Long-term debt (including current portion)				<b>\$12,100</b>	\$22,300	(46%)
Debt to equity ratio (3)				<b>0.38</b>	0.56	(32%)

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 and provides investors additional information regarding how the assets of the Corporation are financed. 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's responsiveness and adaptable product offering enabled the Corporation to attain the following results during the third quarter of 2009:

- Entered into a partnership with the Bigstone Cree Nation (the "Nation") to provide, on an exclusive basis, well servicing rigs and related services for use in connection with the exploration and development of resources on the Nation's reserves and traditional lands near Wabasca, Alberta;
- Maintained a strong balance sheet with a debt to equity ratio of 0.38:1 at September 30, 2009. Long-term debt (including current portion) was reduced by 46% from the \$22.3 million outstanding at December 31, 2008. Net debt (represented by long-term debt net of working capital) has been reduced by 20% to \$5.3 million in comparison with December 31, 2008;
- Reported third quarter revenue of \$10.2 million on 10,100 well servicing operating hours and 19 drilling operating days;
- The Corporation's success in the Montney and Horn River resource plays and drilling support for Steam Assisted Gravity Drainage ("SAGD") operations contributed to maintaining non-fracturing operating hours at levels comparable to the record third quarter recorded in the prior year, despite the economic slowdown. Service operating hours from non-fracturing activities of 9,423 hours were only 6% lower than the third quarter of 2008 and represented 93% of the Well Servicing Segment's operating hours in the third quarter of 2009;
- Recorded positive funds flow from operations and EBITDA of \$2.0 million and \$2.2 million respectively for the third quarter of 2009, a period represented by continued economic weakness;
- Subsequent to the end of the third quarter, the Corporation announced that it has sold one coiled tubing service rig to a pressure pumping company that is party to a contract with Technicoil. The contract, which expires on February 15, 2010, was also amended as a condition of the rig sale. The proceeds of disposition were initially used to pay down debt and positions Technicoil for future expansion in the Montney, Horn River, Bakken and the oilsands region. The Corporation is now better positioned to market its services and work directly for exploration and production companies and other pressure pumping companies as a result of the expiry of the contract.
- The Corporation's long-term debt was reduced to approximately \$9.8 million after the completion of the rig sale.

Technicoil's repositioning and adaptable fleet of equipment enabled the Corporation to continue to benefit in the third quarter from the investment being made by exploration and production companies in the resources plays and SAGD operations.

Historically the third quarter of a calendar year in the Western Canadian Sedimentary Basin ("WCSB") represents a period when drilling activity begins to rebound after the seasonal spring break-up conditions of the second quarter. While gas prices have recently improved modestly, they remained low during the third quarter. With continued relative weakness in gas prices and gas storage levels in North America near capacity, industry drilling rig utilization in the WCSB remained unseasonably low. Utilization in the WCSB averaged only 21%, the lowest third quarter rate since 1992 when utilization averaged 26% (source:

Canadian Association of Oilwell Drilling Contractors (“CAODC”). The majority of drilling activity that did occur during the third quarter was focused primarily on deeper wells with lateral sections in the resource plays.

The Corporation has responded to the weak economic environment in 2009 by implementing wage reductions across the organization from field staff to the Board of Directors, realigning crew configurations and closely scrutinizing discretionary spending. The Corporation’s variable cost structure results in field labour costs being incurred only during periods when workers are required. For the nine months ended September 30, 2009, Technicoil reduced operations overhead costs by 17% in comparison with the same period of the prior year. These measures contributed to the Corporation recording positive EBITDA of \$2.2 million during the third quarter of 2009.

Technicoil continues to maintain a sound balance sheet, an increasingly desirable product offering and a team focused on adapting to changes in the market. The Corporation continues to limit capital investment, 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 and Horn River resource plays and in SAGD operations.

## FINANCIAL AND OPERATING RESULTS

### **FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009**

#### **REVENUE**

The Corporation generated revenue of \$10.2 million in the third quarter of 2009 in comparison with \$17.7 million for the comparable period of the prior year. Revenue declines were experienced across both of the Corporation’s business segments primarily as a result of the low level of industry activity, a reduction of fracturing services performed by the Corporation and lower average charge-out rates. Operating hours in the third quarter of 2009 for the Well Servicing Segment were 10,100 in comparison with 13,134 in the comparable period of the prior year, representing a decline of 23%. The Corporation’s expansion into new basins, including the Montney, Horn River, and SAGD operations, resulted in non-fracturing well servicing hours decreasing by only 6% to 9,423 hours in the third quarter of 2009 in comparison with the same period of the prior year. Limited shallow gas drilling activity in the WCSB basin, as E&P companies restricted drilling programs largely as a result of weak gas prices resulted in the Drilling Segment recording only 19 operating days in the third quarter of 2009 in comparison with 270 operating days for the same period of the prior year. The majority of industry drilling activity that took place in the WCSB in the third quarter was directed towards deeper horizontal wells which Technicoil’s rigs are not capable of performing.

