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## TECHNICOIL CORPORATION ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR THE FOURTH QUARTER AND YEAR ENDED DECEMBER 31, 2006

*This news release contains forward-looking information within the meaning of applicable securities laws. Forward-looking information may include estimates, plans expectations, forecasts, guidance or other statements that are not statements of fact. Such information, although considered reasonable by Technicoil Corporation (“Technicoil” or the “Corporation”) at the time of preparation is subject to certain risks and uncertainties and may prove to be incorrect and actual results may differ, possibly materially, from expectations. The reader should be aware that historical results are not necessarily indicative of future performance. The Corporation does not undertake an obligation to update its forward-looking statements except as required by law.*

### SUMMARY OF ANNUAL FINANCIAL RESULTS

*(\$ thousands except per share data)*

	2006	2005	2004
Number of rigs owned as at December 31	26	22	9
Average number of rigs available during the period	24.2	11.6	7.9
Revenue	\$43,866	\$37,519	\$25,897
Gross margin	\$17,052	\$13,856	\$11,067
Gross margin %	39%	37%	43%
General and administrative expenses	\$4,265	\$3,368	\$1,791
EBITDA (1)	\$14,653	\$10,543	\$9,401
Net income	\$5,596	\$4,304	\$4,729
Earnings per share – basic	\$0.10	\$0.08	\$0.10
Earnings per share – diluted	\$0.10	\$0.07	\$0.10
Funds flow from operations	\$13,293	\$10,671	\$7,795
Total assets	\$92,387	\$82,958	\$56,937
Long-term financial liabilities	\$16,850	\$7,500	-
Debt to equity ratio (2)	0.54	0.55	0.21

- 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 third quarter of 2006, the Corporation excluded gains/losses on the sale of assets, foreign exchange and interest income from its calculation of EBITDA. During the third quarter of 2006, the Corporation amended its calculation of EBITDA to include these items, which is consistent with industry practice. For consistency, comparative numbers have been restated accordingly.
- 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

Technicoil entered 2006 with an expanded rig fleet resulting from its 2005 rig build program. This expanded fleet, combined with robust industry activity, allowed Technicoil to post record results in the first quarter of 2006 and provided a sample of the financial returns possible in operating the Corporation's new larger fleet. Following the strength of the first quarter of 2006, natural gas prices began to decline significantly as a result of excess natural gas in storage exiting the 2006 winter heating season caused by mild winter weather conditions throughout North America. This decline in natural gas prices led to a reduction in industry activity, in particular shallow natural gas wells (includes Coal Bed Methane ("CBM") wells), which saw a 21% decline in the number of these wells drilled in the second half of 2006 versus the comparable period in 2005 (source: CAODC). This reduced shallow gas activity impacted Technicoil's activity levels and reduced the number of wells serviced and drilled by the Corporation. In 2006 Technicoil serviced sixteen fewer wells and drilled eight fewer wells as compared to 2005. However, increased revenue rates in both the well servicing and drilling divisions allowed the Corporation to record a 17% increase in revenue to \$43.9 million in 2006 versus \$37.5 million in 2005.

The increased revenue rates combined with strong cost control and improved efficiencies from Technicoil's new drilling and service rigs enabled the Corporation to increase its total gross margin by 23% to \$17.1 million in 2006, exceeding the Corporation's 17% increase in revenue. These benefits also positively impacted EBITDA(1) which increased by 39% to \$14.7 million in 2006 versus \$10.5 million in 2005. EBITDA(1) also benefited from \$1.8 million in gains on sales of assets being recognized during the year from the disposal of two of Technicoil's original body-style service rigs constructed in 2000. These increases were partially offset by a \$0.9 million increase in general and administrative expenses associated with costs incurred for the Corporation's compliance with the certification requirements of Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("CSox"), costs related to the Corporation's strategic alternatives review process and a general increase in costs due to the Corporation's increased organization size.

As indicated above, Technicoil sold two of its original body-style service rigs during 2006. With the improved design of Technicoil's new trailer-style rigs introduced to the Corporation's fleet 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 dispose of the older, less efficient body-style rigs in the Corporation's fleet. These rigs were sold to an independent third party operating in the northeastern United States for total proceeds of \$4.3 million. Subsequent to the year end, management successfully negotiated the sale of the Corporation's remaining two body-style rigs to the same company for total proceeds of \$3.5 million. The purchase price on these two rigs was lower than the purchase price of the first two rigs sold due to the more limited operating functionality of one of the rigs being sold and less ancillary equipment being provided. Due to the lower activity levels currently being experienced in the industry, the reduction to the Corporation's service rig fleet will have no impact on the Corporation's operating results in 2007.

The improved margins also resulted in Technicoil increasing its funds flow from operations by 25% to \$13.3 million in 2006 from \$10.7 million in 2005. The Corporation's higher interest expense associated with debt drawings required to fund its capital expansion programs partially offset some of the benefit generated from the Corporation's improved margins in 2006.

The improved margins in 2006, gain on sale of assets and a one-time \$1.0 million future income tax expense reduction associated with corporate tax rate reductions enacted during 2006 allowed Technicoil to increase net income by 30% to \$5.6 million or \$0.10 per share in 2006 from \$4.3 million or \$0.08 per share in 2005. This result was achieved despite a \$3.1 million increase in depreciation expense associated with the Corporation's increased average rig fleet in 2006 and a

\$0.8 million increase in interest expense from the Corporation's drawings on its debt facilities to fund its 2005 and 2006 capital expansion programs.

## RESULTS OF OPERATIONS

### WELL SERVICING OPERATIONS

<i>Year ended December 31 (\$ thousands)</i>	2006	2005	Variance	% Change
Service revenue	\$22,465	\$21,161	\$1,304	6%
Operating expenses	13,384	11,960	1,424	12%
Gross margin	\$9,081	\$9,201	(\$120)	(1%)
Gross margin %	40%	43%	(3%)	(7%)
Utilization %	23%	54%	(31%)	(57%)
Average number of rigs available during the year	18.2	7.7	10.5	136%
Number of wells completed during the year	1,942	1,958	(16)	(1%)

Service revenue increased by 6% to \$22.5 million in 2006 compared to \$21.2 million in 2005. The revenue growth is primarily due to an increase in revenue rates as the number of wells serviced by Technicoil in 2006 declined by sixteen to 1,942 wells from 1,958 wells in 2005. As discussed above, lower natural gas prices subsequent to the first quarter of 2006 resulted in a significant decrease in shallow natural gas activity during 2006 as oil and natural gas exploration companies curtailed their shallow natural gas and CBM drilling programs. This decrease in activity resulted in a 23% utilization of the Corporation's average service rig fleet of 18.2 rigs during 2006 versus a 54% utilization of an average fleet size of 7.7 rigs in 2005.

