1998

annual report

strong performance in a challenging year

1998 Highlights

1 *Despite activity in 1998 being the lowest in five years and approximately 41% lower than in 1997, Trican completed 5,060 jobs which represents an increase of 17% over 1997. Geographic expansion and the introduction of new, technologically advanced services contributed to this growth.*

2 *Hydraulic fracturing services were successfully launched in February 1998, and the Company's equipment line was subsequently expanded during the fourth quarter of the year. While this was Trican's first year offering this type of service, over 400 fractures were completed for 57 different customers.*

3 *The Company's geographic expansion continued during 1998 through the establishment of new bases in Whitecourt and Grande Prairie, Alberta. With the addition of these strategically located bases, Trican is now positioned to service the entire Western Canadian Sedimentary Basin.*

4 *To support the introduction of fracturing services and the Company's movement into deeper, more technically challenging, gas prone areas, Trican developed proprietary chemical systems that will allow it to compete in these new markets.*

5 *Trican has a strong financial position and a healthy balance sheet, accomplishing its aggressive expansion over the past two years without incurring significant levels of debt. The Company has added over $32.0 million of new equipment while assuming a manageable $5.6 million in long term debt.*

corporate profile

Trican Well Service Ltd. is a well service company that provides a comprehensive array of specialized products, equipment and services utilized in the drilling, completion, stimulation, and reworking of oil and gas wells. Headquartered in Calgary, Alberta, the Company operates bases in Red Deer, Grande Prairie, Whitecourt, Lloydminster, Provost, and Brooks, Alberta as well as Kindersley, Saskatchewan to serve the oil and gas industry in Western Canada. Since its initial public offering in December 1996, Trican has grown into a full service supplier of state-of-the-art technology and expertise in coiled tubing, well fracturing, stimulation, cementing and related services. Trican's common shares trade on The Toronto Stock Exchange under the symbol "TCW".

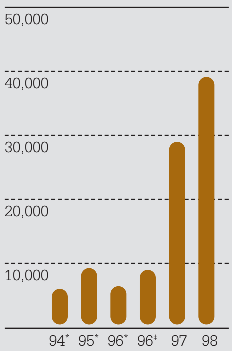
Trican is pleased to invite its shareholders and other interested parties to its Annual Meeting at 2:00 pm on May 25, 1999 in the Plaza Room of the Metropolitan Centre which is located at 333 – 4th Ave. S.W., Calgary.

Financial Summary and Operational Highlights

($ thousands, except per share amounts and operational information)

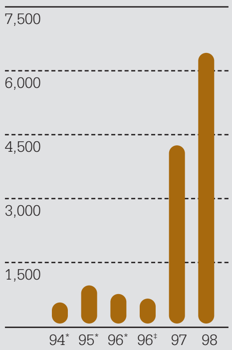
	1998	1997
FINANCIAL SUMMARY		
Revenue	39,451	28,089
Net income	1,833	2,229
Earnings per share		
Basic	0.15	0.24
Fully diluted	0.15	0.23
Funds from operations	6,259	4,455
Funds per share		
Basic	0.52	0.49
Fully diluted	0.50	0.44
Capital expenditures	11,377	20,871
OPERATIONAL INFORMATION		
Number of jobs completed	5,060	4,322
Revenue per job	7,797	6,499

Revenue
($ thousands)



* Year ended April 30
‡ Eight months ended December 31

Funds From Operations
($ thousands)



* Year ended April 30
‡ Eight months ended December 31

president's letter

We are pleased to report that Trican demonstrated strong performance in 1998 despite challenging market conditions. The year began with record levels of activity but finished with the well service industry grappling with the most dramatic decline in activity experienced in many years. However, Trican generated growth by accessing new markets through geographic expansion and the introduction of new leading edge technologies and services.

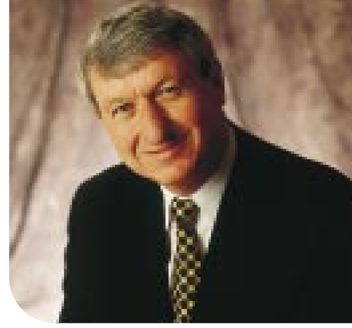
In 1998, the Company completed a total of 5,060 jobs compared to 4,322 in 1997 despite reduced demand for well services as a result of plummeting oil prices.

