



*Trican Well Service Ltd.*

*“Positioned for  
Growth”*



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*1997 Annual Report*

# Annual Meeting

The Annual Meeting of the Shareholders of Trican will be held at The Metropolitan Center, at 333 4<sup>th</sup> Avenue, S.W., Calgary, Alberta on May 27<sup>th</sup> at 2:00p.m.

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## Corporate Profile

Trican Well Service Ltd. ("Trican") is a well service company headquartered in Calgary, Alberta and focused on serving the oil and gas industry in western Canada. Trican provides a comprehensive array of specialized products, equipment, services and technology for use in the drilling, completion, stimulation and reworking of oil and gas wells. Through its bases in Red Deer, Lloydminster, Provost, Kindersley and Brooks, Trican provides fracturing, coiled tubing, stimulation, cementing and related services.

Trican began operations in 1979 in the Lloydminster area with two high pressure cement pumping units and one bulk truck. The Company made an initial public offering of securities in December 1996 and undertook an aggressive equipment and service line expansion program. In the past 18 months, the Company has expanded its area of operations to include five operating bases and expanded its service lines by adding coiled tubing, hydraulic fracturing, nitrogen and acid services. Trican has also significantly increased its equipment fleet and currently operates 21 cement pumping units, 4 nitrogen trucks, 4 coiled tubing units, 1 acid truck and hydraulic fracturing equipment.



The Company remains focused on providing technologically innovative and cost effective solutions to the problems unique to the western Canadian Sedimentary Basin.

Trican's common shares trade on The Toronto Stock Exchange (symbol "TCW").

## Financial Summary and Operational Highlights

*(\$ thousands, except per share amounts)*

	1997	1996 <sup>(1)</sup>
REVENUE	\$ 28,089	\$ 8,749
NET INCOME	2,229	376
EARNINGS PER SHARE		
Basic	0.24	0.10
Fully Diluted	0.23	0.10
CASHFLOW FROM OPERATIONS	4,455	626
CASHFLOW PER SHARE		
Basic	0.49	0.16
Fully Diluted	0.44	0.16
CAPITAL EXPENDITURES	20,871	1,347
NUMBER OF JOBS COMPLETED	4,322	1,811
NUMBER OF EMPLOYEES AT DECEMBER 31ST	195	73

*(1) 1996 information is provided for the eight months ended December 31.*

## President's Message

We are pleased to report on our performance and development in 1997 - a year of significant growth for Trican Well Service Ltd. Assisted by record levels of industry activity, major equipment purchases and an expanded market presence, Trican achieved significant gains in its operating results. Revenues for the year were \$28.1 million, as compared to the results for the eight months ended December 31, 1996 of \$8.7 million. Net income for the year of \$2.2 million increased \$1.9 million over net income for the eight months ended December 31, 1996. Earnings per share similarly rose to \$0.24 for the year ended December 31, 1997 as compared to \$0.10 for the eight months ended December 31, 1996.

### BROADENING OUR BASE OF OPERATIONS

*The new equipment added during the year is expected to have a significant impact on our 1998 results.*

In our 1996 annual report, we identified geographic expansion as a key component of our growth strategy. Trican traditionally operated in the Lloydminster area, focusing on remedial cementing work for its customers who are involved in the exploration and development of heavy oil deposits. In June 1997, Trican opened a base in Red Deer, Alberta where we now offer cementing, acidizing, coiled tubing, nitrogen, hydraulic fracturing and coiled tubing drilling services. This new base decreases the Company's exposure to periodic industry shifts away from heavy oil related work and provides better access to the more technically challenging, higher margin work of central Alberta.

The addition of the Red Deer base has positioned Trican to service the more profitable deeper hole market. This base has quickly grown to become our largest center of operations and will provide a critical stepping stone for future expansion.

### EXPANSION THROUGH ACQUISITION

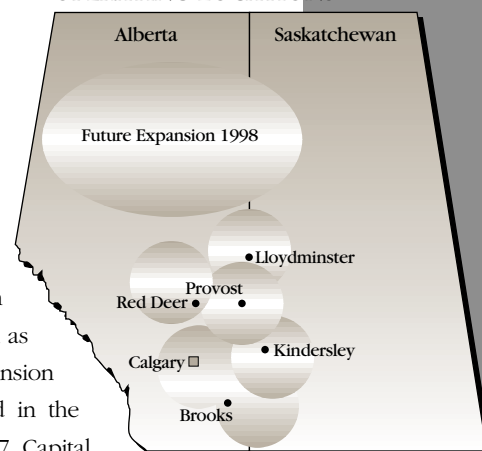
In August, 1997, Trican acquired Superior Oilwell Cementers Inc. ("Superior"). Superior was a privately held company operating primarily in the shallow gas market centered around Brooks, Alberta. With the acquisition, Trican was able to increase its equipment capacity and provide another important area of operations. Superior's well located base provides Trican with better access to the southern Alberta market and allows the Company to take advantage of industry work cycles by moving equipment to high activity areas as required.

