

# TRICAN

OILWELL SERVICE CO. LTD.



1996  
Annual  
Report

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## Corporate Profile

Trican Oilwell Service Co. Ltd. ("Trican") is a well service company that provides coil tubing, stimulation, cementing and related services to the oil and gas industry in western Canada.

Trican began operations in 1979 in the Lloydminster area with two high pressure pumping units and one bulk truck. At the present time, Trican operates 3 coil tubing units, 12 high pressure cement and acid pumping units, 2 nitrogen pumping units and 13 bulk trucks. On December 9, 1996, the Company completed an initial and secondary public offering of 6,940,000 common shares at \$2.00 each to increase the number of outstanding shares to 8 million. Before completing the offering, Trican hired new management who possess a significant amount of related experience in the well service industry.

Trican will focus on future growth by expanding the geographic coverage and technical capability of its existing business lines and accessing the high technology segment of the coil tubing market.

## Annual Meeting

The Special and Annual Meeting of the Shareholders of Trican will be held in the Cardium Room of the Calgary Petroleum Club, at 319 - 5th Avenue, S.W., Calgary, Alberta on Tuesday, June 3, 1997 at 3:00 p.m. (Calgary time).



## Table of Contents

Highlights .....	3
President's Message .....	4
Management's Discussion and Analysis .....	6
Operations Review .....	6
Financial Review .....	8
Management's Report .....	14
Auditors' Report .....	15
Financial Statements and Notes .....	16
Market Information .....	23
Corporate Information .....	24



## Highlights

	<b>Eight Months Ended Dec. 31, 1996</b>	<b>Year Ended April 30, 1996</b>	<b>% Change</b>
<b>FINANCIAL</b>			
Revenue	\$ 8,749,852	\$ 7,862,028	11
Operating Income before Reorganization Costs	\$ 1,087,433	\$ 430,150	153
Net Income	\$ 376,232	\$ 298,877	26
Funds from Operations	\$ 625,622	\$ 630,281	(1)
Cash Flow from Operations	\$ 254,204	\$ 433,206	(41)
Net Income per Share	\$ 0.10	\$ 0.09	11
Funds from Operations per Share	\$ 0.16	\$ 0.18	(11)
Total Assets	\$12,710,392	\$ 4,439,212	186
Long Term Debt	\$ 0	\$ 591,350	(100)
Capital Expenditures	\$ 1,346,748	\$ 991,673	36
Weighted Average Common Shares Outstanding	3,922,449	3,500,000	12
Common Shares Outstanding at Period End	8,000,000	3,500,000	129
<b>OPERATIONS</b>			
Number of Employees at Period End	73	55	
Operating Units at Period End:			
Cement/Acid Pumpers	10	10	
Coil Tubing Units	1	0	
Bulk Trucks	12	12	
1997 Unit Additions:			
Cement/Acid Pumpers	2		
Nitrogen Pumpers	2		
Coil Tubing Units	2		
Bulk Trucks	1		

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## President's Message

### A YEAR OF CHANGE FOR TRICAN

With the completion of its initial and secondary public share offerings on December 9, 1996, Trican took the next step toward becoming a full service competitor in the Canadian well service industry.

Trican has been in operation for almost 18 years performing cement and acid stimulation work in the Lloydminster area.

In June, 1996, the shareholders decided they would like to sell their interests in the Company and approached an agent who advised the shareholders to attract experienced management and take the Company public. Shortly afterwards, Donald Luft and I joined Trican because we believed there was significant upside potential for the business in the existing competitive environment. Industry trends pointed to a shortage of oilfield service equipment and drilling activity was at an all time high. Mr. Luft brought with him a great deal of experience in the coil tubing business which promises to be one of the fastest growing market segments in the oilfield service industry.

In October and November, 1996, Trican retained other experienced employees in the areas of engineering, sales and field operations.

Trican put its first coil tubing unit to work in August 1996. Utilization has increased steadily since that time as we hired experienced field personnel to operate the equipment and expanded the customer base to include larger oil and gas companies.

Management has undertaken several engineering initiatives to improve the Company's ability to work in more technically challenging situations. This will allow us to continue to increase our customer base to include more medium size producers and to expand our geographic coverage to the deeper well areas in the foothills of Alberta.

Management has been working hard to increase the utilization of the existing equipment to levels consistent with the industry norm. Additional

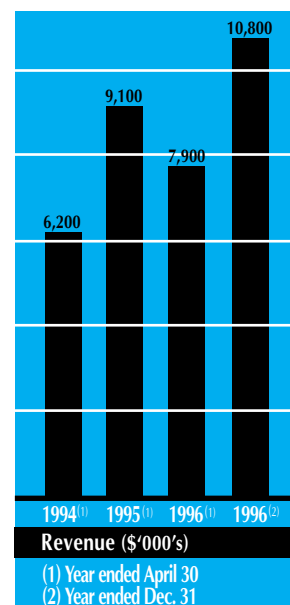
expenditures were made on the coil tubing unit to increase its flexibility and overhauls were performed on two of the cement pumpers. To continue this initiative, management is considering significant rebuilds on some of the cementing units in 1997 to enable them to work more efficiently and experience less downtime for repairs. This will be necessary to allow us to take maximum advantage of this period of significant drilling activity.

In November 1996, Trican moved its head office from Lloydminster, Alberta to Calgary, the center of Canada's oil industry. This move was necessary to improve the ability of management, engineering and sales personnel to increase Trican's profile with customers and provide more timely solutions to their well production problems.

Trican ended 1996 with revenues of \$8.7 million for the eight month period ended December 31, an 11% increase over the previous twelve month period (\$7.9 million - April 30, 1996). (Trican changed its year end from April 30 to December 31 during 1996.) During the twelve months ended December 31, 1996, revenues were \$10.8 million, a 37% increase over the year ended April 30, 1996. Trican's best previous performance was the year ended April 30, 1995 with revenue of \$9.1 million.