Synopsis of 1998

Trican's goal of becoming a full service supplier capable of competing in deeper, more technically challenging markets was achieved in 1998. By adding fracturing services during the year to the coiled tubing and nitrogen services introduced in 1997, the Company has rapidly grown from a regional supplier of cementing services to a full service operator covering the entire Western Canadian Sedimentary Basin. In 1998, the Company completed a total of 5,060 jobs compared to 4,322 in 1997 despite reduced demand for well services as a result of plummeting oil prices. This decline led to increased price competitiveness and lower operating margins for the sector, yet, under these conditions, Trican was able to show positive growth. Revenue increased 40% to $39.5 million and cash flow rose 41% to $6.3 million relative to 1997. Net income reflected the impact of increased price competitiveness and declined by 18% to $1.8 million.

Operational Growth

A major investment of approximately $6.0 million marked Trican's debut into fracturing services in February 1998. Operating capacity was doubled when the second set of equipment began field operations in October. Over the past two years, Trican has engaged in an aggressive expansion program to allow it to compete in all aspects of the energy service market, and the addition of fracturing services was the final step in this process. This strategy proved beneficial in 1998 as the decline in demand for pumping services, which had been Trican's primary service, was more than offset by the increase in activity for coiled tubing, nitrogen and fracturing services. Revenue was up 40% over the previous year and on a per job basis, increased by 20%. The Company's results attest to the experience and strength of Trican's management team (see management profiles on page 4). Overall, the year can be characterized as one in which Trican's results have begun to reflect the growth strategy initiated in 1996.



Murray Cobbe
President & CEO

Geographic Expansion

With new operation bases established in Whitecourt and Grande Prairie, Alberta, Trican has continued to generate growth through geographic expansion. These new bases were the next step of the expansion started in late 1996 when the Company's operations were centered in the heavy oil fields located around Lloydminster, Alberta. In 1997, new bases were added in Red Deer and Brooks, Alberta and with the bases added in 1998,Trican now has the ability to deliver its services to the entire Western Canadian Sedimentary Basin. This growth strategy complemented the introduction of the new service lines during this time, as the demand for coiled tubing, fracturing and nitrogen services was enhanced by greater access to deeper, more technically challenging markets in northern and western Alberta.

Outlook

Nineteen-ninety eight was a challenging year for the industry as the decline in oil prices placed severe constraints on customers' spending and reduced the demand for well services. Looking ahead, Trican expects these difficult market conditions will continue until oil prices recover to a level that allows oil and gas producers to increase their expenditures. It is not generally expected that activity levels in 1999 will be higher than those experienced in 1998. As such, Trican is committed to maintaining effective cost structures that will enable it to respond quickly and efficiently to changes in industry activity. While the timing of a turnaround in the market cannot be predicted, Trican is certainly well positioned with expanded service lines and broader geographic coverage.

While the timing of a turnaround in the market cannot be predicted, Trican is well positioned with expanded service lines and broader geographic coverage.

Respectfully submitted on
behalf of the Board of Directors,

Murray L. Cobbe
President and Chief Executive Officer

April 5, 1999

management profiles

Don Luft **Senior Vice-President, Operations and Chief Operating Officer**

Mr. Luft's career extends over 26 years in the well service industry, and he assumed a senior management role at Trican in September 1996. His responsibilities cover all aspects of operations, and he previously held various leadership positions with an international service company. One of his career highlights include leading a task force that was instrumental in developing coiled tubing drilling technology.

Dale Dusterhoft **P. Eng. Vice-President, Technical Services**

Before joining Trican in November 1996, Mr. Dusterhoft held various management positions in engineering, operations, and sales with a major international service company over a twelve year period. He is the Past President of the Canadian Association of Drilling Engineers, and currently sits on the Board of Directors for the Canadian section of the Society of Petroleum Engineers. His role at Trican has recently involved the development of fracturing, coiled tubing, and cementing services.

Steve Scherschel **P. Eng, Senior Engineer**

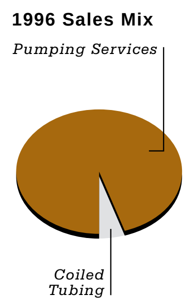
Mr. Scherschel has been a professional engineer for 15 years focused primarily on coiled tubing operations. He was previously responsible for coiled tubing services in southeast Asia with his former employer over a four year period and, after returning to Calgary, was named to a task force that developed the processes for underbalanced directional drilling using coiled tubing. He has been a leader in the growth of the coiled tubing service line since October 1997.