#### **GROSS MARGIN**

The Corporation reported a gross margin of \$2.9 million in the third quarter of 2009 in comparison with \$6.0 million for the comparable period of the prior year. Reduced activity levels for fracturing and drilling services, combined with lower charge-out rates, resulted in a reduction in gross margin in comparison with the third quarter of the prior year. As a percentage of revenue, gross margin averaged 29% during the quarter in comparison with 34% for the same period of the prior year. 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’s cost reduction measures implemented in 2009 contributed to a 31% 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 \$0.6 million for the three months ended September 30, 2009, representing a 12% reduction in comparison with the third quarter of the prior year and a 23% reduction in comparison with the second quarter of 2009. As a percentage of revenue, G&A expense increased from 4% of revenue in the third quarter of 2008 to 5% in the third quarter of 2009, largely as a result of the reduction in revenue. In comparison with the third quarter of 2008, G&A spending was curtailed in the majority of cost categories in response to the slowdown in industry activity.

## **DEPRECIATION AND AMORTIZATION**

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

## **OTHER ITEMS**

The Corporation increased the provision for bad debts by \$0.2 million in the third quarter of 2009 bringing the year-to-date provision to \$0.4 million. No similar charge was recorded in the prior year.

Interest on long-term debt was \$0.2 million in the third quarter of 2009, a reduction of 14% 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. Drawings on the long-term debt facility averaged \$12.8 million during the third quarter of 2009 in comparison with \$18.7 million for the same period of 2008, with the average effective interest rate falling to 4.5% in comparison with 5.5% over the same period respectively.

The Corporation recorded an income tax recovery of \$0.1 million in the third quarter of 2009 in comparison with an income tax expense of \$0.7 million for the same period of 2008. The Corporation’s effective tax rate in the quarter of 25.2% is lower than the statutory rate of 29.0% 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.

Technicoil recorded a net loss of \$0.3 million or \$0.00 per share for the third quarter of 2009 compared with net income of \$2.3 million or \$0.03 per share reported for the third quarter of 2008. Contributing to the net loss in the quarter was the relatively fixed depreciation charge of \$2.4 million. Technicoil records depreciation expense on a straight-line basis and as a result, depreciation does not vary with operational activity levels.

## **FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

### **REVENUE**

The Corporation recorded \$30.6 million in revenue for the first nine months of 2009 in comparison with revenue of \$41.6 million during the same period of 2008. Consistent with the third quarter results, revenue declines were experienced across both of the Corporation’s business segments due primarily to lower fracturing hours and drilling activity levels combined with downward pressure on charge-out rates. The Corporation’s repositioning of the coiled tubing rigs to service the prolific resource plays, including the Montney and Horn River, and SAGD drilling support operations contributed to a 9% increase in non-fracturing service operating hours in the Well Servicing Segment during the first three quarters of 2009 compared with the same period of the prior year. In aggregate, 27,942 operating hours were generated by the Well Servicing Segment year-to-date in comparison with 31,273 hours for the nine months of 2008, with 86% and 71% representing non-fracturing hours, respectively. Drilling

activity in the WCSB has been significantly curtailed, particularly for shallow drilling, resulting in a significant decrease in operating days for the Drilling Segment from 616 during the first nine months of 2008 to 257 in the current period.

#### **GROSS MARGIN**

The Corporation realized a gross margin of \$6.6 million, or 22% of revenue during the first nine months of 2009, in comparison with \$12.5 million, or 30% of revenue for the comparable period of the prior year. The lower gross margin percentage is attributable to lower charge-out rates and a reduction in activity levels over which to absorb 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 in the second quarter of 2009, revised crew configurations and a revamped approach to crew training. Discretionary spending was curtailed and employee incentive programs were reduced resulting in a 17% decrease in operations overhead costs for the nine months ended September 30, 2009 relative to the same period of the prior year.