*"For the year ended Dec. 31, 1996, revenues increased 37% over the prior year."*

*"Coil tubing promises to be one of the fastest growing market segments in the oilfield service industry."*



Net income for the eight months ended December 31, 1996 was \$376,000 compared to \$299,000 for the twelve month period ended April 30, 1996. Trican's net income for the period ended December 31 is net of a \$456,000 reorganization charge relating to the change in management of the Company. Excluding this charge, income before income taxes would have been \$1.1 million, the highest level in the Company's history.

### A LOOK AHEAD

With the completion of the public offering in December, 1996, Trican raised \$8.3 million. A portion of this money was used to repay existing debt, with the remainder available to expand the business by adding equipment capacity.

Trican has built one coil tubing unit, one cement pumper and one nitrogen pumper. Trican will complete one additional unit of each type between late March and April of 1997. The new coil units incorporate the latest technology and allow Trican to compete in the "high tech" end of the business, including drilling with coil. These new units are capable of running up to 3 1/2" diameter tubing, the largest size presently used in the industry. Currently there are a limited number of similarly equipped units operating in western Canada. Trican's three coil tubing units represent one of our best potential growth areas. New applications are continually being designed and customers are realizing the potential for coil to complement conventional drilling and completion techniques. Given the extremely tight market for drilling rigs, and the technical advantages of drilling with coil, growth potential for this market segment appears high.

The two new nitrogen units will be the first in Trican's fleet and will be used in conjunction with our coil tubing service. Nitrogen is an inert gas and is often pumped into the wellbore to safely improve recovery of introduced or produced fluids, while reducing the potential for damaging the formation.

The two additional cement pumpers will bring our cementing fleet total to 12 trucks. One of these new units is a twin pumper which will allow Trican to expand into the deeper well market.

Trican will open a new base in Red Deer in the second quarter of 1997. Red Deer will be the center for deployment of the new equipment. We will continue to consider new base locations as our operations expand.

Trican will undertake significant technical initiatives in 1997. The Company has already purchased the industry's most advanced software package for simulating and modeling coil tubing jobs prior to and during operations. Also, Trican is initiating an extensive training program to ensure all operations personnel are capable of making technical recommendations at the well site.

Trican will continue to evaluate opportunities for growth through acquisitions or capital expenditures. One of the goals for 1997 is to continue to increase the utilization of the existing equipment through focused sales efforts and improved operations management. I believe that opportunities exist to expand the business geographically as the Company currently operates in a small area of the western Canadian sedimentary basin. In addition, significant potential exists to enter into new service lines and expand the technical reach of the coil tubing business.

I would like to welcome Trican's new shareholders as we enter this exciting period of growth for the Company.



Murray L. Cobbe  
President and Chief Executive Officer

## Management's Discussion and Analysis

### Operations Review

#### Service Sectors

Trican operates in four separate sectors of the oilfield pressure pumping industry: coil tubing, cementing, acid stimulation and nitrogen pumping. The only sector which Trican does not operate in is hydraulic fracturing.

#### Coil Tubing

Trican's coil tubing revenue as a percentage of total revenue is expected to grow to approximately 15% in 1997.

Coil tubing is continuous, jointless steel pipe which is manufactured in lengths of thousands of metres and wound or coiled on a large steel reel. Coil tubing is run into an oil or gas well, frequently against wellhead pressure, in order to create a circulating system within the well bore. This can be used to introduce acids, nitrogen or other products into the well for various purposes including the removal of unwanted fluids or solids. Utilization of coil tubing has increased dramatically since its introduction due to its advantage of allowing work to be performed without killing the well, thereby reducing the risk of formation damage.

Coil tubing is also finding a growing market as a complement to conventional directional and horizontal drilling operations. Drilling underbalanced with coil has many advantages over conventional drilling applications. Drilling underbalanced means that the well can continue to produce while drilling is taking place. With a normal drilling application, it is necessary to "kill" the well, risking formation damage. This risk is eliminated when drilling underbalanced. Also, because the coil has no joints, it is run continuously without the delay of making drill pipe connections. This technology has already been proven and is rapidly gaining acceptance.

Trican has performed vertical well deepening drilling jobs and the potential exists in the future to be involved in horizontal well extensions.

---

*"Trican anticipates the proportion of coil tubing revenue to total revenue to increase to 15% in 1997."*

---



Left to right: Dale Dusterhoft, Engineering Manager; Don Luft, Vice-President, Operations and Chief Operating Officer; Dave Rain, Controller and Chief Financial Officer; Dave Charlton, Sales Manager; Murray Cobbe, President and Chief Executive Officer.

The key to expansion of this business is finding qualified, experienced personnel to operate the equipment. It takes approximately two years to train someone to be qualified as a coil tubing supervisor. In the near term, Trican will rely on management's industry contacts and reputation to attract key people. We will also begin an Engineer in Training program in 1997 whereby we will hire graduate engineers to work in the field and learn the business.

#### Cementing

Most of the cementing market in Canada currently belongs to U.S. competitors. Trican estimates its market share to be less than 5%. Cementing is Trican's largest service, a statistic typical of service companies.

Each oil and gas well requires at least two primary cementing treatments during the drilling phase, and normally at least one remedial service during its operating life. During the drilling phase, cement is used to provide support to production casing within the wellbore. A remedial service will be used to repair communication leaks between zones, shut off or abandon zones, fix casing leaks, etc.

The key to growth in the cementing service line is geographic and market share expansion. In the past, Trican operated in only a small area of the western Canadian oilfield and concentrated primarily on remedial work. Trican has been expanding its

---

*"Trican has been increasing the amount of primary cementing work it performs and plans to open new facilities in Red Deer in 1997."*

---

primary cementing operation and plans to open new base facilities in Red Deer in the Spring of 1997.