The average revenue per well increased to \$11,568 in 2006 from \$10,807 per well in 2005. A combination of rate increases associated with cost escalations in the industry and additional revenue generated from non-fracturing services produced the overall 7% increase in average revenue rates in 2006. Technicoil continues to diversify its service offerings beyond the traditional fracturing services provided with its service rigs. During the year the Corporation completed non-fracturing services on 27 wells, which provided revenue of \$0.9 million. These services included well extensions, acid stimulations and coil tubing installations into SAGD (Steam Assisted Gravity Drainage) wells in Fort McMurray. Technicoil has received positive feedback from its customers for these services and believes that there are opportunities to continue to develop these business lines as the market becomes more aware of Technicoil's abilities in these areas. Revenue from the non-fracturing services is generally higher on a per well basis as these wells take more time and are more technically complex.

The well servicing division generated a gross margin of \$9.1 million for 2006 which is consistent with the \$9.2 million achieved in 2005, while gross margin as a percentage of revenue decreased to 40% in 2006 from 43% in 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 2006 to retain experienced staff, combined with fixed costs increasing to 12% of revenue in 2006 versus only 10% of revenue in 2005. This increase in fixed costs corresponds to the increase in Technicoil's fleet and, with the lower utilization of the Corporation's fleet in 2006, these fixed costs accounted for a greater proportion of the operating costs in 2006. In addition, a greater portion of shared operating overhead costs were allocated to the well servicing division in the current year as a result of the service rigs comprising a larger portion of Technicoil's total rig fleet in 2006 versus 2005.

During 2006 Technicoil completed construction of an additional six trailer-style service rigs, bringing the Corporation's total coiled tubing service rig fleet to 22 rigs. As a result of lower industry activity levels combined with the success of Technicoil's new trailer-style service rigs constructed in 2005 and 2006, management began to look for opportunities to rationalize its service rig operating assets. As discussed above, these efforts resulted in the sale of two of the Corporation's original body-style rigs in 2006 and the further sale of the Corporation's remaining two body-style rigs subsequent to the year end. The total proceeds from the sale of these four older rigs and associated equipment is \$7.8 million which will be applied against the Corporation's outstanding debt. Following the disposition of these rigs, Technicoil will have a total coiled tubing service rig fleet of eighteen rigs, all of which are the Corporation's newer, more efficient trailer-style rig design.

#### **DRILLING OPERATIONS**

<i>Year ended December 31 (\$ thousands)</i>	2006	2005	Variance	% Change
Drilling revenue	\$21,401	\$16,358	\$5,043	31%
Operating expenses	13,430	11,703	1,727	15%
Gross margin	\$7,971	\$4,655	\$3,316	71%
Gross margin %	37%	28%	9%	32%
Utilization %	46%	63%	(17%)	(27%)
Average number of rigs available during the year	6.0	3.9	2.1	54%
Number of wells completed during the year	401	409	(8)	(2%)

Similar to the well servicing division, the drilling division was negatively impacted by lower industry activity caused by low natural gas prices subsequent to the first quarter of 2006. As a result of this lower activity, utilization for the Corporation's drilling rigs was 46% in 2006 versus 63% in 2005. The 46% utilization achieved by Technicoil is consistent with the 47% average rig utilization achieved by the industry in 2006 for rigs with depth capacities of less than 1,850 meters operating in the Western Canadian Sedimentary Basin ("WCSB") (source: CAODC). The 401 wells drilled by Technicoil in 2006 ranked the Corporation as the seventh busiest drilling contractor on a well count basis in the WCSB accounting for approximately 1.7% of the total wells drilled in the basin (source: CAODC). This result was achieved with Technicoil operating less than 1% of the total rigs operating in the WCSB.

Despite the lower industry activity and the Corporation drilling eight fewer wells in 2006, revenue in the drilling division increased by 31% to \$21.4 million in 2006 versus \$16.4 million in 2005. Higher revenue rates in 2006 and an increase in drilling time associated with an 8% increase in the average well depth to 793 meters helped to offset revenue lost from the reduced number of wells completed during the year. High demand for drilling services in the first quarter along with rate increases in response to higher industry operating costs resulted in Technicoil achieving an average revenue per operating day rate of \$21,043 in 2006 versus \$18,055 in 2005.

The increased revenue rates and a slight increase in the number of operating days combined to increase gross margin 71% to \$8.0 million in 2006 versus \$4.7 million in 2005. As a percentage of revenue, gross margin increased to 37% in 2006 versus 28% in 2006. 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 periods in order to retain staff. These higher costs were offset by improved efficiencies with Technicoil's newer and larger fleet in 2006. Gross margin as a percentage of revenue

also benefited from a decline in fixed costs as a percentage of revenue to 5% in 2006 versus 7% in 2005. This decrease is due to a combination of fixed overhead costs being spread over a larger drilling rig fleet as well as a greater proportion of shared overhead costs being allocated to the well servicing division in 2006 due to its increased size in 2006 versus 2005.

### **General and Administrative Expenses**

General and administrative expenses increased by 27% to \$4.3 million in 2006 from \$3.4 million in 2005. Of the \$0.9 million increase, \$0.3 million related to costs associated with preparing Technicoil for compliance with CSox, \$0.3 million in salary costs from increased staffing since the third quarter of 2005 and \$0.4 million in higher costs such as audit fees, legal, travel and public company costs associated with operating a larger organization. In addition, the Corporation incurred \$0.2 million in legal, advisory and special committee costs related to its recent strategic alternatives review process which was concluded in February 2007. These higher costs were partially offset by a \$0.2 million reduction in TSX listing fees which were incurred in 2005 and \$0.1 million in lower stock based compensation expense in 2006 due to a decrease in the number of options vesting in 2006.

General and administrative expenses were 10% of revenue in 2006 compared to 9% in 2005. Management expects general and administrative expenses to decrease as a percentage of revenue as Technicoil's activity increases and items such as high initial CSox compliance costs and one-time expenditures such as the Corporation's strategic alternatives review process are no longer incurred in future periods. Stock based compensation expense will also decrease in future periods as the majority of the expense related to the options currently outstanding has already been recorded in prior periods. In addition, options granted under the Corporation's newly amended stock option plan approved by shareholders in May 2006 are accounted for similar to a share appreciation right as, under the new plan, the option holder has the right to request the Corporation to make a cash payment to the option holder in an amount equal to the appreciation in value between the option's exercise price and the share price at the time of exercise. This payment is made in-lieu of issuing stock as is done under a traditional stock option plan. Under Technicoil's new plan, an expense will only be recognized when the period end market price of the Corporation's shares exceeds the option exercise price. When the period end market price of the Corporation's shares is less than the option price, the expense previously recognized in general and administrative expenses will be reversed in the current period. Therefore, future fluctuations in Technicoil's share price will result in fluctuations in the amount of stock based compensation expense recognized in Technicoil's general and administrative expenses.