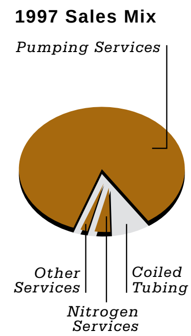
Tom Vis **Manager, Red Deer Operations Base**

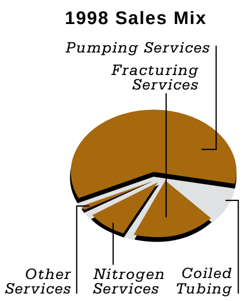
Mr. Vis became part of Trican's management team in June 1997, and has been instrumental in starting up the Company's hydraulic fracturing services. He has over 20 years of experience and was formerly involved in the largest fracture treatment ever undertaken in Western Canada.

evolution of services

Trican offers services in all of the major sectors of the oil field pressure pumping industry including coiled tubing, nitrogen pumping, hydraulic fracturing, and pumping services. The nature and mix of these services has evolved significantly in the last three years, reflected in the charts to the right. In 1996, the Company was primarily focused on pumping services with coiled tubing being introduced only part way through the year. The following year, a new management team was formed which broadened the focus of the Company. An aggressive equipment expansion increased service capacity in coiled tubing and nitrogen services which served to further diversify the sales mix. The marked addition of hydraulic fracturing services then occurred in 1998, reflecting the maturation of Trican into a full service provider. The Company's sales mix is expected to continue to evolve as equipment additions that occurred part way through the year will contribute to sales for a full year in 1999 and market acceptance of new services continues to grow.