#### **GENERAL AND ADMINISTRATIVE EXPENSE**

G&A expense for the nine month period ended September 30, 2009 was \$2.1 million in comparison with \$2.2 million for the same period of the prior year. As a percentage of revenue, G&A expense averaged 7% for the first nine months of 2009 in comparison with 5% for the same period of the prior year. In comparison with the first nine 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 \$7.2 million for the nine month period ended September 30, 2009 in comparison with \$6.9 million for the same period of the prior year. The increase in depreciation expense is primarily 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 \$0.4 million during the first nine months of 2009 as a result of the restricted access to capital and lower cash flows of certain customers of the Corporation. No similar charge was recorded in the prior year.

The Corporation's interest on long-term debt decreased by 34% to \$0.6 million for the nine month period ended September 30, 2009 in comparison with \$0.9 million for the comparable period of the prior year. The decrease in interest expense is attributable to the Corporation's focus on reducing long-term debt combined with lower interest rates in comparison with the same period of the prior year. Drawings from long-term debt facilities averaged \$14.7 million during the first nine months of 2009 in comparison with \$19.5 million for the same period of 2008, with the average effective interest rate falling to 3.8% in comparison with 5.9% 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 \$1.0 million for the nine months ended September 30, 2009 resulting in an effective tax rate of 25.4% in comparison with an income tax expense of \$0.5 for the first three quarters of 2008.

For the nine month period ended September 30, 2009, the Corporation incurred a net loss of \$2.9 million or \$0.04 per share in comparison with a net income of \$2.3 million or \$0.03 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 segment of the Corporation. The key performance indicators for this segment include rig utilization, revenue and gross margin percentage. At September 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.

Subsequent to the end of the third quarter, the Corporation announced that it has sold one coiled tubing service rig to a pressure pumping company that is party to a contract with Technicoil. The contract, which expires on February 15, 2010, was also amended as a condition of the rig sale. As the Corporation's coil service focus continues to shift to the more prolific resource plays and oilsands opportunities, Technicoil's activity levels with the pressure pumping company have diminished. The Corporation is now better positioned to market its services to and work directly for exploration and production companies and other pressure pumping companies as a result of the expiration of the contract.

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 oil and 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 oil and 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, the Horn River basin and the Bakken. The Corporation has also been successful in deploying its coiled tubing service rigs in SAGD 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 free standing mobile double service rig added to the fleet in the first quarter of 2009, providing services such as completions, production work, workovers and abandonments.

<i>Three months ended September 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	\$9,906	\$13,353	(\$3,447)	(26%)
Operating expenses	6,689	8,098	(1,409)	(17%)
Gross margin	\$3,217	\$5,255	(\$2,038)	(39%)
Gross margin %	32%	39%	(7%)	(18%)
Utilization %	41%	55%	(14%)	(25%)
Operating hours	10,100	13,134	(3,034)	(23%)
Revenue per operating hour	\$981	\$1,017	(\$36)	(4%)
Number of wells serviced during the period	269	634	(365)	(58%)

The Corporation reported revenue for the Well Servicing Segment of \$9.9 million in the third quarter of 2009 on 10,100 operating hours in comparison with revenue of \$13.4 million on 13,134 operating hours in the same period of the prior year. 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 and continuing throughout the third quarter of 2009, accounting for 81% of the reduction in operating hours for the Segment in comparison with the third quarter of 2008. Service operating hours from non-fracturing activities of 9,423 hours were only 6% lower than the third quarter of 2008 and represented 93% of the Segment's operating hours in the third quarter of 2009. In comparison with the third quarter of 2008, Technicoil successfully increased operating hours from non-fracturing services performed by the coiled tubing rigs by 18% 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 37% (source: CAODC) in the third quarter of 2009. Overall, utilization rates for the well servicing fleet averaged 41% during the third quarter of 2009 in comparison with 55% for the same period of the prior year. Revenue rates realized in the third quarter of 2009 averaged \$981 per hour in comparison with \$1,017 per hour in 2008, a 4% 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. Revenue rates in Well Servicing have stabilized relative to the downward pressures encountered earlier in 2009.

The Well Servicing Segment recorded a gross margin of \$3.2 million or 32% of revenue in the third quarter of 2009 in comparison with \$5.3 million or 39% of revenue for the same period of 2008. The decrease in gross margin is primarily attributable to fewer operating hours and an increase in operating costs per hour. The increase in per hour operating costs is attributable to higher labour costs relative to the third quarter of 2008 due to wage increases in the fall of 2008 which were partially rolled back earlier in 2009, 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 contributed to the lower gross margin as this work tends to have more standby days with crew travel and equipment mobilization requirements.