### Acidizing

Acidizing, a well stimulation process, entails pumping large volumes of specially formulated acid blends into producing oil or gas formations to clean out unwanted materials and sediments or dissolve portions of the producing formation in order to enhance the well flow rate.

Trican uses the same equipment for pumping acid as it uses for pumping cement. Trican also offers a special chemical used to mobilize and remove asphaltene buildup in wellbores and production tubing. Use of this chemical has provided significant yield increases in some wells with this type of buildup.

### Oil and Gas Industry Drilling Activity

Drilling activity in western Canada is at an all time high. According to the Petroleum Services Association of Canada ("PSAC"), a record number of wells (12,601) were drilled in 1996 and a 13.5% increase (14,300 wells) is forecast for 1997. Although drilling activity is influenced by the price of oil and gas, and prices have fallen recently, management does not believe there will be a material negative impact on drilling levels. Most producers do not base their capital budgets on optimistic price forecasts and oil prices are still well above the point at which management believes producers consider drilling to be uneconomic.

The current shortage of rigs has meant that some smaller producers have had to delay their drilling plans until rigs become available. These producers must still meet their capital spending and production targets. Thus, even if drilling activity among the major producers declines somewhat, there is a backlog of drilling demand among smaller producers which needs to be filled. We believe that drilling will remain strong through at least the remainder of 1997.

### Technology

As Trican continues to develop its presence in the deep well cementing market, the Company will be expanding its high temperature cement product line. Trican currently has an excellent selection of additives and cements for heavy oil and shallow gas wells.

Trican is also in the final stages of developing optimal acid blends which will allow the Company to acidize any formation in western Canada. Trican has made significant progress in expanding applications for the asphaltene stabilizer product. This product is unique to Trican and has had good success in stimulating heavy oil wells and other high asphaltene zones. Our efforts in 1997 will be focused on bringing this product to the attention of more clients and applying it to more producing areas.

*"The asphaltene stabilizer product is unique to Trican and has had good success in stimulating heavy oil wells."*

Trican recently purchased an advanced coil tubing recording, simulation and modeling package. This package is a fully integrated system that allows us to simulate the job prior to performing in the field, capture data on location during operations, and analyze and model the job on location.

Trican has also expanded its coil tubing tool line to increase the Company's horizontal and deep well capabilities.

### Training

In the first quarter of 1997, Trican will be undertaking an extensive training program to upgrade the technical capabilities of its operations personnel. The goal of this program is to ensure all personnel on location are capable of making technical recommendations on site and working with the customer to solve problems as they arise.

### Equipment Capacity

	As at	1997 Additions			As at
	Dec. 31, 1996	Feb.	Mar.	Apr.	Apr. 30, 1997
Cementing Pumpers	10	1	-	1	12
Coil Tubing Units	1	-	1	1	3
Nitrogen Pumpers	-	-	2	-	2
Bulk Trucks	12	-	1	-	13



# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## Financial Review

This discussion and analysis of the financial condition and results of operations of Trican Oilwell Service Co. Ltd. should be read in conjunction with the financial statements and accompanying notes contained in this Annual Report.

### OPERATING RESULTS

This discussion compares the operating results for the eight month period ended December 31, 1996 to those of the twelve month period ended April 30, 1996, as a result of the change in Trican's reporting period.

### Operations Revenue

Revenue increased significantly from the previous period. Revenue for the year ended April 30, 1996 was \$7.9 million compared to \$8.7 million for the 8 months ended December 31. Revenue for the 12 months ended December 31, 1996 was \$10.8 million. The substantial increase can be credited to the strong drilling activity in the oil and gas industry and to increased utilization of Trican's equipment. A smaller impact was the introduction of Trican's first coil tubing unit in August 1996. Initial utilization of this new unit was low as additional expenditures were made to properly equip the unit and operators were hired and trained. Management anticipates that coil tubing will make a much larger contribution to revenue in 1997 as utilization of the first unit increases and the two new units commence operations in March and April.

The Company's future revenues are dependent to a certain extent on drilling activity. Although the industry is predicting continuing high levels of drilling in 1997, a significant decrease in oil and gas prices

could have an impact on the budgets of oil and gas producers. Of the services Trican provides, cementing services would be most affected by decreased drilling levels. Although cementing constituted approximately 85% of the Company's revenue in the period ended December 31, 1996, management believes the potential for revenue decline following a downturn in drilling activity will be alleviated by the following factors. First, the Company is intent on diversifying its revenue sources. It is expected that coil tubing will make up approximately 15% of total revenue in 1997, with cementing revenue falling to 75%. Demand for coil tubing services tends to be less sensitive to changes in drilling activity. Second, given the Company's small share (less than 5%) of the cementing market, geographic and customer coverage can be increased even if the total market size decreases. Third, any declines in commodity prices provide greater impetus for oil and gas producers to maintain production at lower costs, which may increase demand for oil service technological applications, including the use of coil tubing and well stimulation services.