The addition of the Brooks base provides Trican with a platform from which to service the southeast Alberta and southwest Saskatchewan natural gas market which is generally expected to become more active in the second half of 1998 and into 1999.

### BUILDING OUR ASSET BASE

On June 4, 1997, Trican closed an equity offering, raising \$7.2 million in gross proceeds on the sale of 2,000,000 Special Warrants for \$3.60 each convertible into common shares. The proceeds from this offering, as well as cash flow from operations, allowed Trican to continue its aggressive expansion program. Investment in equipment, not including the assets acquired in the purchase of Superior Oilwell Cementers Inc., totaled \$20.9 million in 1997. Capital assets, as reflected on our balance sheet, increased from \$4.1 million at the end of 1996 to \$ 27.3 million at the end of 1997 - an increase of over 566%.

### OPERATING LOCATIONS



Of the equipment we are currently employing, 40% of the cementing units, all of the coiled tubing units, nitrogen units, acid units and fracturing equipment are less than two years old. This equipment utilizes the latest technology and is able to provide higher levels of operational efficiencies, an important feature in a cost sensitive market.

Much of this new equipment was added during the year and as such the Company has not yet had the benefit of a full year of operations. This equipment is expected to have a significant impact on our 1998 results.

#### INVESTING IN PEOPLE

Trican's rapid expansion was made possible by the Company's ability to attract top quality experienced people. At December 31, 1997, Trican employed 195 people an increase of 167% from the 73 people employed at the end of 1996. Some of these new employees came to Trican through the acquisition of Superior, but the vast majority were hired directly by Trican. These people were attracted by the possibility of joining an aggressive, Canadian-focused well service company which offered them an opportunity for input into the direction of the Company. We welcome these people and the dedication and wealth of experience they bring with them.

We recognize that our people are our greatest asset and we will need to continue to invest in and develop them if the Company is going to expand its operations and offer the same high quality, technologically innovative services. In

recognition of this need, the Company has embarked upon developing a comprehensive training program focused on ensuring that our employees have the body of skills necessary to deliver a consistently high quality product and service to our customers.

Trican would also like to recognize the contribution of Ray Penny who recently resigned from the Board of Directors. As one of Trican's founders, Ray contributed greatly to the growth and success of the Company.

#### LOOKING FORWARD

1997 was a year of growth and transformation for Trican. We have gone from being a regional service provider focused primarily on providing cementing services in the Lloydminster area to a full service, oil and gas well service company operating over a large portion of the western Canadian Sedimentary Basin. With the aggressive equipment acquisition program, geographic expansion and the increased number of operating personnel, Trican is a different company than it was at the start of the year. With a broader base of operations and enhanced equipment capacity, Trican has invested heavily in its future and is well positioned for growth.

Respectfully,

Murray L. Cobbe  
President and Chief Executive Officer

April 8, 1998

*Trican Well Service Ltd.*

*The Company has embarked upon developing a comprehensive training program focused on ensuring that our employees have the body of skills necessary to deliver a consistently high quality product and service to our customers.*



# Operations Review

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## SERVICE SECTORS

Trican operates in five sectors of the oil field pressure pumping industry: coiled tubing, cementing, acid stimulation, nitrogen pumping and hydraulic fracturing. Trican's 1997 strategy was to expand from the Company's traditional cementing services into the more technical,



higher margin services of coiled tubing, acid stimulation and nitrogen pumping. Early in 1998, the Company completed its evolution into a full service provider by adding hydraulic fracturing.

The impact of this strategy can be seen in the 1997 results from operations, as average revenue per job increased from \$ 4,819 in 1996 to \$ 6,446.

## COILED TUBING SERVICES

Coiled tubing is a continuous, jointless steel pipe which is manufactured in lengths of thousands of metres and wound or coiled on a large steel reel. Coiled 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 fluid, proppants and debris. Utilization of coiled tubing has increased dramatically since its introduction due to its advantage of allowing work to be performed on wells without interrupting, or "killing", production thereby reducing the risk of formation damage.

Coiled 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 operation, it is necessary to kill the well risking formation damage. This risk is reduced when drilling underbalanced. Also, because the coil has no joints, it is run continuously without the delay of making drill pipe connections. Trican has performed numerous vertical well deepening drilling jobs and the potential exists in the future to be involved in drilling horizontal well extensions.