<i>Nine months ended September 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	\$26,385	\$31,253	(\$4,868)	(16%)
Operating expenses	19,878	20,519	(641)	(3%)
Gross margin	\$6,507	\$10,734	(\$4,227)	(39%)
Gross margin %	25%	34%	(9%)	(26%)
Utilization %	38%	44%	(6%)	(14%)
Operating hours	27,942	31,273	(3,331)	(11%)
Revenue per operating hour	\$944	\$999	(\$55)	(6%)
Number of wells serviced during the period	1,028	1,779	(751)	(42%)

Revenue for the first nine months of 2009 for Well Servicing was \$26.4 million in comparison with \$31.3 million generated for the comparable period in 2008. Operating hours for the period were 27,942, with 86% of hours generated from non-fracturing activities in comparison with 31,273 operating hours reported for the first nine months of 2008 when 71% of activity was generated from services other than fracturing through coil. As a result of the Corporation's repositioning and expansion of the coiled tubing rigs into the Montney and Horn River resource plays and SAGD drilling support operations, activity from non-fracturing services increased by 9% during the first nine months of 2009 in comparison with the same period of the prior year, this despite the economic slowdown. Cumulatively in 2009, shallow gas fracturing through coil activity was 58% 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 38% for the first nine months of 2009 compared with 44% relative to the same period of the prior year. Technicoil realized average revenue per operating hour of \$944, a reduction of 6% in comparison with 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. Gross margin for the nine months ended September 30, 2009 of \$6.5 million or 25% of revenue compares with \$10.7 million or 34% of revenue for the same period of 2008. The same factors impacting gross margin in the third 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 variable 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 September 30, 2009, the Corporation had six drilling rigs available with an average age of less than five years. 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 September 30 (\$ thousands except for revenue per operating day)(unaudited)</i>	<b>2009</b>	<b>2008</b>	<b>Variance</b>	<b>% Change</b>
Drilling revenue	\$261	\$4,338	(\$4,077)	(94%)
Operating expenses	533	3,625	(3,092)	(85%)
Gross margin	(\$272)	\$713	(\$985)	(138%)
Gross margin %	(104%)	16%	(120%)	(750%)
Utilization %	3%	42%	(39%)	(93%)
Operating days	19	270	(251)	(93%)
Revenue per operating day	\$13,737	\$16,067	(\$2,330)	(15%)
Number of wells completed during the period	12	131	(119)	(91%)

Drilling activity in the WCSB continued to be subdued in the third quarter, a period that traditionally experiences an increase in activity. With North American gas storage levels near full capacity and limited economic activity to drive industrial demand, gas prices remained weak. As a result, E&P companies limited their drilling programs in the WCSB resulting in the lowest number of well completions since 1992 (source: Daily Oil Bulletin). Industry rig utilization rates in the third quarter of 2009 averaged 21%, representing the lowest level for the third quarter since 1992 (source: CAODC). The majority of drilling activity in the WCSB in the third quarter was directed towards deeper horizontal wells which the Corporation's rigs are not capable of performing. Revenue reported for the Drilling Segment in the third quarter of 2009 of \$0.3 million compares with \$4.3 million for the same period of 2008. The reduction in revenue is due primarily to fewer operating days (19 in comparison with 270) and reductions in drilling day rates as a result of competitive pressures. The Corporation's average revenue per operating day of \$13,737 compares with \$16,067 during the third 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 only 6% in comparison with the third 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 \$0.3 million in the third quarter of 2009 compared with a positive gross margin of \$0.7 million in the same period of the prior year. A low revenue and activity base to absorb overhead costs accounts for the reduction in gross margin for the quarter. Earlier in 2009 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>Nine months ended September 30 (\$ thousands except for revenue per operating day)(unaudited)</i>	<b>2009</b>	<b>2008</b>	<b>Variance</b>	<b>% Change</b>
Drilling revenue	\$4,231	\$10,326	(\$6,095)	(59%)
Operating expenses	4,150	8,554	(4,404)	(51%)
Gross margin	\$81	\$1,772	(\$1,691)	(95%)
Gross margin %	2%	17%	(15%)	(88%)
Utilization %	16%	32%	(16%)	(50%)
Operating days	257	616	(359)	(58%)
Revenue per operating day	\$16,463	\$16,763	(\$300)	(2%)
Number of wells completed during the period	116	249	(133)	(53%)