### **Depreciation and Gain on Sale of Assets**

Depreciation expense increased by 90% to \$6.6 million in 2006 from \$3.5 million in 2005. This increase is due to the increase in the average operating rig fleet of 24.2 rigs in 2006 versus 11.6 rigs in 2005. As mentioned above, the Corporation sold two of its original body-style rigs in 2006, recording a \$1.8 million gain on the sale of assets from proceeds of \$4.3 million. No other significant asset sales were made during the year.

### **Interest and Taxes**

Technicoil incurred \$0.9 million of interest expense in 2006 versus \$0.1 million in 2005. In 2005, Technicoil had no debt outstanding until late in June, and only had an average outstanding debt balance of \$2.0 million for 2005. The Corporation's average outstanding debt balance increased to \$15.2 million in 2006 to fund Technicoil's capital expansion programs.

Technicoil's effective tax rate was 21.9% for 2006 compared to 38.4% for 2005 and a 2006 statutory rate of 32.5%. The decrease in the effective rate in 2006 is primarily due to a one-time \$1.0 million reduction in the Corporation's future income tax expense as a result of corporate tax rate reductions enacted during 2006 by the federal and provincial

governments. The majority of the adjustment was recorded in the second quarter with nominal adjustments recorded in the third and fourth quarters as a result of additions and deletions to Technicoil's tax pools associated with the Corporation's capital additions and disposals in the third and fourth quarters of 2006. If the impact of this adjustment is removed, Technicoil's adjusted effective tax rate would have been 36.5%. The adjusted effective tax rate is above the statutory rate due to stock based compensation being a non-deductible item for tax purposes.

The Corporation benefited in 2006 from tax pools associated with its 2005 and 2006 capital expansion program, which provided sufficient tax depreciation expense to offset earnings from operations. As a result, a current tax recovery of \$0.4 million was recorded in 2006.

### SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of Technicoil's results for the eight most recent quarters.

(\$ thousands except per share data)	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$9,597	\$10,316	\$6,281	\$17,672	\$13,507	\$10,700	\$6,090	\$7,222
Gross margin	\$3,180	\$4,398	\$1,211	\$8,263	\$5,102	\$4,309	\$2,197	\$2,248
Gross margin %	33%	43%	19%	47%	38%	40%	36%	31%
General and administrative expenses	\$1,110	\$934	\$1,070	\$1,151	\$987	\$899	\$818	\$664
EBITDA(1)	\$3,146	\$4,227	\$171	\$7,109	\$4,118	\$3,405	\$1,391	\$1,629
Net income	\$847	\$1,505	\$(272)	\$3,516	\$1,756	\$1,478	\$414	\$656
Basic earnings per share	\$0.01	\$0.03	\$0.00	\$0.06	\$0.03	\$0.03	\$0.01	\$0.01
Diluted earnings per share	\$0.01	\$0.03	\$0.00	\$0.06	\$0.03	\$0.03	\$0.01	\$0.01
Funds flow from operations	\$2,578	\$3,513	\$1,307	\$5,895	\$4,382	\$3,319	\$1,492	\$1,478

In response to strong industry demand, during the later half of 2004 Technicoil announced plans to expand its rig fleet to eighteen service rigs and six drilling rigs from the seven service rigs and two drilling rigs operated at the end of 2004. This expansion took place over 2005 with two drilling rigs being added to the fleet in the second quarter of 2005 and an additional two rigs in the third quarter of 2005. Nine of the eleven new service rigs were added in the fourth quarter of 2005 with the final two service rigs being added in the first quarter of 2006. In the fourth quarter of 2005, Technicoil announced plans to add an additional six service rigs, which was subsequently reduced to four service rigs, in the second half of 2006. Two of these rigs were delivered in the third quarter of 2006 with the final two service rigs being delivered in the fourth quarter of 2006.

Throughout 2005 Technicoil was focused on completing its capital expansion plans and implementing the necessary organizational structure to manage the Corporation's expanded business. These efforts required a significant amount of time and resources to be invested in training new rig staff and implementing operational support functions that were required to be implemented prior to full field operations. As a result, higher than normal operating costs were incurred throughout 2005 which caused gross margins to decrease below historical levels. Throughout 2005, the Corporation was subject to the normal activity swings in the WCSB, which generally sees the lowest activity levels in the second quarter when road bans are implemented during the quarter restricting transportation of heavy equipment on provincial roads while the winter frost comes out of the ground. The third quarter is typically the strongest quarter for Technicoil's well servicing activities as weather is normally the most favorable and wells drilled during the traditionally busy winter drilling season are

typically serviced during this period. The first quarter is traditionally the strongest quarter for the Corporation's drilling equipment as frozen ground conditions throughout the province allows for a greater movement of drilling rigs, especially into certain northern locations which can only be accessed during the winter season. In addition to these normal industry cycles, higher than normal precipitation levels were experienced in the second and fourth quarters of 2005 causing wet ground conditions that curtailed activity levels in the areas where the Corporation's equipment operates. As a result, even though Technicoil's fleet was increasing throughout 2005, manufacturing delays, wet weather and higher initial operating costs curtailed both top line revenue and bottom line profitability results during the year.

In response to record natural gas prices in the fourth quarter of 2005, industry activity spiked in the first quarter of 2006 and Technicoil experienced record demand for its drilling rigs. Similar activity levels were not experienced in Technicoil's well servicing division as lower than expected shallow natural gas fracturing was completed during the quarter. Subsequent to the first quarter of 2006, natural gas prices declined due to high natural gas inventory storage levels in North America. In response to the decline in natural gas prices, oil and gas exploration companies reduced their capital expenditure programs resulting in lower drilling and well servicing activities, especially in the Corporation's primary operating arena of shallow natural gas. This has caused the Corporation's activity levels to decline accordingly since the first quarter of 2006 resulting in both lower revenue and net income since the first quarter of 2006.

In response to the lower activity levels, combined with the success of Technicoil's newer trailer-style service rigs, management began to look for opportunities to rationalize its service rig fleet by disposing of its older, less efficient body-style service rigs. The sale of two of its four body-style rigs was completed in the third and fourth quarters of 2006 with the sale of the remaining two body-style rigs being completed in the first quarter of 2007.