Trican has increased its equipment capacity in this service line by 300% by adding two units in 1997 and a fourth unit early in 1998. Trican has also expanded its engineering capability in the coiled tubing service line and the coiled tubing drilling line. We are now poised to

pursue more difficult well applications and to move into the horizontal drilling market. The complexity of our coiled tubing work has increased over the year and we are now completing a large number of horizontal, stimulation, drilling and fishing treatments. This market will continue to grow as we continue to apply coiled tubing to new and innovative applications.

Trican's strategy has been to apply the latest technology to our western Canadian market and to provide innovative coiled tubing solutions. Our staff has gained a reputation as coiled tubing problem solvers which will springboard us into 1998.

#### CEMENTING SERVICES

Each oil and gas well requires at least two primary cementing treatments during the drilling and completion phase, and normally at least one remedial service during its operating life.

During the drilling and completion 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, to shut off or abandon zones, and to fix casing leaks.

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. 1997 saw a significant change in Trican's cementing focus from shallow eastern Alberta wells to deep western Alberta wells. Many of these wells were deeper gas wells which had unique problems requiring the development of a new line of cement products and equipment. In response, Trican developed a line of fluid loss additives, deep well gas control cements, a computerized electronic recording package and a number technologically advanced cement pumping units. These products and equipment have been used throughout 1997 and we are well positioned to continue servicing the work performed in the deeper gas markets.

Trican added a significant amount of pumping and bulk transportation equipment to this service line. The Company began 1997 with 10 pumpers and currently operates 21 units, including 4 twin cementers capable of performing the largest and most technically complex jobs in the industry.



*“Trican’s strategy has been to apply the latest technology to our western Canadian market and to provide innovative coiled tubing solutions.”*

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## ACIDIZING SERVICES

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 has equipment dedicated to providing acid services but may also use the same equipment for pumping acid as it uses for pumping cement. Trican 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. Trican has substantially increased its acidizing market share in 1997 through the addition of a complete line of iron control acid blends. With these blends we can now confidently treat any well in western Canada and help to increase our customers' oil and gas production. These blends will continue to evolve in 1998 as new opportunities arise.

## NITROGEN SERVICES

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 majority of Trican's technical developments in this service line have been focused on improving the reliability and capability of our equipment. Specialized non fired units were built to improve the efficiency and safety of our coiled tubing nitrogen work. Trican now operates four nitrogen pumpers which are being used in conjunction with coiled tubing and fracturing applications.

## FRACTURING SERVICES



Fracturing is a well stimulation process performed to improve production from geological formations where the natural flow is restricted. Fluid is pumped into a cased well at a sufficiently high pressure to fracture the formation. A proppant is added to the fluid and injected in the fracture to prop it open, permitting the hydrocarbons to flow more freely to the wellbore.

Early in 1998, the Company commenced fracturing operations with three high pressure pumping units, a blender, a computerized frac van, a chemical add van, an iron truck, a CO<sub>2</sub> transport and two bulk transports. This equipment can deliver 4500 KW of pumping pressure and is capable of performing all but the largest fractures completed in the western Canadian Sedimentary Basin.



## Management's Discussion and Analysis

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in this Annual Report. This discussion compares the operating results for the twelve month period ended December 31, 1997 to the eight month period ended December 31, 1996. The Company changed its year end from April 30 to December 31 at the end of 1996.

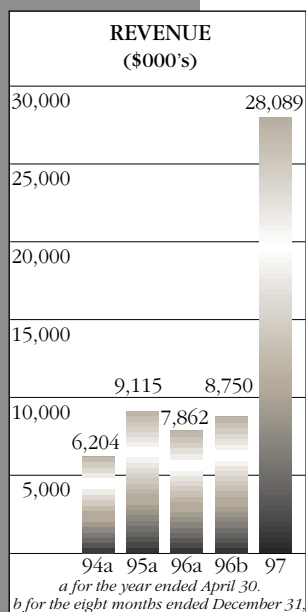
### RESULTS FROM OPERATIONS

Consolidated net income was \$2.2 million for the year ended December 31, 1997, compared to \$376,232 for the eight months ended December 31, 1996. Consolidated revenue was \$28.1 million, a significant increase over revenue of \$8.7 million for the eight months ended December 31, 1996. Record levels of industry activity, major equipment purchases and an expanded market presence accounted for the significant growth in consolidated revenues and net income for the year ended December 31, 1997.