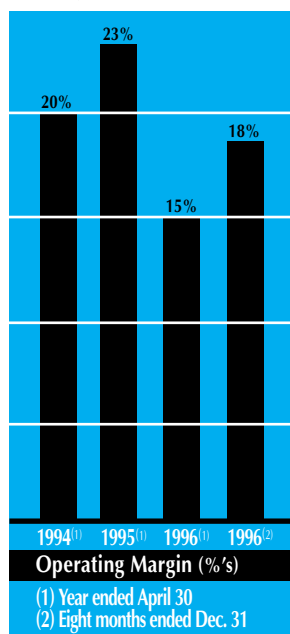
Another potential factor in assessing revenue potential for the Company is the shortage of drilling rigs in the current period of significant drilling activity. Producers which do not have drilling rigs under contract are facing difficulties carrying out their drilling plans. These producers tend to be smaller in size. Although not all of Trican's existing customers have been able to secure rigs, sufficient activity exists to keep Trican's equipment heavily utilized. In addition, there may be an unusual benefit to the current drilling rig situation. Normally, drilling activity drops significantly during the spring as road bans make it difficult to move heavy equipment between well sites ("Breakup"). However,



given the backlog of drilling projects at present, there appear to be extraordinary efforts being made by some producers to find ways to continue drilling during Breakup. This could keep activity levels from declining significantly in April and May as they have done in the past.

Revenue for the eight months ended December 31, 1996 reflects only a portion of the 1996 Breakup period.

Although activity is reaching record levels for the well service industry, significant upward pressure in pricing has not been noticed. Service companies establish a price book, which typically remains relatively static, and price changes are reflected through changes in discount levels. Competitive factors will continue to be the primary influence on pricing in the industry.



### Operating Costs and Expenses

Material and operating expenses of \$7.1 million for the eight month period ended December 31, 1996 were 81.5% of revenue, compared to \$6.7 million and 85.1%, respectively in the twelve month period ending April 30, 1996. The main reason for the decrease in these costs, as a percentage of revenue, is the fixed nature of a portion of these costs as well as a reduction in the level of major repair expenditures. Equipment and personnel utilization is a key factor in determining profitability in Trican's business. Management anticipates that operating margins may increase slightly in 1997 if utilization of

existing equipment continues to improve, operating efficiencies are achieved, and new equipment is placed into service (see "Cash Requirements Outlook").

Management does not anticipate any significant change to the cost of products, which constitute approximately 50% of materials and operating expenses.

The Company hired a number of senior, experienced management personnel in the last few months of 1996. Management's intention is to grow the Company's business. At the end of 1996, this had not yet taken place as the Company had only recently completed its public share offering, and the burden of these management salaries was out of proportion to revenue. This should be partially corrected in the second quarter of 1997 as Trican begins to generate revenue from its new equipment. However, during this period of growth, we will be hiring field personnel slightly in advance of when new equipment begins to achieve full utilization, so during this growth phase this ratio will continue to lag behind levels we would otherwise expect.

General and administrative expenses decreased from \$274,000 to \$200,000 in the period ended December 31. This is slightly less than the decrease which would be expected due to the shorter reporting period and was caused by an increase in administrative salaries and associated costs as noted above. Also, there was a period of cost duplication as retiring management and new management transferred responsibilities. Current levels of general and administrative expenses, as a percentage of revenue, are low relative to those of Trican's competitors and may not be sustainable given the increased reporting and other responsibilities of a public company. However, management does not anticipate a significant increase relative to revenues in the near to medium term.

Interest expense increased significantly to \$77,000 from the prior period (year ended April 30, 1996 - \$18,000) as a result of the higher average debt balance for the period ended December 31 in comparison to that for the year ended April 30, 1996. At April 30, 1995, long-term debt, including the portion due within twelve months, was \$144,000.

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

At April 30, 1996, this balance was \$624,000, increasing to \$1.1 million before Trican repaid the debt on December 9, 1996 following the completion of its public offering. Trican anticipates a significant reduction in interest expense in 1997 as a result of the debt repayment.

Depreciation expense increased from \$249,000 in the year ended April 30, 1996 to \$250,000 in the eight month period ended December 31 (\$375,000 on a 12 month basis). This increase reflects the significant capital expenditures made in the last 20 months (\$992,000 in the year ended April 30 and \$1.35 million in the period ended December 31), including a new coil tubing unit. Depreciation expense will continue to increase in 1997 as the new equipment purchased during 1996 is depreciated over a full 12 months and new capital equipment is placed into service in 1997.

Management services reflect bonuses paid to the former shareholders of the private company. There were no such bonuses paid in the period ended December 31, 1996. The Company is currently considering implementing a bonus incentive plan for all employees.

### **Reorganization Costs**

The completion of the share offering resulted in the negotiation of consulting contracts with, and the payment of retiring allowances to, the former management. These are non-recurring items. Although the consulting fee agreements extend to December 9, 1997, management believes it is appropriate to recognize the full amount of fees due under these agreements in the period of the public share offering.

### **Income Taxes**

Trican's effective tax rate in the period ended December 31, 1996 was 40.4%, compared to 30.5% for the year ended April 30, 1996. The main reason for the increase is the loss of the small business deduction as a result of Trican's public share offering. As Trican is entitled to the manufacturing and processing tax rate reduction on the majority of its income, management anticipates an effective rate in future years of approximately 40%. However, this rate could increase if the portion of income

earned from certain non-manufacturing and processing applications increases. The Company has no loss carryforward balances.

## **FINANCIAL POSITION AND LIQUIDITY**

### **Equity Offering**

On December 9, 1996, the Company completed an initial and secondary public equity offering of 6,440,000 shares with net proceeds accruing to the Company of \$8.3 million after agent's fees and other costs. Approximately \$1.8 million of the proceeds was used to repay long-term debt and settle bank indebtedness. In addition, \$600,000 was used to purchase new equipment in December as part of the Company's 1997 capital budget, leaving \$5.9 million of cash and short-term investments at December 31, 1996.