#### 2 0 0 6 F O U R T H Q U A R T E R D I S C U S S I O N

Technicoil generated \$9.6 million in revenue in the fourth quarter of 2006 versus \$13.5 million in the fourth quarter of 2005. The decrease in revenue in the fourth quarter of 2006 is due to a combination of lower well servicing and drilling rates and a decline in natural gas industry activity in the fourth quarter of 2006 versus the robust industry activity experienced in the fourth quarter of 2005. While the total number of wells drilled by the industry in the fourth quarter of 2006 was consistent with the number of wells drilled in the fourth quarter of 2005, the mix of wells drilled shifted from natural gas wells towards oil wells in the fourth quarter of 2006 versus 2005. In particular, the number of shallow natural gas wells completed during the fourth quarter of 2006 by the industry declined by 253 wells while the number of shallow oil wells increased by 234 (source: CAODC). This decline impacted both of Technicoil's operating divisions as the Corporation's well servicing and drilling rigs primarily operate in the shallow natural gas arena.

During the quarter, Technicoil's operating divisions generated \$3.2 million in gross margin versus \$5.1 million in the fourth quarter of 2005. This decrease is primarily due to the decrease in revenue, however, gross margin as a percentage of revenue also decreased in the quarter to 33% versus 38% in the fourth quarter of 2005 and a 39% average for the 2006 year. The lower gross margin as a percentage of revenue is primarily due to revenue rates declining approximately 7% and 3% in the well servicing and drilling divisions, respectively, versus the rates achieved in these divisions in the fourth quarter of 2005. This decline in revenue rates occurred despite operating costs escalating approximately 5% in the quarter versus the fourth quarter of 2005 due to wage increases for field staff that occurred during the quarter combined with a general cost escalation for other consumables and services used in the Corporation's operations. This cost increase impacted both the well servicing and the drilling divisions, however, on a quarter over quarter basis, the impact of these cost increases was partially offset in the well servicing division through the elimination of high initial training and infrastructure setup costs

associated with the introduction of Technicoil's new well servicing rigs added to the Corporation's fleet in the fourth quarter of 2005. Similar initial training and infrastructure setup costs did not occur in the fourth quarter of 2006.

During the quarter Technicoil took delivery of the last two service rigs from its 2006 capital expansion program. In addition, as discussed above, the Corporation sold one of its original body-style rigs during the quarter for gross proceeds of \$2.2 million resulting in a gain on the sale of assets of \$1.0 million being recorded in the quarter. This sale was in addition to another body-style rig sold by the Corporation in the third quarter of 2006.

The gain on the sale of assets helped to offset the 38% decline in gross margin during the quarter and, as a result, EBITDA(1) only declined 24% to \$3.1 million during the quarter versus \$4.1 million in the fourth quarter of 2005. EBITDA(1) was also negatively impacted by a \$0.1 million increase in general and administrative expenses during the quarter. The increase in general and administrative costs is a result of \$0.2 million in expenditures being incurred during the quarter for advisory, legal and special committee costs related to the Corporation's strategic alternatives review process initiated in October and \$0.1 million being incurred during the quarter for CSOX compliance. These expenditures were partially offset by a \$0.2 million decrease in stock-based compensation expense due to fewer options vesting in the quarter versus the fourth quarter of 2005.

Similar to EBITDA(1), funds flow from operations also decreased as a result of the lower operating results in the quarter, however, unlike EBITDA(1), funds flow from operations did not benefit from the gain on the sale of assets as this is a non-cash item and is excluded from the calculation of funds flow from operations. As a result, funds flow from operations declined to \$2.6 million in the fourth quarter of 2006 from \$4.4 million in the fourth quarter of 2005.

As a result of the items discussed above combined with a \$0.5 million increase in depreciation expense and a \$0.2 million increase in interest expense, net income decreased to \$0.8 million in the quarter from \$1.8 million in the fourth quarter in 2005. The effective tax rate in the quarter was only 22.6% due to \$0.1 million in additional future income tax expense adjustments being recorded in the quarter as a result of the corporate income tax rate changes enacted earlier in 2006. If the impact of these adjustments were excluded, the Corporation's adjusted effective tax rate would have been 31.9%.

#### WELL SERVICING OPERATIONS

<i>Three months ended December 31 (\$ thousands)</i>	2006	2005	Variance	% Change
Service revenue	\$4,983	\$6,475	(\$1,492)	(23%)
Operating expenses	3,189	3,843	(654)	(17%)
Gross margin	\$1,794	\$2,632	(\$838)	(32%)
Gross margin %	36%	41%	(5%)	(12%)
Utilization %	19%	53%	(34%)	(64%)
Average number of rigs available during the period	19.2	9.9	9.3	94%
Number of wells completed during the period	480	579	(99)	(17%)

Well servicing revenue decreased by 23% to \$5.0 million in the fourth quarter of 2006 compared to \$6.5 million in the fourth quarter of 2005. The decrease in revenue is due to a 17% decline in the number of wells serviced by Technicoil in the quarter combined with a 7% decline in average well revenue rates to \$10,381 per well in the fourth quarter of 2006 versus \$11,183 in the fourth quarter of 2005. The decrease in activity and well rates is a direct result of the lower demand

for well fracturing services in the shallow natural gas service sector caused by the decline in natural gas prices during 2006.

Technicoil's well servicing gross margin decreased by 32% to \$1.8 million in the fourth quarter of 2006 versus \$2.6 million earned in the fourth quarter of 2005. This decrease is due primarily to the 7% decline in revenue rates as gross margin as a percentage of revenue would have been 41% in the quarter if the same revenue rates would have been attained in the fourth quarter of 2006 as those enjoyed in the fourth quarter of 2005. While margins have declined due to decreases in revenue rates, the Corporation continues to maintain strong cost control in its well servicing division as the average cost per well remains unchanged in the current quarter versus the fourth quarter of 2005 despite a 5% increase in field salary rates implemented on October 1, 2006, and fixed costs increasing as a percentage of revenue to 13% in the quarter versus 10% in the fourth quarter of 2005. On a dollar basis, fixed costs increased marginally to \$0.7 million in the quarter versus \$0.6 million in the fourth quarter of 2005. The cost escalations incurred during the quarter were offset by operating efficiencies from Technicoil's new service rigs, combined with the elimination of high initial training and other pre-operating costs incurred in the fourth quarter of 2005 related to the new service rigs added to the Corporation's fleet in the fourth quarter of 2005.