***“Consolidated revenue was \$28.1 million, a significant increase over revenue of \$8.7 million for the eight months ended December 31, 1996.”***

### REVENUE

Revenue increased significantly from the previous period. Revenue for the year ended December 31, 1997 was \$28.1 million compared to \$8.7 million for the 8 months ended December 31, 1996. For the 1997 calendar year, approximately 16,500 wells were drilled in western Canada, well above levels experienced in previous years. Strong commodity prices and receptive equity markets contributed to the increase in oil patch activity.



In response to the demand for well service equipment, Trican significantly expanded its equipment fleet and increased its area of operations by opening a base in Red Deer and acquiring a base in Brooks. As a result of the broadened operations capacity, the Company completed 4,322 jobs in the 12 months ended December 31, 1997. This is a large increase over the 1,811 jobs completed in the eight months ended December 31, 1996.

The revenue per job increased from \$4,819 per job for the eight months ended December 31, 1996 to \$6,446 per job for the twelve months ended December 31, 1997. This increase is the result of the Company's growth strategy of placing greater emphasis on primary cementing and the growth of coiled tubing, nitrogen and acid service lines as a percentage of total revenue.

### OPERATING COSTS AND EXPENSES

Material and operating expenses of \$22.4 million for the twelve month period ended December 31, 1997 were 79.6 percent of revenue, compared to \$7.1 million and 81.5 percent, respectively in the eight month period ending December 31, 1996. The growth of the coiled tubing, nitrogen and acid service lines contributed to the improved gross margin.

General and administrative expenses increased to \$1.1 million or 3.9 percent of revenue for the year ended December 31, 1997. The increase in activity levels which required additional staff, the expenses related to managing a public company and additional investor relations costs accounted for the higher general and administrative expenses in the period.

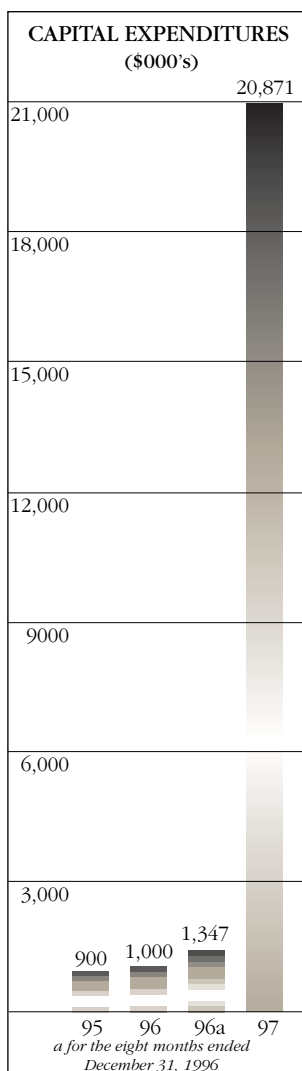
Interest expense includes amounts relating to the long term debt assumed with the acquisition of Superior. Trican anticipates an increase in this expense next year due to the debt related to the equipment expansion program undertaken by the Company early in 1998.

Depreciation and amortization expense increased from \$250,000 in the eight month period ended December 31, 1996 to \$915,395 for the year ended December 31, 1997. This increase reflects the significant capital expenditures made in the last year.

#### INCOME TAXES

Income tax expense rose proportionately with the increase in profitability in 1997. Trican's effective tax rate in the year ended December 31, 1997 is 39%. The deferred tax component relates to accelerated deductions for capital cost allowance for tax purposes claimed in excess of depreciation and amortization for accounting purposes.

*“Capital expenditures of \$20.9 million were incurred during the 12 months ended December 31, 1997 compared with \$1.35 million for the eight months ended December 31, 1996.”*



#### CAPITAL RESOURCES AND LIQUIDITY

At December 31, 1997, the Company had bank indebtedness of \$1.45 million and a net working capital deficiency of \$4.0 million compared with cash and short-term investments of \$5.86 million and a net working capital position of \$6.9 million at December 31, 1996. The increase in accounts payable associated with the equipment expansion program ongoing at the end of the year created this deficiency. Early in 1998, the Company drew approximately \$4.6 million from its bank facility to fully fund the deficiency. At December 31, 1997 the Company had \$865,289 of long-term debt assumed with the acquisition of Superior. The Company does not expect 1998 debt levels to exceed 65% of expected cash flow from operations.

Increased revenue and profitability accounted for the significant increase in cash flow from operations of \$4.5 million for the year ended December 31, 1997 compared to \$625,622 for the eight months ended December 31, 1996.