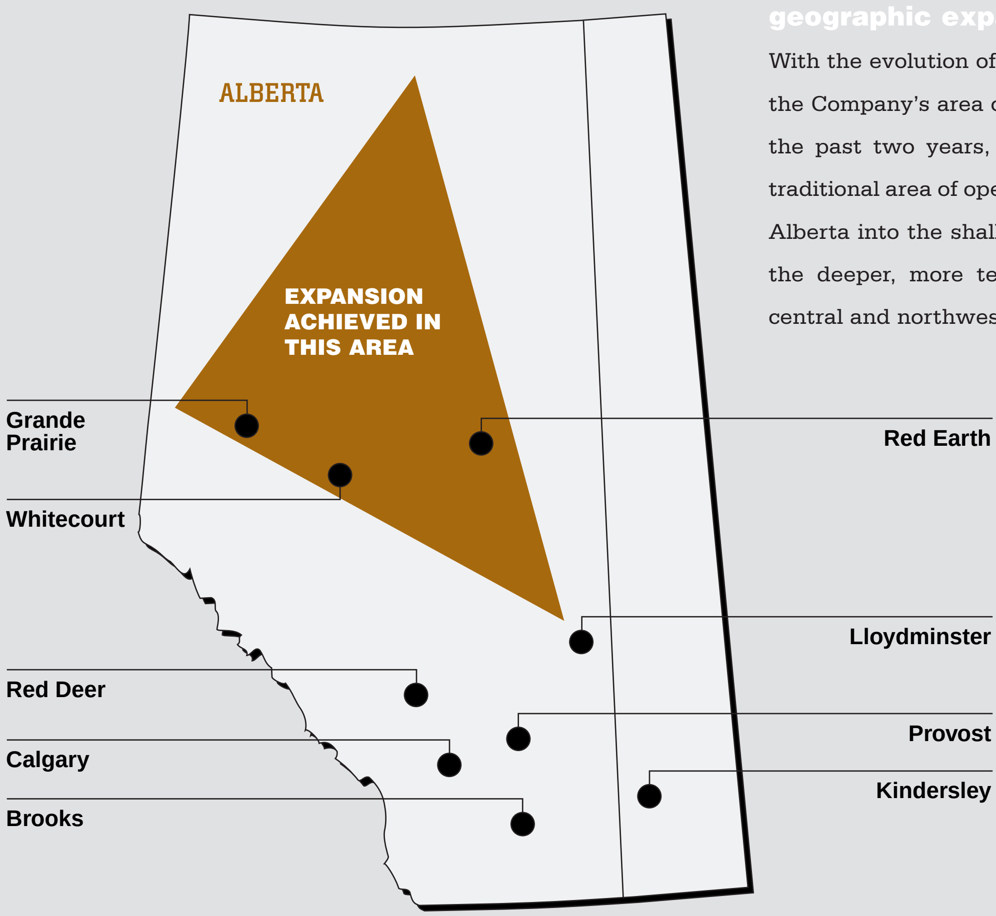






geographic expansion in 1998

With the evolution of Trican into a full service provider, the Company's area of operations has broadened. Over the past two years, Trican has expanded beyond its traditional area of operations in the heavy oil markets of Alberta into the shallow gas markets to the south and the deeper, more technically challenging markets of central and northwest Alberta.



operations review

Trican began providing pumping services in eastern Alberta over twenty years ago, and now operates throughout Western Canada in every sector of the well service industry. In 1998, Trican focused on improving its products and technical services for these service lines, and completed assembling an experienced technical team to facilitate future growth.

The services offered by Trican have been expanded to include technologically advanced well fracturing, coiled tubing and nitrogen services.

Overview of Services

Trican offers services in all of the major sectors of the oil field pressure pumping industry, including coiled tubing, nitrogen pumping, hydraulic fracturing, cementing and acidizing services. During the drilling and completion phase, cement is used to support the production casing within the wellbore. Acidizing is a well stimulation process which entails pumping large volumes of specially formulated acid blends into producing oil or gas formations to enhance production. Nitrogen is an inert gas and is often pumped into the wellbore to safely improve recovery of introduced or produced fluids. This service is often offered in conjunction with coiled tubing and hydraulic fracturing applications.

Marketing Strategy

Trican's marketing strategy has been to identify active small to mid-sized, gas oriented, energy companies with considerable growth prospects. The Company works closely with these companies to provide innovative technical solutions that increase their production and profits. These clients can evolve into some of Western Canada's most active drillers. This long-term, collaborative effort may enable Trican to reap the benefits of its service ethic in 1999 and beyond.

Hydraulic Fracturing

Fracturing is a well stimulation process performed to improve production where the natural flow is restricted. Fluid is pumped into a cased well at a sufficiently high pressure to fracture the formation and a proppant is added to the fluid and injected into the fracture to "prop it open", permitting hydrocarbons to flow more freely. Trican introduced a complete line of state-of-the-art fracturing fluids in 1998. The majority of well fracturing activity in Western Canada has been focused on low permeability gas wells, and Trican has successfully developed clean and cost-effective fluids for these types of wells. The most significant advance by the Company was the development of the Platinum "On The Fly" water system. The quality of the system is excellent and operating costs are lower than similar systems used by our competitors. This system has given the Company a competitive advantage in the price sensitive shallow gas fracturing markets. This system was well received by our customers and Trican has performed over 280 of these treatments since its introduction in mid-1998.

Trican also spent considerable effort designing a new generation hydrocarbon fracturing system. The new system increases the effectiveness of the treatment over comparable systems. The system was developed for use in servicing gas wells but also has applications for oil wells. The system was developed in early 1998, and was utilized to treat 394 wells by year-end.

Coiled Tubing

Coiled tubing is a continuous, jointless steel pipe that is manufactured in lengths of thousands of metres and wound or coiled on a large steel reel and run into a well, frequently against wellhead pressure, to create a circulating system. This system 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. The use of coiled tubing has grown dramatically since its introduction 20 years ago due to its advantage of allowing work to be performed on wells without interrupting production.

In 1999, we will continue to build on our strong performance by offering enhanced safety training programs designed to improve performance.

Trican's coiled tubing research in 1998 involved the development of new tools for unique downhole applications. Trican established a tool development department during the year that has since begun a number of research projects. These projects are directed towards expanding coiled tubing into new markets and increasing the Company's competitive advantages. Commercial application of certain tools currently under development is expected in 1999 and, if successful, this technology will assist Trican in providing new, innovative solutions for its customers.