#### DRILLING OPERATIONS

<i>Three months ended December 31 (\$ thousands)</i>	2006	2005	Variance	% Change
Drilling revenue	\$4,614	\$7,032	(\$2,418)	(34%)
Operating expenses	3,228	4,562	(1,334)	(29%)
Gross margin	\$1,386	\$2,470	(\$1,084)	(44%)
Gross margin %	30%	35%	(5%)	(14%)
Utilization %	45%	67%	(22%)	(33%)
Average number of rigs available during the period	6.0	6.0	-	-
Number of wells completed during the period	126	155	(29)	(19%)

Drilling revenue decreased by 34% to \$4.6 million in the fourth quarter of 2006 compared to \$7.0 million in the fourth quarter of 2005. Consistent with the well servicing division, the decline in revenue is due to a decrease in activity and revenue rates in the current quarter versus the fourth quarter of 2005. Due to the decline in industry demand, the average revenue rate per operating day declined to an average of \$18,383 per day in the quarter versus \$19,005 per day in the fourth quarter of 2005 and an average rate of \$21,043 for 2006.

Gross margin generated from the drilling operations decreased by 44% to \$1.4 million in the fourth quarter of 2006 compared to \$2.5 million in the fourth quarter of 2005. This decline is due to a decline in revenue rates and an increase in operating costs. As a result gross margin as a percentage of revenue declined to 30% of revenue in the fourth quarter of 2006 compared to 35% of revenue in the fourth quarter of 2005. The impact of the lower revenue rates on gross margin as a percentage of revenue in the quarter was a 2% decline in gross margin as a percentage of revenue. The remaining 3% decline in gross margin as a percentage of revenue is primarily due to the impact of a 5% salary increase on October 1, 2006, for field personnel. Fixed operating costs as a percentage of revenue was consistent at 5% of revenue on a quarter over quarter basis.

## General and Administrative Expenses

General and administrative expenses increased marginally to \$1.1 million in the quarter versus \$1.0 million in the fourth quarter of 2005. During the quarter, Technicoil incurred \$0.2 million in advisory, legal and Special Committee costs associated with the Corporation's strategic alternatives review process and \$0.1 million for the Corporation's CSOX compliance work. These expenditures were partially offset by a \$0.2 million decrease in stock-based compensation expense due to fewer options vesting in the quarter versus the fourth quarter of 2005.

## LIQUIDITY AND CAPITAL RESOURCES

Technicoil exited 2006 with \$3.0 million in cash and \$21.8 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 capital expansion programs. Although long-term debt has increased since December 31, 2005, Technicoil's debt to equity ratio declined to 0.54 at December 31, 2006, from 0.55 at December 31, 2005. In addition, the Corporation had a positive working capital balance of \$6.6 million at December 31, 2006. Technicoil's financial position will be further strengthened from the \$3.5 million in proceeds that will be received from the sale of the two body-style rigs sold subsequent to the year end. Management remains focused on maintaining a strong balance sheet and believes that this prudent financial stewardship will allow the Corporation to remain financially stable during the current weakness in industry activity.

Although activity levels have been lower than expected, Technicoil continues to generate positive funds flow from operations with \$13.3 million being generated in 2006 versus \$10.7 million in 2005. During 2006, the Corporation generated positive funds flow from operations in each quarter, including the second quarter which traditionally sees a reduction in activity levels due to spring break-up and higher operating costs associated with annual maintenance expenditures.

Property, plant and equipment expenditures in 2006 were \$17.4 million primarily related to completing construction on the six new service rigs delivered in 2006 and beginning construction on one new drilling rig. Due to the current slow down in industry activity and anticipated continued weakness in industry activity until the fourth quarter of 2007 or into 2008, the Corporation has not committed to any further expansion of its rig fleet at this time other than the completion of the seventh drilling rig currently under construction. In addition, as a result of the slow down in activity, Technicoil may delay construction of some of the support equipment for the seventh rig until later in the second half of 2007. As a result, Technicoil anticipates having an effective capacity of six drilling rigs during the third and fourth quarters of 2007 and increasing to seven drilling rigs late in the fourth quarter once construction of the full complement of support equipment is completed.

Technicoil currently anticipates incurring approximately \$6.0 million in capital expenditures in 2007, of which, \$4.0 million relates to the completion of the seventh drilling rig, \$1.4 million is carryover of miscellaneous 2006 capital projects in progress at December 31, 2006, and the remaining \$0.6 million is normal recurring operating maintenance capital initiatives.

Other than the capital commitments discussed above, the Corporation's other contractual obligations at this time relate to debt repayments and to operating leases for vehicles, office equipment and office premises and are as follows:

<i>Payments due by period (\$ thousands)</i>	Total	2007	2008 to 2009	2010 to 2011	After 2011
Debt repayments	\$21,750	\$4,900	\$9,800	\$7,050	-
Operating leases	1,216	685	390	141	-
Total contractual obligations	\$22,966	\$5,585	\$10,190	\$7,191	-

As at December 31, 2006, Technicoil's debt facilities consisted of \$21.8 million in term facilities which were fully drawn and being repaid and a \$4.0 million operating line of which no amount was outstanding as at December 31, 2006. Management believes the Corporation's funds flow from operations will be sufficient to finance its 2007 capital expenditures, therefore, no additional financing is anticipated to be required at this time.

Proceeds from the exercise of stock options provided nominal cash inflows during the year. As at December 31, 2006, Technicoil had 57,840,187 common shares issued and outstanding and 3,236,999 stock options issued and outstanding of which 1,707,993 were vested. No new stock options have been issued subsequent to December 31, 2006.

## FINANCIAL INSTRUMENTS

Financial instruments include both primary instruments, such as receivables, payables and equity securities, and derivative instruments, such as financial options, futures and forwards, interest rate swaps and currency swaps.

As of December 31, 2006, Technicoil's financial instruments included only primary financial instruments, specifically receivables, payables and debt. The Corporation did not enter into any derivative financial instrument contracts in 2006, nor did it have any derivative financial instrument contracts outstanding as of December 31, 2006.

### **Credit Risk and Economic Dependence**

All of the Corporation's accounts receivable are with customers in the oil and gas industry. Technicoil's customers are subject to an internal credit review along with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. Economic changes in the oil and gas industry could negatively affect the risk of non-payment.

Technicoil has significant exposure to one major customer. The customer is a public well services company with whom the Corporation has a long term services contract. For the year ended December 31, 2006, 38% or \$16.7 million (2005 - 55% or \$20.6 million) of the Corporation's total revenue was derived from this customer. As at December 31, 2006, \$2.7 million (2005 - \$2.2 million) of the Corporation's accounts receivable balance included amounts outstanding from this customer.

### **Interest Rate Risk**

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

**Fair Values**

The fair values of the Corporation's accounts receivable, income taxes receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair value of the Corporation's term loans approximates their carrying value due to the floating interest rate terms.