For the nine month period ended September 30, 2009, the Drilling Segment reported revenue of \$4.2 million in comparison with \$10.3 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 22% (source: CAODC), and the focus on deeper wells resulted in the Corporation recording only 257 operating days in comparison with 616 days for the same period of the prior year. Year-to-date revenue per operating day averaged \$16,463 compared with \$16,763 for the first nine months of 2008. Cumulative gross margin of \$0.1 million is lower than the \$1.8 million reported for comparable period of 2008 largely as a result of fewer operating days. Gross margin averaged 2% for the first nine months of 2009 in comparison with 17% for same period of 2008. 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 and from banking facilities. As at November 9, 2009, Technicoil had 72,683,848 common shares issued and outstanding and 3,302,666 options issued and outstanding of which 1,833,999 were vested.

On May 27, 2009, the Corporation renewed its credit facilities. The renewal extended 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 was in compliance with all debt covenants as at September 30, 2009.

Technicoil continued to maintain a strong financial position during the third quarter of 2009. Long-term debt including the current portion was consistent with the prior quarter-end at \$12.1 million and represents a reduction of 46% from \$22.3 million at December 31, 2008. Net debt, represented by long-term debt net of working capital, was reduced by 20% to \$5.3 million in comparison with December 31, 2008. Subsequent to the end of the quarter, the Corporation sold one coiled tubing service rig. The proceeds of disposition were used to pay down debt resulting in a long-term debt balance of \$9.8 million subsequent to the rig sale. 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.

## **Operating Activities**

Cash flow from operating activities was \$0.6 million for the three months ended September 30, 2009 compared with negative \$1.5 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 \$2.0 million in the third quarter of 2009 in comparison with \$4.9 million in 2008. Cumulatively in 2009, the Corporation has reduced its investment in non-cash working capital from operations, realizing \$8.2 million in cash which has been applied towards debt reduction.

## **Financing Activities**

The Corporation prudently managed the balance sheet during the third quarter, a period historically when debt facilities are drawn upon as activity ramps up after the seasonally slower second quarter period. As a result of the Corporation's efforts, drawings on the revolving long-term debt facility at the end of the third quarter of 2009 remained unchanged from the prior quarter-end at \$12.1 million. In the prior year, an additional \$4.0 million was drawn from the long-term facility.

## **Investing Activities**

Cash used in investing activities for the three months ended September 30, 2009 was \$0.6 million as compared with \$3.0 million for the comparative period of the prior year. Investing activities in the quarter related primarily to modifications performed on equipment to service the Montney and Horn River resource plays and to support SAGD drilling operations.

## **OUTLOOK**

Investment in the oil and gas sector has been impacted by the global economic recession. Gas storage levels in North America are at a record high and concerns over declines in industrial gas consumption has resulted in low commodity prices for natural gas. These factors have contributed to the Corporation's primary customer base of oil and natural gas companies restricting their capital spending in 2009 resulting in low drilling activity. This low drilling activity is beginning to show signs of impacting the supply of natural gas across North America with the price of natural gas modestly recovering late in the third quarter and early in the fourth quarter.

The advent of horizontal drilling and multiple fractures in the lateral section has redefined the industry. Resource plays, such as the Montney and Horn River and the resurgence in the Bakken, have become focal points for investment of many E&P companies. The capital intensive nature of exploring for and developing these resource plays, and SAGD oilsands development, continues albeit at a slower pace than year ago levels. The Corporation's coiled tubing units are positioned to capitalize on both of these markets, representing long-term growth prospects for Technicoil.

In the third quarter, the Corporation entered into a partnership agreement with the Bigstone Cree Nation becoming the preferred conventional service rig provider on the Nation's reserves and traditional lands near Wabasca, Alberta. This initiative will provide training and employment opportunities to the Nation's people and will result in both Technicoil and the Nation sharing in the rewards of economic development that will result. The partnership will open new opportunities in a region Technicoil presently does not operate in.

While access to capital markets has improved, activity levels in the WCSB has remained weak, particularly in relation to shallow gas. The Corporation does not expect the shallow gas market to recover in the near-term. As a hedge against the weak shallow gas market, much of the Corporation's equipment is capable of and presently services other segments of the WCSB including the resource plays and oilsands development. Recently the Corporation positioned one of its drilling rigs to drill larger diameter surface holes in the oilsands region, representing an expanded service offering for this fleet.

The Corporation is confident that industry activity levels will eventually strengthen, however the timing and pace of the 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, the capabilities of which continue to expand, and demonstrated operational advantages differentiate Technicoil from its peers. The Corporation is positioned for additional market penetration and growth in the prominent resource plays in Canada, in SAGD operations, and in regions not previously serviced by the Corporation.