#### EQUITY OFFERING

On June 4, 1997, the Company issued by way of a private placement, 2,000,000 Special Warrants at a price of \$3.60 per Special Warrant. Each Special Warrant entitled the holder to acquire, at no additional cost, one common share of the Company. On July 22, the Company filed the prospectus in the provinces of British Columbia, Alberta and Ontario qualifying the distribution of common shares of the Company issued on exercise of the special warrants.

#### INVESTING ACTIVITIES

On July 31, 1997, the Company acquired all of the issued and outstanding shares of Superior Oilwell Cementers Inc. ("Superior") for total consideration of \$4.0 million. The purchase price was comprised of \$1.0 million in cash and \$3.0 million in shares (643,777 common shares of the Company). In acquiring Superior, Trican also assumed \$1.4 million of debt. Superior is a well service company providing cementing services in the area centered around Brooks, Alberta.

Capital expenditures of \$20.9 million were incurred during the year ended December 31, 1997 compared with \$1.35 million for the eight months ended December 31, 1996. Under the Company's growth strategy, these expenditures expanded equipment capacity for existing service lines and provided the company with its first hydraulic fracturing equipment. These expenditures were funded from the proceeds of the initial public offering (completed December 1996), the private placement of special warrants (completed in June 1997), cash flow from ongoing operations and an equipment facility completed after the end of the year.

#### CASH REQUIREMENTS OUTLOOK

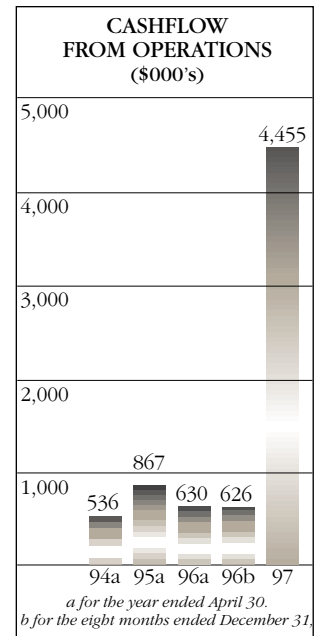
On March 26, 1998, the Company completed a private placement of 2,000,000 Special Warrants at a price of \$4.50 per warrant. Net proceeds will fully provide for the capital expansion budgeted by the Company for 1998. Other capital expenditures that may arise will be funded from cash flow from operations, the issuance of equity and/or debt.

#### BUSINESS RISKS AND OUTLOOK

The demand for well services by the oil and gas industry depends on the strength of oil and gas commodity prices. 1997 was a year of record levels of activity in the oil and gas community and it is generally expected that overall levels of activity will decline in 1998 as the industry focus shifts from heavy oil to gas. The Company is generally positive about the outlook for 1998 with industry activity levels and equipment utilization expected to remain strong in the first quarter of the year. After spring break-up, the shift to gas related exploration and development work should increase demand for fracturing, nitrogen and coiled tubing services. Activity levels in the Red Deer, Kindersley and Brooks bases should be positively impacted by these developments. The Company also plans to open a base in the northwest part of the Province during the second quarter of 1998. This new base will provide a platform from which to service the gas related drilling work expected to be undertaken in this area.

As industry activity is strongly influenced by oil and gas prices, the Company believes that it is virtually impossible to predict with any degree of certainty future levels of activity. As a result, the Company is firmly committed to maintaining lean, yet effective, cost structures to allow it the flexibility to quickly respond to changes in activity levels.

As is typically seen in the well service industry, the Company relies on a number of technical, business and accounting systems which may experience processing difficulties related to the changing of the date at the turn of the century - commonly referred to as the Year 2000 Problem. The Company has performed a preliminary assessment of the impact on key systems currently in use and anticipates continuing this work into 1998. We are also currently discussing the extent of Year 2000 compliance with major suppliers and customers. Expenses related to Year 2000 compliance will be reflected in the financial statements in the period in which they are incurred. Based upon the evaluations performed to date, the Company does not believe that its operations will be significantly adversely impacted. However the Company will not be able to completely assess this risk until all of the work has been completed. Further, the Company can not assess the risk associated with industry wide or world-wide systems failures caused by this problem.



*“After spring break-up, the shift to gas related exploration and development work should increase demand for fracturing, nitrogen and coiled tubing services.”*

## Management's Report

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The management of Trican Well Service Ltd. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated 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 where necessary.

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 consolidated 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, 1997 and 1996. The Auditors' Report to the shareholders is presented herein.



Murray L. Cobbe  
President and Chief Executive Officer



Michael G. Kelly  
Vice President, Finance  
and Administration and  
Chief Financial Officer

March 26, 1998

# Auditors' Report

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To the Shareholders of Trican Well Service Ltd.