### **Working Capital**

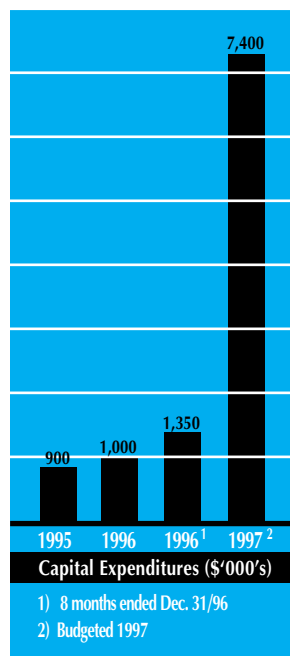
Working capital, net of the current portion of long-term debt, increased substantially to \$6.9 million as at December 31, 1996 compared to a deficiency of \$56,000 at April 30 (\$220,000 deficiency - April 30, 1995). The main reason for the improvement was the equity offering described above. Secondly, accounts receivable balances (Dec. 31, 1996 - \$2.2 million; April 30, 1996 - \$1.1 million) reflect the higher activity levels in December compared to the relatively low levels in April which was in the middle of Breakup. In addition, inventory levels have increased (Dec. 31, 1996 - \$527,000; April 30, 1996 - \$340,000) due to the introduction of coil tubing services and the need to inventory spools of tubing of different diameters. Accounts payable balances increased (Dec. 31, 1996 - \$1.4 million; April 30, 1996 - \$0.7 million) for the same reasons that accounts receivable did, although to a lesser extent. Income taxes payable increased from \$19,000 at April 30, 1996 to \$229,000 at December 31, reflecting a higher current tax provision for the period then ended.

### **Changes in Cash Position**

Trican's net cash position improved from a bank indebtedness balance of \$640,000 and \$718,000 at April 30, 1995 and 1996, respectively, to \$5.9 million of cash and short-term deposits at December 31, 1996.

Funds from operations, defined as net income adjusted for non-cash items such as depreciation and deferred income taxes, declined from \$630,000 for the year ended April 30, 1996 to \$626,000 for the eight month period ended December 31. Although net income was higher in the period ended December 31, 1996, funds from operations declined as a much smaller portion of the income tax provision was deferred.

Cash flow from operations, which is defined as funds from operations adjusted for changes in non-cash working capital balances, declined from \$433,000 to \$254,000 for the period ended December 31, 1996 due to the large increase in non-cash working capital balances. Non-cash working capital increased mainly due to the change in timing of the period end as explained above. Non-cash working capital consists of accounts receivable and inventory, net of accounts payable and income taxes payable.



Net capital additions increased in the period ended December 31, 1996 to \$1.35 million, compared to \$991,000 in the year ended April 30, 1996. Capital additions in the eight month period reflect the completion of the Company's first coil tubing unit and initial expenditures on new equipment as part of the 1997 capital budget. Financing activities included an additional debt

issuance of \$495,000 in the quarter ended July 31, 1996, followed in December by the equity offering of \$8.3 million and subsequent repayment of the outstanding debt balances of \$1.1 million and bank indebtedness of \$700,000. During the year ended April 30, 1996, the Company increased its long-term debt balance by a net amount of \$481,000 to partially finance capital expenditures in that period. The remainder of the capital expenditures in the year ended April 30, 1996 were financed by cash flow from operations and a \$78,000 increase in bank indebtedness.

### Financial Instruments

Please refer to Note 2 to the financial statements included in this Annual Report which discusses the extent to which Trican is exposed to currency exchange rate and interest rate risk. Trican's policy concerning foreign exchange rate exposure is to maintain foreign currency balances as a hedge against planned foreign currency denominated expenditures.

Substantially all of the Company's cash and short-term deposits balance is either cash or easily convertible into cash and is invested at prevailing market rates which are subject to fluctuation. Management believes that given anticipated capital expenditures in early 1997, it is not advisable to invest the cash at fixed rates of interest.

Accounts receivable are typically collected between 55 and 60 days following the date the service is provided. Credit risk associated with customer receivables in this industry has not been significant in the past and management believes any potential bad debts are adequately provided for. Accounts payable are normally settled between 30 to 40 days from the vendor's invoice date.

### Cash Requirements Outlook

Trican's capital budget for 1997 is \$8 million. Approximately \$580,000 of this was expended prior to December 31, leaving \$7.4 million to be spent in 1997. Approximately \$6.4 million of the remaining planned expenditures will be made prior to April 30, 1997 with the remainder made in the summer months. Management believes that cash flow from

operations and Trican's \$1.5 million bank credit facility will be sufficient to finance these planned capital expenditures.

Management is forecasting a positive cash balance at the end of 1997 as cash flow from operations for the year, in addition to the opening cash position of \$5.9 million, should exceed planned capital expenditures. Management will evaluate its cash position and operating forecast at the end of each quarter to decide whether or not additional equipment should be purchased. Management may also decide to undertake major rebuilds on some of its older cement pumpers, rather than build new equipment.

As part of the geographic expansion planned for 1997, Trican will open new base facilities in Red Deer. These facilities will be leased, limiting capital expenditures to those noted above.

As the Company currently has no debt, the potential exists to issue long-term debt or use leasing as a method of financing further expansion. Should debt be issued or the credit facility be drawn on in 1997, interest expense will be incurred.

## **BUSINESS RISKS AND UNCERTAINTIES**

### ***Demand for Trican's Services***

Management anticipates drilling activity and demand for Trican's services to remain strong during 1997. However, demand depends heavily on the expenditure levels of oil and gas producing companies. Factors affecting their decisions include commodity price levels, pipeline capacity and market access, exchange rates, and ability to obtain financing at a reasonable cost.

The influence of OPEC over world oil prices has lessened, with production increasing from new sources such as Asia and the former Soviet Union. Prices could be impacted by environmental legislation concerning hydrocarbon emissions. The U.S. federal government is currently considering legislation which would impose additional taxes on fuel consumption. The impact of such a proposal on commodity prices in the U.S. and Canada is difficult to predict.