#### 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>	September 30, 2009	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash	\$ -	\$1,198
Accounts receivable	7,510	18,665
Income taxes receivable	134	12
Inventory	2,458	2,210
Prepaid expenses	699	377
	10,801	22,462
Intangible assets	527	1,002
Property, plant and equipment	84,267	88,945
	<b>\$95,595</b>	<b>\$112,409</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness	\$219	\$ -
Accounts payable and accrued liabilities	3,827	6,824
Current portion of long-term debt	2,017	3,252
	6,063	10,076
Long-term debt	10,083	19,048
Future income taxes	10,296	11,195
	26,442	40,319
<i>Contingencies</i>		
Shareholders' equity:		
Share capital	51,491	51,491
Contributed surplus	2,197	2,197
Retained earnings	15,465	18,402
	69,153	72,090
	<b>\$95,595</b>	<b>\$112,409</b>

**Consolidated Statements  
of  
OPERATIONS and RETAINED EARNINGS**

<i>(Thousands except per share data) (unaudited)</i>	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue	\$10,167	\$17,691	\$30,616	\$ 41,579
Operating expenses	7,222	11,723	24,028	29,073
Gross margin	2,945	5,968	6,588	12,506
General and administrative expenses	552	627	2,135	2,167
Bad debt expense	171	-	405	-
Stock-based compensation	-	(370)	-	16
Depreciation and amortization	2,401	2,329	7,214	6,926
Loss on sale of assets	-	-	127	-
Interest on long-term debt	241	280	596	908
Other expenses (revenue)	12	34	47	(300)
Net (loss) income before income tax	(432)	3,068	(3,936)	2,789
Income tax (recovery) expense:				
Current	-	428	(100)	(383)
Future	(109)	319	(899)	914
	(109)	747	(999)	531
Net (loss) income and comprehensive (loss) income	(323)	2,321	(2,937)	2,258
Retained earnings, beginning of period	15,788	21,719	18,402	21,782
Retained earnings, end of period	\$15,465	\$24,040	\$15,465	\$24,040
Earnings per share				
Basic	\$0.00	\$0.03	\$(0.04)	\$0.03
Diluted	\$0.00	\$0.03	\$(0.04)	\$0.03

**Consolidated Statements  
of  
CASH FLOWS**

<i>(Thousands) (unaudited)</i>	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Cash provided by (used in):				
Operating activities:				
Net (loss) income for the period	\$(323)	\$2,321	\$(2,937)	\$2,258
Add non-cash items:				
Depreciation and amortization	2,401	2,329	7,214	6,926
Loss on sale of assets	-	-	127	-
Stock-based compensation expense	-	(29)	-	13
Future income tax (recovery) expense	(109)	319	(899)	914
	1,969	4,940	3,505	10,111
Net change in non-cash working capital from operations	(1,408)	(6,469)	8,219	(2,111)
Cash flow from operating activities	561	(1,529)	11,724	8,000
Financing activities:				
Common shares issued	-	108	-	212
Net proceeds from (repayment of) revolving term loans	-	4,000	(10,200)	(1,700)
Cash flow from financing activities	-	4,108	(10,200)	(1,488)
Investing activities:				
Acquisition of property, plant and equipment	(668)	(3,400)	(2,298)	(4,720)
Proceeds on sale of property, plant and equipment	-	62	110	62
Net change in non-cash working capital from the purchase of property, plant and equipment	72	362	(753)	(1,657)
Cash flow from investing activities	(596)	(3,016)	(2,941)	(6,315)
Net (decrease) increase in cash	(35)	(437)	(1,417)	197
Cash (bank indebtedness), beginning of period	(184)	1,022	1,198	388
Cash (bank indebtedness), end of period	\$(219)	\$585	\$(219)	\$585
Cash interest paid	\$153	\$263	\$435	\$897
Cash income taxes recovered	\$ -	\$(23)	\$(5)	\$(1,647)

**For further information, please contact:**

Marvin D. Clifton  
President & Chief Executive Officer  
T: 403 509-0702  
E: [mclifton@technicoilcorp.com](mailto:mclifton@technicoilcorp.com)

Robert W. Sprinkhuysen  
Chief Financial Officer  
T: 403 509-0711  
E: [rsprinkhuysen@technicoilcorp.com](mailto:rsprinkhuysen@technicoilcorp.com)