We have audited the consolidated balance sheets of Trican Well Service Ltd. as at December 31, 1997 and 1996 and the consolidated statements of operations and retained earnings and changes in cash position for the year ended December 31, 1997 and eight months ended December 31, 1996. These consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its cash position for the year ended December 31, 1997 and the eight months ended December 31, 1996 in accordance with generally accepted accounting principles.

**KPMG**

KPMG

Chartered Accountants

Calgary, Canada

March 26, 1998

## Consolidated Balance Sheets

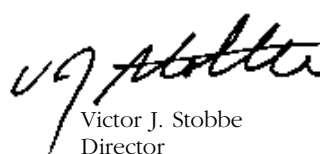
	December 31, 1997	December 31, 1996
<b>ASSETS</b>		
Current assets		
Cash and short-term deposits	\$ -	\$ 5,864,445
Accounts receivable	7,231,382	2,203,948
Prepaid expenses	157,921	7,755
Inventory	1,048,265	526,846
	8,437,568	8,602,994
Capital assets (Note 3)		
Goodwill, net of accumulated amortization of \$65,520	27,343,679	4,107,398
	1,775,958	-
	\$37,557,205	\$ 12,710,392
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Bank indebtedness	\$ 1,450,324	\$ -
Accounts payable	10,415,626	1,444,001
Income taxes payable	431,582	228,828
Current portion of long-term debt (Note 4)	129,793	-
	12,427,325	1,672,829
Long-term debt (Note 4)	735,496	-
Deferred income taxes	1,263,760	18,000
Shareholders' equity		
Share capital (Note 5)	18,454,156	8,572,590
Retained earnings	4,676,468	2,446,973
	23,130,624	11,019,563
Commitments (Note 9)		
Subsequent event (Note 10)		
	\$37,557,205	\$ 12,710,392

*See accompanying notes to the consolidated financial statements.*

Approved on behalf of the Board:



Murray L. Cobbe  
Director



Victor J. Stobbe  
Director

## Consolidated Statements of Operations and Retained Earnings

	Year ended December 31, 1997	Eight Months ended December 31, 1996
Revenue	\$ 28,088,801	\$ 8,749,852
Expenses		
Materials and operating	22,361,793	7,134,899
General and administrative	1,100,991	200,189
Interest expense	43,423	77,331
Depreciation and amortization	915,395	250,000
Reorganization costs (Note 8)	-	455,758
	24,421,602	8,118,177
Income before income taxes	3,667,199	631,675
Provision for income taxes (Note 6)	1,437,704	255,443
Net income	2,229,495	376,232
Retained earnings, beginning of period	2,446,973	2,070,741
Retained earnings, end of period	\$ 4,676,468	\$ 2,446,973
Basic earnings per share	0.24	0.10
Fully diluted earnings per share	\$ 0.23	\$ 0.10

*See accompanying notes to the consolidated financial statements.*

## Consolidated Statements of Changes in Cash Position

	Year ended December 31, 1997	Eight Months ended December 31, 1996
Cash provided by (used in):		
Operating		
Net income	\$ 2,229,495	\$ 376,232
Changes to income not involving cash:		
Depreciation and amortization	915,395	250,000
Deferred income taxes	1,310,129	(610)
Funds from operations	4,455,019	625,622
Net change in non-cash working capital from operations	567,057	(371,418)
	5,022,076	254,204
Investing		
Purchase of capital assets	(20,871,079)	(1,346,748)
Net change in non-cash working capital from the purchase of capital assets	3,369,339	-
Acquisition of subsidiary (Note 2)	(3,960,611)	-
	(21,462,351)	(1,346,748)
Financing		
Net proceeds from issuance of share capital	9,692,269	8,299,000
Long-term debt repayments	(566,763)	(624,397)
	9,125,506	7,674,603
Increase (decrease) in cash position	(7,314,769)	6,582,059
Cash position, beginning of period	5,864,445	(717,614)
Cash position, end of period	\$ (1,450,324)	\$ 5,864,445

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

*See accompanying notes to the consolidated financial statements.*



# Notes to Consolidated Financial Statements

Year ended December 31, 1997, with comparatives for the eight months ended December 31, 1996

*Trican Well Service Ltd. (the "Company") is incorporated under the laws of the province of Alberta. On June 3, 1997, the Company changed its name from Trican Oilwell Service Co. Ltd. The Company provides a comprehensive array of specialized products, equipment, services and technology for use in the drilling, completion, stimulation and reworking of oil and gas wells.*

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

### *Consolidation:*

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

### *Revenue recognition:*

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

### *Inventory:*

Inventory is 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 as follows:

Buildings and improvements	20 years
Equipment	4 to 10 years
Furniture and fixtures	10 years

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.