New pipelines are being built which would allow Canadian gas producers greater access to key markets in the northeastern U.S. This may provide them with greater flexibility in obtaining the best price for their gas and should reduce deliverability restrictions. This in turn would encourage investment in drilling and workover activity.

As more product is being sold in U.S. markets, the Canadian/U.S. dollar exchange rate has a larger impact on net prices received by Canadian producers. Accordingly, a strengthening of the Canadian dollar would have a similar, if smaller, impact on drilling levels as would a reduction in world oil and gas prices.

Equity markets in North America have strengthened significantly over the last two years, with both the Dow and the TSE 300 indices reaching record levels. Oil sector stocks have performed particularly well. The opportunity to access equity capital has allowed oil and gas producers to be aggressive with their capital budgets. Should equity markets cool off, producers may have to turn to debt or other sources to finance their drilling and workover/stimulation budgets. This in turn may have a negative impact on demand for well services.

The well service business in Canada is characterized by considerable seasonality. Warming temperatures in the spring result in road bans being imposed by rural municipalities, which prevent the movement of service rigs and other heavy oilfield equipment. This period can vary from a few weeks to two months and can have a significant impact on operating revenue. As noted above in the discussion of operating revenues, there is a possibility that the effects of Breakup will not be felt as strongly in 1997. Regardless, producers' plans are subject to weather conditions and could be affected by excess water run-off after record snow accumulations during the past winter.

In North America, there is a movement toward the establishment of strategic alliances between different oilfield service companies and also between service companies and oil and gas operators. Alliances have been struck between most of Trican's larger competitors and senior oil and gas producers. As Trican grows in size, it may be

required to pursue alliances in order to expand its customer base to include senior producers.

Trican's market is strictly the Canadian oil and gas well service market and thus demand for Trican's services are entirely dependent on the financial health of and levels of activity undertaken by oil and gas producers in Canada.

### **Pricing**

A significant factor affecting Trican's profitability is competition from other service companies and the level of price book discounting. Management estimates that a 1% increase in discount levels would decrease earnings per share by between \$0.02 and \$0.025. The Company has noticed some firming of prices during the current period of high activity. Should activity decline significantly, the possibility exists that Trican's competitors could increase discounts to maintain market share.

### **Operating Risks**

The well servicing business involves many operating risks, including the risk of fire, explosion and blow out, the occurrence of which could result in losses to the Company. The Company performs its services on the oil and gas wells of its customers. These services, if improperly programmed or performed, could result in damage to the customer's well or reservoir which could result in liability to the Company. The Company maintains insurance in regard to its operations. Additionally, the risks described above are typically assumed by the customer and well service companies have not been exposed to significant legal action in this area in the past.

### **General Economic Conditions**

Canadian economic conditions such as inflation and unemployment are not considered by management to be significant factors in the Company's operations. The cost of cement, chemicals, parts for equipment, etc. have experienced limited inflation over the past few years and this is not expected to change in the near future.

General unemployment levels are not a major factor; however, increasing activity levels within the oilfield service industry can have an effect on the Company's ability to hire and retain skilled staff. Sustained periods of high activity will have an impact on salaries as competitors bid for the services of experienced operating staff. This impact could be felt more strongly in certain service lines, such as coil tubing, than in others.

### **Environmental Factors**

As governments and society become more concerned about the oil and gas industry's impact on the environment, new legislation is possible. Trican complies with current legislation but is unable to determine the impact of future legislation on operating costs or demand for its services.

The Company stores and transports small amounts of hazardous chemicals so the potential exists for accidental spillage and cleanup costs. However, the industry's history does not suggest that liabilities in this area are extreme. The Company has established operating policies to manage this risk and ensure that its activities are conducted in such a manner to minimize the occurrence of damage to the environment.



## ***Management's Report***

The management of Trican Oilwell Service Co. Ltd. is responsible for the preparation and integrity of the accompanying financial statements and all other information contained in this Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgments and estimates.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these

financial statements. The Audit Committee meets periodically with the external auditors and management to review the work of each and the propriety of the discharge of their responsibilities. Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters. The Audit Committee also reviews and approves the fees of the external auditors and makes a recommendation to the Board of Directors concerning their re-appointment.

The shareholders have appointed KPMG as the external auditors of the Company and, in that capacity, they have examined the financial statements for the periods ended December 31 and April 30, 1996. The Auditors' Report to the shareholders is presented herein.



Murray L. Cobbe  
President and Chief  
Executive Officer



David J. Rain  
Controller and Chief  
Financial Officer

March 14, 1997

## Auditors' Report

To the Shareholders of  
Trican Oilwell Service Co. Ltd.

We have audited the balance sheets of Trican Oilwell Service Co. Ltd. as at December 31, and April 30, 1996 and the statements of operations and retained earnings and changes in cash position for the eight months ended December 31, 1996 and year ended April 30, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, and April 30, 1996 and the results of its operations and the changes in its cash position for the eight months ended December 31, 1996 and year ended April 30, 1996 in accordance with generally accepted accounting principles.

**KPMG**

KPMG, Chartered Accountants  
Calgary, Canada  
March 14, 1997



# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## BALANCE SHEETS

	December 31, 1996	April 30, 1996
<b>ASSETS</b>		
Current		
Cash and short-term deposits (Note 2)	\$ 5,864,445	\$ –
Accounts receivable (Note 2)	2,211,703	1,088,424
Inventory	526,846	340,138
	8,602,994	1,428,562
Capital assets (Note 3)	4,107,398	3,010,650
	\$ 12,710,392	\$ 4,439,212
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Bank indebtedness	\$ –	\$ 717,614
Accounts payable	1,444,001	714,987
Income taxes payable	228,828	19,273
Current portion of long-term debt	–	33,047
	1,672,829	1,484,921
Long-term debt (Note 4)	–	591,350
Deferred income taxes	18,000	292,000
Shareholders' equity		
Share capital (Note 5)	8,572,590	200
Retained earnings	2,446,973	2,070,741
	11,019,563	2,070,941
	\$ 12,710,392	\$ 4,439,212

See accompanying notes to financial statements.