**Foreign Exchange Risk**

Technicoil's operations are based in Canada, therefore, it is not exposed to foreign exchange risk other than from nominal United States dollar denominated purchases made during the course of normal operations.

**TRANSACTIONS WITH RELATED PARTIES**

The Corporation has not entered into any transactions with related parties during 2006, nor did it have any balances outstanding with related parties as of December 31, 2006.

**RISKS AND UNCERTAINTIES**

While the demand for Technicoil's products and services is largely a function of the supply, demand and price of oil and natural gas, many other factors can affect the fortunes of the business either positively or negatively. The Corporation encourages all investors to read and be aware of the following business risks as well as the risks disclosed in the Corporation's annual information form for the year ended December 31, 2006.

**Volatility of Industry Conditions**

The demand, pricing and terms for oilfield services largely depends upon the level of industry activity for Canadian natural gas and, to a lesser extent, oil exploration and development. Industry conditions are influenced by numerous factors over which Technicoil has no control, including: the level of oil and gas prices; expectations about future oil and gas prices; the cost of exploring for, producing and delivering oil and gas; the expected rates of declining current production; the discovery rates of new oil and gas reserves; available pipeline and other oil and gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and gas companies to raise equity capital or debt financing.

The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and gas exploration and production activities will continue or that demand for oilfield services will reflect the level of activity in the industry. Any prolonged substantial reduction in oil and natural gas prices would likely affect oil and gas exploration and production levels and therefore affect the demand for drilling, fracturing and services to oil and gas customers. A material decline in oil or gas prices or Canadian industry activity levels could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. Any addition to, elimination or curtailment of, government incentives could have a significant impact on the oilfield service industry in Canada.

**Seasonality**

The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. The spring thaw makes the ground unstable and less capable of supporting heavy weights. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing Technicoil's activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting the Corporation's revenues.

### **Dependence on Major Customer**

Technicoil has significant exposure to one major customer in its well servicing segment. The customer is a public pressure-pumping company with whom Technicoil has a long-term (initial three year term, renewable annually thereafter) operating services contract for twelve of the Corporation's service rigs. While the Corporation has no reason to believe that there will be a significant change to the amount of work undertaken with this customer, no assurance can be given that the relationship with this customer will continue beyond the contract period. Any significant increase or decrease in the volume of business conducted with this customer could have a material effect on the Corporation's business and operations. In addition, the operating services agreement with this customer confers the option to acquire up to six coiled tubing service rigs at stipulated prices in excess of book value upon the occurrence of a change of control arising from the acquisition of Technicoil's voting securities by a limited number of certain designated parties. This operating services agreement also extends to Technicoil the preferential right to offer to supply additional coiled tubing service rigs in the event that the customer proposes to enter into arrangements for the purpose of building or acquiring ownership, lease or similar rights to coiled tubing service rigs or equipment. Similar change of control provisions do not exist in other contracts that the Corporation has with other customers.

### **Dependence on Suppliers**

Failure of suppliers to deliver equipment and products in a timely and efficient manner could be detrimental to Technicoil's ability to keep customers and to grow. Certain equipment is manufactured specifically for Technicoil and it is dependent upon the continued availability of the manufacturer and the maintenance of the quality of the manufacturer. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment and products. In addition, supplier capacity constraints may limit Technicoil's pace of growth in future years.

### **Reliance on Skilled Personnel**

Technicoil's success is dependent upon its skilled personnel. Technicoil's ability to expand its services is dependent upon its ability to attract additional qualified employees. Securing the services of additional qualified personnel is constrained in times of strong industry activity. Any loss of the services of skilled personnel or the inability to attract and retain qualified employees could have a material adverse effect on the Corporation's business and operations.

### **Competition**

The oilfield services industry is highly competitive. Technicoil competes with a substantial number of companies, some of which have greater technical, personnel and financial resources. There can be no assurance that such competitors will not substantially increase their resources devoted to the development and marketing of products and services that compete with Technicoil's products and services, or that new competitors will not enter the various markets in which the Corporation is active. Additional competition could significantly impact the Corporation's activity levels, thereby adversely affect revenues.

### **Technology Risks**

Technicoil's ability to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that Technicoil will be successful in its efforts in this regard or that the Corporation will have the resources available to meet this continuing demand. Failure to do so could have material adverse effects on the Corporation. No assurances can be given that competitors will not achieve technological advantages over the Corporation.

## **Credit Risk**

Technicoil's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Declines in the revenues and resulting cash flows of Technicoil's customers could impair their ability to settle their outstanding liability to the Corporation.

## **Access to Additional Financing**

In the future, Technicoil may find it necessary to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to Technicoil when needed or on terms acceptable to the Corporation. An inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit future growth and may have a material adverse effect on the Corporation.

## **Operating Risk and Insurance**

Technicoil's operations are subject to hazards inherent in the oil and gas industry such as equipment defects, malfunctions, failures and natural disasters. Risks could expose the Corporation to substantial liability for personal injury, wrongful death, business interruption, property damage or destruction, loss of oil and gas production, pollution and other environmental damage. As a result, Technicoil operates a loss prevention program in accordance with industry standards to protect its assets, operations and employees. The Corporation also maintains insurance coverage that is believed to be adequate, however there can be no assurance that such insurance will be adequate to cover potential liabilities. If a substantial loss liability is incurred and such damages were not covered by insurance or were in excess of policy limits, or if a loss was to occur at a time when liability insurance could not be obtained, the Corporation's business, results of operations and financial condition could be materially adversely affected.

## **Intellectual Property**

Technicoil's business relies, in part, on the use of proprietary intellectual property. In the ordinary course of business there may be challenges to these intellectual property rights. An impairment in the Corporation's ability to use these intellectual property rights may have an adverse effect with respect to certain aspects of the business.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of Technicoil's financial statements requires that certain estimates and judgments be made that affect the reported assets, liabilities, revenues and expenses of the Corporation. These estimates and judgments are based on historical experience and various assumptions which management believes to be reasonable in the circumstances. Anticipating future events cannot be done with certainty, therefore these estimates may change as new events and circumstances occur, more experience is acquired or as the Corporation's operating environment changes.

The accounting estimates believed to require the most difficult, subjective or complex judgments and which could have the most impact on Technicoil's results of operations and financial position are as follows:

### **Depreciation and Impairment of Long-Lived Assets**

Technicoil's property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. Assessing the reasonableness of the estimated useful lives of property and equipment requires judgment and is based on currently available information including the Corporation's prior experience with similar equipment and the experience of other companies in the industry with similar equipment. These estimates may change as more experience is

gained, market conditions shift or new technological advancements are made. A change in the remaining useful life of a group of assets would affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the results of operations. Any such changes are reported prospectively.