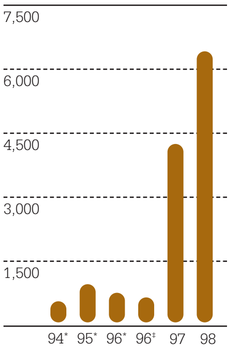
Work Environment

Trican is committed to maintaining a safe work environment for its employees and the public. During 1998, the Company continued to develop and implement safety policies and an Environmental Management plan that were reviewed by a provincial regulator. A company's performance in maintaining a safe work environment can be measured against generally applied standards which measure the incidence of accidents and the resulting time lost. To date, Trican's performance has been very good with measures well below levels generally seen in the industry. In 1999, we will continue to build on this strong performance by offering enhanced safety training programs which are designed to improve our performance and continue to raise awareness of the importance of safety in our operations.

management's discussion and analysis

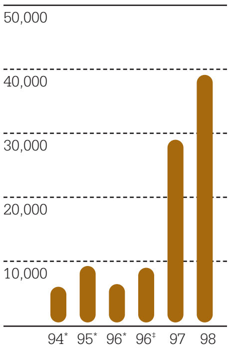
The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in this annual report.

Funds From Operations
($ thousands)



* Year ended April 30
‡ Eight months ended December 31

Revenue
($ thousands)



* Year ended April 30
‡ Eight months ended December 31

Results of Operations

Trican continued to show strong results in 1998 relative to market conditions with consolidated revenue for the year ended December 31, 1998 increasing to $39.5 million from $28.1 million the previous year. Funds from operations was $6.3 million versus $4.5 million in 1997, and consolidated net income declined to $1.8 million for the year from $2.2 million last year.

During 1998, approximately 9,750 wells were drilled in the Western Canadian Sedimentary Basin which represents the lowest level of activity seen since 1993. This equates to a 41% decline from the record level of 16,484 wells drilled in 1997. The decline of oil prices to its lowest levels in recent history has contributed to this reduction. Oil prices have softened in the last eighteen months to a level that has precipitated a reduction in equity financing, bank debt, and cash flow available to energy companies to fund their oil and gas exploration and development activities. However, despite the significant decline in industry activity, Trican completed 5,060 jobs during the year which was a 17% increase over the previous year. The expansion in service lines, equipment additions, and the establishment of new operation bases have all contributed to this performance.

Revenue

Trican's revenue increased significantly from the previous period with the 1998 year-end total reaching $39.5 million compared to $28.1 million the prior year. On a per job basis, revenue increased from $6,499 in 1997 to $7,797 in 1998 which reflects the Company's growth strategy of offering fracturing services and its continued expansion into deeper, more technically challenging markets of western and northern Alberta.

Operating Costs and Expenses

Material and operating expenses of $31.5 million for the year ended December 31, 1998 were 79.8% of revenue compared to $22.4 million or 79.6% in 1997. The growth of the fracturing, coiled tubing, and nitrogen service lines partially offset the declines in gross margin experienced in pumping services. General and administrative expenses for 1998 increased to $1.6 million or 4.0% of revenue which is consistent with the amounts recorded in 1997. Interest expense increased due to long-term borrowings undertaken to fund a portion of the equipment expansion. Finally, the depreciation and amortization expense increased to $2.8 million during the year from $0.9 million for the year ended December 31, 1997. Higher depreciation and amortization is indicative of the Company's substantial capital expenditures over the past two years.

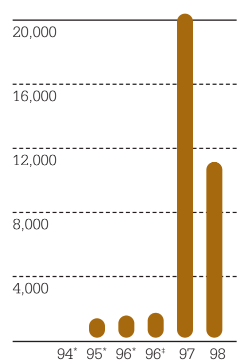
Income Taxes

Trican's income tax expense decreased proportionately with the decrease in profitability in 1998. The Company's effective tax rate during 1998 was 43.3%. 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 Resources and Liquidity

At December 31, 1998, the Company had bank indebtedness of $2.8 million and a net working capital position of $3.2 million compared to bank indebtedness of $1.5 million and a net working capital deficiency of $4.0 million at December 31, 1997. At year-end 1998, the Company had $5.6 million of long-term debt compared with $0.9 million at the end of 1997. The rise in long-term debt is related to the funding of equipment purchases. Cash flow from operations of $6.3 million during 1998 was up 41% over the 1997 total of $4.5 million. These funds were directed towards the Company's capital expenditure program in 1998.