### *Goodwill:*

Goodwill, representing the excess of cost over the fair market value of the net assets of companies acquired, is amortized on a straight line basis over 10 years. The evaluation for impairment of goodwill is based on a comparison of the carrying values of goodwill and associated operating assets with the estimated undiscounted net cash flows from those assets.

### *Earnings per share:*

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Fully diluted earnings per share gives effect to options as if they had been outstanding from the beginning of the period.

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## NOTE 2 - ACQUISITION OF SUBSIDIARY

Effective July 31, 1997, the Company acquired all of the issued and outstanding share capital of Superior Oilwell Cementers Inc. ("Superior"). The transaction was accounted for using the purchase method. Superior's results from operations have been consolidated with the operations of the Company from the effective date of the purchase.

Net assets acquired at fair market value:

Net non-cash working capital	\$	461,036
Capital assets		3,215,077
Goodwill		1,841,478
Long-term debt		(1,432,052)
Deferred income taxes		(124,928)
	\$	3,960,611
Cash		59,829
		4,020,440

Financed by:

Cash	\$	1,020,440
643,777 common shares of the Company at \$4.66		3,000,000
	\$	4,020,440

## NOTE 3 - CAPITAL ASSETS

	1997	1996
Capital Assets:		
Land	\$ 457,316	\$ 257,316
Buildings and improvements	864,031	729,425
Equipment	30,120,564	6,016,198
Furniture and fixtures	455,607	139,518
	31,897,518	7,142,457
Accumulated Depreciation:		
Buildings and improvements	373,743	320,082
Equipment	4,105,826	2,664,175
Furniture and fixtures	74,270	50,802
	4,553,839	3,035,059
	\$27,343,679	\$ 4,107,398

#### NOTE 4 - LONG-TERM DEBT

Long-term debt is comprised of the following:

	1997	1996
Equipment loan	\$ 865,289	–
Less: Current Portion	129,793	–
	\$ 735,496	–

Subsequent to December 31, 1997, the Company obtained a new loan facility which allows for borrowings up to \$7,000,000, bearing interest at bank prime rate plus ¼%, repayable in 60 equal monthly installments commencing April, 1998. The loan, together with the current bank loan, is secured by a general security agreement. Subsequent to year end, an additional \$4.6 million was drawn on this facility to provide for capital expenditures included in accounts payable at December 31, 1997.

The estimated repayments required subsequent to December 31, 1997 required are as follows:

1998	\$ 129,793
1999	\$ 173,058
2000	\$ 173,058
2001	\$ 173,058
2002	\$ 173,058
Thereafter	\$ 43,264

Interest expense on long-term debt was \$23,914 in the year ended December 31, 1997 (\$64,026 - eight months ended December 31, 1996).

#### NOTE 5 - SHARE CAPITAL

##### *Authorized:*

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

##### *Issued and Outstanding - Common Shares:*

	Number of Shares	Amount
Balance, April 30, 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)
Balance, December 31, 1996	8,000,000	\$ 8,572,590
Issued pursuant to private placement	2,000,000	7,200,000
Issued on acquisition of Subsidiary	643,777	3,000,000
Exercise of stock options	1,250	2,500
Share issue costs, net of deferred income tax benefit of \$189,297		(320,934)
<b>Balance, December 31, 1997</b>	<b>10,645,027</b>	<b>\$18,454,156</b>

The weighted average number of common shares outstanding for the year ended December 31, 1997 was 9,108,187 (eight months ended December 31, 1996 - 3,922,449).

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***Incentive Stock Option 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.

The Company has reserved 960,000 common shares as at December 31, 1997 (December 31, 1996 - 960,000) for issuance under a stock option plan for directors, officers and employees. As at December 31, 1997, 910,250 options (December 31, 1996 - 870,000) were outstanding at prices ranging from \$2.00 - \$6.00.

**NOTE 6 - INCOME TAXES**

	Year Ended December 31, 1997	Eight Months Ended December 31, 1996
Current provision	\$ 127,575	\$ 256,053
Deferred provision (reduction)	1,310,129	(610)
	<u>\$ 1,437,704</u>	<u>255,443</u>

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:

	Year Ended December 31, 1997	Eight Months Ended December 31, 1996
Expected combined federal and provincial income tax	\$ 1,635,571	\$ 281,700
Manufacturing and processing rate reduction	(275,040)	(35,400)
Other	77,173	9,143
	<u>\$ 1,437,704</u>	<u>255,443</u>

At December 31, 1997, the Company has capital assets and goodwill with a net book value of \$3,130,193 which have no basis for income tax purposes. These differences arose on the acquisition of the subsidiary.