Long-lived assets, which includes property, plant and equipment, comprise the majority of Technicoil's assets. The carrying value of these assets is periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This requires management to forecast future cash flows to be derived from the utilization of these assets based upon assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

The Corporation recorded a total depreciation expense of \$6.6 million in 2006. No amount has been recorded relating to the impairment of assets in 2006.

### **Stock-Based Compensation**

Technicoil's stock option plan provides for the granting of options to Directors, officers and employees. The fair value of any stock options granted under the Corporation's stock option plan prior to May 2006 is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. Upon the exercise of stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The fair value of the stock-based compensation is determined using the Black Scholes option pricing model and management's assumptions as disclosed in note 6 to the 2006 consolidated financial statements. These assumptions are based on currently available information. These estimates may change as more experience is gained or as market conditions shift.

The Corporation recorded a total stock-based compensation expense resulting from the Black Scholes model calculation of \$0.9 million in 2006.

### **Coiled Tubing Inventory**

The majority of Technicoil's inventory balance consists of the unused portion of coiled tubing strings. Coiled tubing strings are recorded into inventory when purchased and are charged into operating expenses based on estimates made about the actual consumption of the string. The string consumption is calculated using a modeling technique that estimates the string's fatigue and erosion using currently available data and management's assumptions. Significant or unanticipated changes in actual coiled tubing fatigue or erosion, or to management's assumptions as more experience is gained, could impact the magnitude or timing of future operating expenses and inventory balances.

The inventory balance related to coiled tubing strings was \$2.2 million at December 31, 2006.

### **Legal**

As described in note 9 to the 2006 consolidated financial statements, Technicoil is involved in legal actions in Canada. Management evaluates the likelihood of potential liabilities being incurred and the amount of such liabilities after careful examination of available information and discussions with its legal advisors. As these actions have yet to reach a status where the direction of a court's decision can be determined with any reliability, management is unable to evaluate its potential exposure to these legal actions at this time.

### **Allowance for Doubtful Accounts**

Technicoil performs ongoing credit evaluations of its customers and grants credit based upon the customer's past payment history, financial condition and anticipated industry conditions. In assessing the ability to collect accounts receivable, management reviews individual customer receivable balances to determine accounts for which collection is not certain. For these accounts, an allowance for doubtful accounts is established.

No doubtful accounts have been identified and no reserve has been established for doubtful accounts as of December 31, 2006.

### **Income Taxes**

Technicoil uses the liability method for determining its income tax provision and liabilities. This methodology takes into consideration the differences between financial statement treatment and income tax treatment of certain transactions, assets and liabilities. Current and future income tax assets and liabilities are recognized for the income tax consequences attributed to the Corporation's current year operations and the differences between the financial statement treatment and income tax treatment of the matter. Valuation allowances are established to reduce future income tax assets when it is believed that some or a portion of the asset may not be realized. Estimates of future income tax rates, future income taxes payable and the continuation of prudent tax planning initiatives have been considered in making these valuation assessments. Changes in circumstances, assumptions and the clarification of uncertain taxation matters may require the valuation allowances to change.

There has been no amount recorded relating to a valuation allowance as of December 31, 2006.

### **ACCOUNTING STANDARDS PENDING ADOPTION**

The Canadian Institute of Chartered Accountants ("CICA") has issued two new accounting standards: Section 3855, *Financial Instruments – Recognition and Measurement*; and Section 1530, *Comprehensive Income*. The Corporation will apply these standards effective January 1, 2007. At this time, the Corporation does not expect the impact of these new standards to be material.

### **OUTLOOK**

Entering 2007, colder weather during late January and February in eastern Canada and the United States has caused natural gas commodity prices to increase from the lows experienced during 2006. However, high natural gas storage levels existing since the end of the 2006 winter heating season continue to create some uncertainty in the industry as to what 2007 natural gas prices and resulting industry activity levels will be beyond the first quarter of 2007. The timing of this market slow down conflicts with the increase in industry service equipment supply over the last two years and the continual increase of service company operating costs such as labor costs. The combination of these factors will make 2007 a challenging year for the industry and Technicoil which will likely result in lower utilization levels for the Corporation's equipment and margin compression due to increased competitive pricing pressure and rising labour and supply costs in the industry. However, it is anticipated there will be a recovery in the oil and gas industry at some point in the future and continued strong financial management will assist Technicoil in prospering when the recovery occurs.

While shallow natural gas activity has shouldered the majority of the decline in activity over the recent quarters, the reality of the geology of the WCSB is that shallow natural gas is the predominant resource with approximately 50% of the wells

drilled over the last two years being natural gas wells less than approximately 1,100 meters (source: CAODC). In addition, with the decline in conventional natural gas reserves, production from non-conventional reserves such as CBM is expected to grow significantly in future years, thereby further strengthening the shallow natural gas market as the majority of the current CBM wells are shallow.

Given that Technicoil's service and drilling rigs are predominately designed for shallow natural gas drilling and service activities, Technicoil's fleet of new rig equipment will be a beneficiary of the recovery and future expansion of shallow natural gas activity. As such, management will focus on enhancing the Corporation's operations during the current industry slow down which will allow Technicoil to be in position to prosper when activity increases. Some of these initiatives have already begun as evidenced through the recent sale of the Corporation's four oldest, less efficient service rigs.

After the sale of these four rigs, Technicoil continues to own and operate the largest fleet of masted coiled tubing service rigs in Canada which are widely recognized as the best-in-class coiled tubing service rigs by its customers. While some of Technicoil's customers have alternative service rig equipment that can be used in place of Technicoil's equipment, management believes that the quality of Technicoil's equipment and expertise of the Corporation's staff allows Technicoil to provide a more efficient, safer and cost effective solution to its customers. It is these factors that have allowed Technicoil to expand its service rig customer base from one customer two years ago to a total of ten customers in 2006.

It is Technicoil's goal to provide a premier cost effective service to its customers which will motivate these customers to choose to contract a Technicoil rig in the future rather than building their own service rig to meet their fleet expansion needs. This will allow Technicoil's customers to concentrate on what they do best, pressure pumping, and allow Technicoil to do what it does best, operate service rigs. This outsourcing model has already proven to be effective for Technicoil's largest customer and, with the growth of Technicoil's customer base in 2006, management believes Technicoil's new customers are also recognizing the benefit of this model.