Approved on behalf of the Board:



Murray L. Cobbe, Director



Victor J. Stobbe, Director

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	Eight Months ended December 31, 1996	Year ended April 30, 1996
Operations revenue	\$8,749,852	\$7,862,028
Operating costs and expenses		
Materials and operating	7,134,899	6,690,431
General and administrative	200,189	273,960
Interest expense	77,331	18,083
Depreciation	250,000	249,404
Management services (Note 9)	—	200,000
Reorganization costs (Note 6)	455,758	—
	8,118,177	7,431,878
Income before income taxes	631,675	430,150
Provision for income taxes (Note 7)	255,443	131,273
Net income	376,232	298,877
Retained earnings, beginning of period	2,070,741	1,771,864
Retained earnings, end of period	\$2,446,973	\$2,070,741
Basic earnings per share	\$ 0.10	\$ 0.09

See accompanying notes to financial statements.

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## STATEMENTS OF CHANGES IN CASH POSITION

	Eight Months ended December 31, 1996	Year ended April 30, 1996
<b>Operations</b>		
Net income	\$ 376,232	\$ 298,877
Changes to income not involving cash:		
Depreciation	250,000	249,404
Deferred income taxes (reduction)	(610)	82,000
Funds from operations	625,622	630,281
Net change in non-cash working capital	(371,418)	(197,075)
	254,204	433,206
<b>Investments</b>		
Purchase of capital assets	(1,346,748)	(991,673)
<b>Financing</b>		
Bank loan proceeds	495,000	550,000
Repayment of long-term debt	(1,119,397)	(69,146)
Net proceeds from issuance of common shares	8,299,000	—
	7,674,603	480,854
Increase (decrease) in cash position	6,582,059	(77,613)
Cash position, beginning of period	(717,614)	(640,001)
Cash position, end of period	\$ 5,864,445	\$ (717,614)

Cash position is defined as cash and short-term deposits, net of bank indebtedness.

See accompanying notes to financial statements.

## Notes to Financial Statements

Eight months ended December 31, 1996, with comparatives for the year ended April 30, 1996

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

**Revenue recognition:**

The Company recognizes revenue for services and products at the time they are provided.

**Inventory:**

Inventories are carried at the lower of cost, determined under the first-in, first-out method, and net realizable value.

**Capital assets:**

Capital assets are stated at cost less accumulated depreciation. Major betterments are capitalized. Repairs and maintenance expenditures which do not extend the useful life of the equipment are expensed.

Depreciation is provided for using the straight-line method over the estimated useful life of the asset. The estimated useful life is 8 years for pumper units, bulk trucks and trailers, 10 years for ancillary equipment, coil tubing units, tools, furniture and fixtures, 4 years for pickups and 20 years for buildings.

Although management believes its estimates of the useful lives of the Company's capital assets are reasonable, it is possible that another estimate may be made or that management's estimate may change in the future, which could result in changes to the depreciation rates. Management bases its estimate of the useful life of equipment on expected utilization, technological change and effectiveness of maintenance programs.

**Financial instruments:**

All current assets and current liabilities approximate fair value.

**Earnings per share:**

Earnings per share is based on net income and the weighted average number of common shares outstanding during the year. Fully diluted earnings per share is not presented as the dilutive effect of common shares under option, if such options were exercised, would not be material.

**Change in presentation of comparative figures:**

The financial statements for the twelve months ended April 30, 1996 have been restated to reflect the presentation in the current period.

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## NOTE 2 - FINANCIAL INSTRUMENTS

Cash and short-term deposits at December 31, 1996 include \$1,305,015 of deposits denominated in U.S. dollars, which are subject to currency exchange rate fluctuations. These U.S. dollar investments are held by the Company to provide a hedge against anticipated future U.S. dollar denominated capital expenditures. These amounts are translated to Canadian dollars at the rate of exchange in effect on the date of the financial statements.

Included in cash and short-term deposits at December 31, 1996 is \$137,000 which earned a fixed rate of interest. This deposit matured on January 7, 1997 and was re-invested at prevailing market rates of interest. The remaining balance of cash and short-term deposits earns interest at prevailing market rates which are subject to fluctuation.

The Company's customers are primarily engaged in the business of exploring for and producing oil and natural gas in western Canada. The financial well being of these companies is affected by the price of these commodities.

## NOTE 3 - CAPITAL ASSETS

	Dec. 31, 1996	April 30, 1996
Capital Assets:		
Land	\$257,316	\$257,316
Buildings and improvements	729,425	729,425
Equipment	6,016,198	4,725,388
Furniture and fixtures	139,518	81,160
	<hr/> 7,142,457	<hr/> 5,793,289
Accumulated Depreciation:		
Buildings and improvements	320,082	295,768
Equipment	2,664,175	2,443,212
Furniture and fixtures	50,802	43,659
	<hr/> 3,035,059	<hr/> 2,782,639
	<hr/> \$4,107,398	<hr/> \$3,010,650

## NOTE 4 - LONG-TERM DEBT

The Company repaid all outstanding debt prior to December 31, 1996. Long-term debt outstanding as at April 30, 1996 included demand bank loans which bore interest at the bank's prime rate plus 1%. The loans were secured by a general security agreement.

Interest expense on long-term debt was \$64,026 in the eight month period ended December 31, 1996 (\$18,083 - year ended April 30, 1996).

**NOTE 5 - SHARE CAPITAL****Authorized:**

An unlimited number of common shares and preferred shares, issuable in series.