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## NOTE 7 - FINANCIAL INSTRUMENTS

### *(a) Fair values of financial assets and liabilities*

The fair values of financial instruments included in the consolidated balance sheets, including long-term debt, approximate their carrying amount due to the short-term maturity of those instruments and the floating interest rate applied to long-term debt.

### *(b) Risk management activities*

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 8 - REORGANIZATION COSTS

On December 9, 1996, the Company completed an initial public offering and a secondary offering of common shares. 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.

## NOTE 9 - COMMITMENTS

The Company has future operating lease obligations on office and shop premises and automobile equipment for various periods up to 2001. The minimum lease payments with respect to these leases are:

1998	\$ 97,346
1999	\$ 56,738
2000	\$ 56,738
2001	\$ 52,009

## NOTE 10 - SUBSEQUENT EVENT

On March 26, 1998 the Company completed a private placement of 2,000,000 Special Warrants at a price of \$4.50 per special warrant. Each warrant entitles the holder to acquire, at no additional cost, one common share of the Company. In conjunction with this private placement, the Company entered into an Underwriting agreement. Under the terms of the agreement, the Company has undertaken to file a prospectus qualifying the issue of shares on the exercise of the Special Warrants within a specified period. If the prospectus is not filed within this period, the warrants holders will be entitled to exchange each special warrant for 1.1 common shares of the Company at no additional cost. The net proceeds from the private placement, which are expected to be \$8.4 million, will be used to fund capital expenditures relating to the expansion of the business of the Company.

# Corporate Information

## BOARD OF DIRECTORS

**Kenneth M. Bagan** (1) (2)  
General Counsel, Tesco Corporation

**Murray L. Cobbe**  
President and Chief Executive Officer

**Donald R. Luft**  
Vice President, Operations and Chief Operating Officer

**Raymond M. Penny** (3)  
Retired, former President of Trican

**Douglas F. Robinson** (1) (2)  
President, Computalog Ltd.

**Victor J. Stobbe** (1)  
President,  
American Leduc Petroleum Limited

## OFFICERS

**Murray L. Cobbe**  
President and Chief Executive Officer

**Donald R. Luft**  
Senior Vice President, Operations and Chief Operating Officer

**Michael G. Kelly, C.A.**  
Vice President, Finance and Administration and Chief Financial Officer

**Dale M. Dusterhoft**  
Vice President, Technical Services

**David L. Charlton**  
Vice President, Sales

**Gary R. Bugeaud**  
Secretary

- (1) member of the Audit Committee  
(2) member of the Compensation Committee  
(3) resigned April 7, 1998

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange: TCW

## AUDITORS

**KPMG, Chartered Accountants**  
Calgary, Alberta

## SOLICITORS

**Burnet, Duckworth & Palmer**  
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

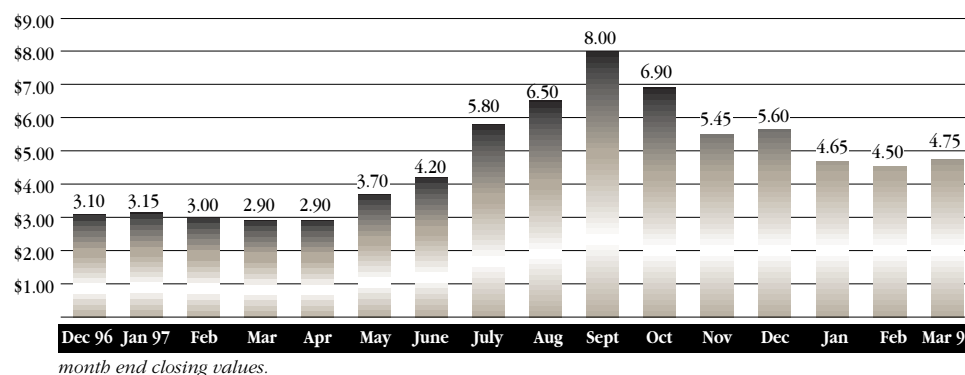
Requests for information should be directed to:

**Murray L. Cobbe**  
President and Chief Executive Officer

**Michael G. Kelly**  
Vice President, Finance and Administration and Chief Financial Officer

Trican Well Service Ltd.  
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Calgary, Alberta, Canada T2P 2Y5  
Tel: (403) 266-0202  
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## SHARE TRADING (\$)







*Trican Well Service Ltd.*

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