Although Technicoil's drilling division is smaller on an operating unit basis than the Corporation's well servicing division, the drilling division continues to be a significant contributor to Technicoil's financial performance. Due to the efficiencies and safety aspects of coiled tubing drilling rigs versus conventional drilling rigs, coiled tubing drilling continues to expand in popularity in the WCSB and into the United States. As such, management believes there are further opportunities to expand Technicoil's coiled tubing drilling division beyond the six rigs currently operating in the Corporation's fleet and the seventh rig due to be added in 2007. Further additions to the Corporation's drilling fleet will be evaluated during 2007 and 2008 once greater clarity is gained on industry activity levels and customer demand.

While management believes there is significant upside with Technicoil's core coiled tubing well servicing and drilling operations, management has always felt that diversification beyond the shallow natural gas market is key to Technicoil's long-term financial stability. Being concentrated in one area of the WCSB is beneficial when activity in that area is high, however, as evidenced in 2006, being concentrated in one area when activity in that area is depressed can create significant volatility to the Corporation's operating results. As such, management will continue to look for opportunities in 2007 and beyond to diversify Technicoil's business activities beyond shallow natural gas. Some of these initiatives include:

- Further expansion of Technicoil's coiled tubing well servicing business operations beyond shallow natural gas well fracturing into conventional well servicing activities such as well cleanouts and stimulations;
- Expansion of Technicoil's coiled tubing drilling operations into oil development and exploration;

- Acquisition or some other form of business combination with a company operating conventional service rigs or other complimentary services.

Each of these initiatives will assist in strengthening and expanding Technicoil's business operations and management believes that patient investors with a long-term focus will be rewarded once Technicoil manages its way through the current trough in the ever changing cycle in the oil and gas services industry.

#### INTERNAL CONTROLS

Technicoil has implemented a system of internal controls that it believes adequately protects the assets of the Corporation and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation that Technicoil's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Corporation is made known to them and have been operating effectively during 2006. It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that Technicoil's disclosure controls and procedures provide a reasonable level of assurance that the system of internal controls are effective, they do not guarantee that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

In addition, in accordance with Multilateral Instrument 52-109, the Corporation has, under the supervision of its Chief Executive Officer and Chief Financial Officer, designed a process of internal control over financial reporting, which has been effected by the Corporation's board of directors and management. The process was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP") and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of Technicoil's assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and the board of directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Technicoil's assets that could have a material effect on the annual or interim financial statements.

Based on the Chief Executive Officer and the Chief Financial Officer's review of the design of internal controls over financial reporting, the Chief Executive Officer and Chief Financial Officer have concluded that the design of internal controls is adequate for the nature of the Corporation's business and size of its operations. As a small organization, and similar to other small organizations, the Corporation's management is composed of a small number of key individuals, resulting in a situation where limitations on the segregation of duties have to be compensated by more effective supervision and monitoring by the Chief Executive Officer and the Chief Financial Officer. As such, the Chief Executive Officer and Chief Financial Officer continually monitor the financial activities of the Corporation. It is important to note that in order

to eliminate the potential risk associated with this issue the Corporation would be required to hire additional staff in order to provide greater segregation of duties. Since the increased funding costs of such hiring would be financially constrictive to Technicoil, the Corporation has chosen to disclose the potential risk in its annual filings and proceed with increased staffing as the Corporation's growth supports such overhead expansion.

During the fourth quarter of 2006, Technicoil amended its control environment to enhance the internal controls over segregation of duties and improve information technology application controls to enhance security and integrity over the Corporation's financial data. These enhancements did not result in any adjustments to Technicoil's disclosures or its financial statements.

# TECHNICOIL CORPORATION

## Consolidated Balance Sheets

Years ended December 31, 2006 and 2005

(Thousands)	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$3,047	\$2,979
Accounts receivable	7,774	8,308
Income taxes receivable	1,281	897
Inventory	2,489	1,144
Prepaid expenses	431	535
	15,022	13,863
Property, plant and equipment	77,365	69,095
	<b>\$92,387</b>	<b>\$82,958</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$3,527	\$15,444
Current portion of long-term debt	4,900	1,500
	8,427	16,944
Long-term debt	16,850	7,500
Future income taxes	7,143	5,155
	32,420	29,599
Shareholders' equity:		
Share capital	38,586	38,445
Contributed surplus	2,144	1,273
Retained earnings	19,237	13,641
	59,967	53,359
	<b>\$92,387</b>	<b>\$82,958</b>

# TECHNICOIL CORPORATION

## Consolidated Statements of Operations and Retained Earnings

Years ended December 31, 2006 and 2005

(Thousands, except per share data)	2006	2005
Coil tubing service and drilling revenue	\$43,866	\$37,519
Operating expenses	26,814	23,663
Gross margin	17,052	13,856
General and administrative expenses	4,265	3,368
Depreciation	6,580	3,460
Gain on sale of assets	(1,774)	(8)
Interest on long-term debt	910	100
Other interest income	(54)	(95)
Foreign exchange (gain) loss	(38)	48
Net income before income tax	7,163	6,983
Income tax (recovery) expense:		
Current	(421)	815
Future	1,988	1,864
	1,567	2,679
Net income	5,596	4,304
Retained earnings, beginning of year	13,461	9,337
Retained earnings, end of year	\$19,237	\$13,641
Earnings per share:		
Basic	\$0.10	\$0.08
Diluted	\$0.10	\$0.07

# TECHNICOIL CORPORATION

## Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

(Thousands)	2006	2005
Cash provided by (used in):		
Operating activities:		
Net income for the year	\$5,596	\$4,304
Add (deduct) non-cash items:		
Depreciation	6,580	3,460
Gain on sale of assets	(1,774)	(8)
Stock-based compensation expense	903	1,051
Future income tax	1,988	1,864
Funds flow from operations	13,293	10,671
Net change in non-cash working capital from operations	(1,771)	(7,735)
Cash flow from operating activities	11,522	2,936
Financing activities:		
Common shares issued	109	776
Proceeds from long-term debt	15,500	9,000
Repayment of long-term debt	(2,750)	-
Cash flow from financing activities	12,859	9,776
Investing activities:		
Acquisition of property, plant and equipment	(17,396)	(35,726)
Proceeds on sale of property, plant and equipment	4,320	71
Net change in non-cash working capital from the purchase of property, plant and equipment	(11,237)	10,115
Cash flow from investing activities	(24,313)	(25,540)
Net increase (decrease) in cash and cash equivalents	68	(12,828)
Cash and cash equivalents, beginning of year	2,979	15,807
Cash and cash equivalents, end of year	\$3,047	\$2,979
Cash income taxes (recovered) paid	\$(147)	\$3,483
Cash interest paid	\$894	\$99

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