**Issued and Outstanding:**

	Number of Shares	Amount
Balance, April 30, 1995 and 1996	3,500,000	\$ 200
Issued pursuant to public offering	4,500,000	9,000,000
Share issue costs, net of deferred income tax benefit of \$273,390	–	(427,610)
<b>Balance, December 31, 1996</b>	<b>8,000,000</b>	<b>\$8,572,590</b>

On September 17, 1996, the Company filed articles of amendment to re-organize its share capital under which all outstanding shares were exchanged for 3,500,000 common shares. Earnings per share is based on the new subdivision of share capital as though it had existed from the beginning of the preceding period. The weighted average number of shares outstanding used for purposes of calculating earnings per share for the eight month period ended December 31, 1996 is 3,922,449 (year ended April 30, 1996 - 3,500,000).

**Incentive Stock Option Plan:**

On December 6, 1996, the Board of Directors approved an incentive stock option plan (the "Plan"). Effective with the completion of the Company's initial public offering on December 9, 1996, 960,000 shares were reserved for issuance pursuant to options granted under the Plan. Options may be granted at the discretion of the Board of Directors and all directors, officers and employees of the Company are eligible for participation in the Plan. The option price equals the closing price of the Company's shares on the Toronto Stock Exchange on the day preceding the date of grant. The options vest equally over a period of four years commencing on the first anniversary of the date of grant, and expire on the tenth anniversary of the date of grant.

On December 6, 1996, options to purchase 870,000 common shares were granted, subject to completion of the Company's initial public offering, and all remained outstanding at December 31, 1996. The purchase price under each of these options was \$2.00.

**NOTE 6 - REORGANIZATION COSTS**

On December 9, 1996, the Company completed an initial public offering and a secondary offering of common shares (the "Offerings") (see Note 5). The Offerings resulted in the negotiation of consulting contracts with and the payment of retiring allowances to former management. In addition, senior management spent significant time restructuring the Company, creating a business plan and focusing on issues related to the Offerings. Re-organization costs include the retiring allowances paid and consulting fees owed to former management.

# TRICAN

TRICAN OILWELL SERVICE CO. LTD. • 1996 ANNUAL REPORT

## NOTE 7 - INCOME TAXES

	<b>Eight Months Ended Dec. 31, 1996</b>	<b>Year Ended April 30, 1996</b>
Current provision	\$ 256,053	\$ 49,273
Deferred provision (reduction)	(610)	82,000
	<b>\$ 255,443</b>	<b>\$ 131,273</b>

The net income tax provision differs from that expected by applying the combined federal and provincial income tax rate of 44.6% to income before income taxes for the following reasons:

	<b>Eight Months Ended Dec. 31, 1996</b>	<b>Year Ended April 30, 1996</b>
Expected combined federal and provincial income tax	\$ 281,700	\$ 187,600
Manufacturing and processing rate reduction	(35,400)	(21,400)
Small business deduction	-	(51,000)
Other	9,143	16,073
	<b>\$ 255,443</b>	<b>\$ 131,273</b>

## NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Board of Directors has approved a capital budget totalling \$8 million to be completed in 1997. Related expenditures of \$580,000 have been made to December 31, 1996. Included in the capital budget are the following significant items: two coil tubing units, two cement pumpers, two nitrogen pumpers and related ancillary equipment.

As at December 31, 1996, the Company had letters of credit outstanding totalling U.S.\$159,000 relating to commitments to purchase capital assets. These letters of credit expire on April 1, 1997.

## NOTE 9 - RELATED PARTY TRANSACTIONS

Management services are comprised of bonuses paid to the former principals of the Company.

## Market Information

The Company's common shares trade on The Toronto Stock Exchange ("TSE") in Canada, under the stock symbol "TCW". The Company completed its initial public offering and its common shares began trading on December 9, 1996.

The following table sets out the high, low and closing prices for the Company's common shares on the TSE for the periods indicated.

	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Volume</u>
December 1996	\$4.00	\$2.70	\$3.10	1,764,460
January 1997	\$3.50	\$3.10	\$3.15	1,079,645
February 1997	\$3.40	\$2.95	\$3.00	685,015
March 1997	\$3.00	\$2.65	\$2.90	330,865

8 million common shares of the Company are issued and outstanding as at December 31, 1996.



## Corporate Information

### BOARD OF DIRECTORS

KENNETH M. BAGAN  
Barrister and Solicitor

MURRAY L. COBBE  
President and Chief Executive  
Officer of the Company

DONALD R. LUFT  
Vice President, Operations and  
Chief Operating Officer of the Company

RAYMOND M. PENNY  
Retired, formerly President of  
the Company

VICTOR J. STOBBE  
President, Pine Tar Capital Inc.

### OFFICERS

MURRAY L. COBBE  
President and Chief Executive Officer

DONALD R. LUFT  
Vice President, Operations and  
Chief Operating Officer

DAVID J. RAIN, C.A.  
Controller and Chief Financial Officer

GARY R. BUGEAUD  
Secretary

### EXECUTIVE OFFICE

1000, 633 - 6th Avenue S.W.  
Calgary, Alberta  
T2P 2Y5  
Phone: (403) 266-0202  
Fax: (403) 237-7716

### AUDITORS

KPMG, Chartered Accountants  
Calgary, Alberta

### SOLICITORS

Stikeman, Elliott  
Calgary, Alberta

### BANKERS

Royal Bank of Canada  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada  
Calgary and Toronto, Canada

### INVESTOR RELATIONS INFORMATION

David J. Rain, C.A.  
Chief Financial Officer  
Phone: (403) 266-0202  
Fax: (403) 237-7716



#1000, 633 - 6th Avenue S.W.  
Calgary, Alberta  
Canada T2P 2Y5  
**(403) 266-0202**