Capital Expenditures
($ thousands)



* Year ended April 30
† Eight months ended December 31

Equity Offering

On March 26, 1998, Trican completed a private placement of 2,000,000 Special Warrants at a price of $4.50 per Special Warrant. Each Special Warrant entitled the holder to acquire, at no additional cost, one common share of the Company. On April 29, 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

Capital expenditures of $11.4 million were incurred during the year ended December 31, 1998 compared to $20.9 million in 1997. Under the Company's existing growth strategy, these expenditures expanded the equipment capacity of existing service lines and provided Trican with its second set of fracturing equipment. These expenditures were funded from proceeds of the private placement of special warrants completed in March 1998, cash flow from ongoing operations, and an equipment facility.

On September 15, 1998, the Company acquired all of the issued and outstanding shares of Birchwood Industries Inc. ("Birchwood") for total cash consideration of $117,000. In acquiring Birchwood, Trican assumed $118,521 of debt. Birchwood is a start-up venture in a business which is complementary to the services currently offered by Trican. Operations for this company began in early 1999.

Cash Requirements

The Company maintains conservative fiscal policies with respect to expansion, and has historically financed its capital expenditures with cash flow from operations, equity capital, and low levels of debt. Capital expenditures for 1999 are expected to be less than $1.0 million and will be financed from cash flow from operations and/or existing credit facilities.

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

Business Risks and Outlook

The demand for well services depends largely on the strength of oil and gas prices. Natural gas prices in 1998 were strong compared to recent years with Alberta spot prices improving approximately 15% over 1997. However, the past year saw a dramatic decline in oil prices that has continued in 1999. Current prices are at their lowest levels in the last 10 to 15 years and some observers note that the industry is in the midst of the longest price slump in over 20 years. Industry forecasters remain divided on the timing of any meaningful strengthening in oil prices, however, it is generally accepted that a sustained period of recovery will be required to provide the capital necessary to create increased demand for well services over the levels experienced in 1998. 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, Trican is firmly committed to maintaining a streamlined operation and effective cost structures so that it can respond quickly and appropriately to evolving market conditions.

Y2K Issue

As is typical of the well service industry, the Company relies on a number of technical, business, and accounting systems that 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 completed an evaluation of key systems and expects to complete testing in mid-1999. Management is 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, and are not expected to exceed $60,000. The Company has a plan designed to address Year 2000 issues; however, Trican will not be able to completely assess this risk until all of the work has been completed. Completion of the testing is currently anticipated to be mid-1999. Furthermore, the Company cannot assess the risk associated with industry wide or worldwide system failures caused by this problem.

management's report

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 judgements 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 shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the financial statements for the years ended December, 31, 1998 and 1997. The Auditors' Report to the shareholders is presented herein.

Murray L. Cobbe
President and Chief Executive Officer

Michael G. Kelly
Vice President, Finance
Chief Financial Officer

March 24, 1999

auditors' report

To the Shareholders of Trican Well Service Ltd.

We have audited the consolidated balance sheets of Trican Well Service Ltd. as at December 31, 1998 and 1997 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. 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, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP Chartered Accountants
Calgary, Canada

March 24, 1999

1998

financial statements

Consolidated Balance Sheets

For the years ended December 31	1998	1997
ASSETS		
Current assets		
Accounts receivable	$ 7,483,550	$ 7,231,382
Prepaid expenses	292,940	157,921
Inventory	1,591,682	1,048,265
Income taxes receivable	1,097,467	–
	10,465,639	8,437,568
Capital assets (Note 3)	36,248,939	27,343,679
Goodwill, net of accumulated amortization of $250,836 (1997 – $65,520)	1,693,164	1,775,958
	$ 48,407,742	$ 37,557,205
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ 2,848,496	$ 1,450,324
Accounts payable	3,719,570	10,415,626
Income taxes payable	–	431,582
Current portion of long-term debt (Note 4)	693,750	129,793
	7,261,816	12,427,325
Long-term debt (Note 4)	4,856,250	735,496
Deferred income taxes	2,648,031	1,263,760
Shareholders' equity		
Share capital (Note 5)	27,131,894	18,454,156
Retained earnings	6,509,751	4,676,468
	33,641,645	23,130,624
Commitments (Note 8)		
	$ 48,407,742	$ 37,557,205

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Murray L. Cobe Director

Victor J. Stobbe Director

Consolidated Statements of Operations and Retained Earnings

For the years ended December 31

	1998	1997
Revenue	$ 39,450,591	$ 28,088,801
Expenses		
Materials and operating	31,492,464	22,361,793
General and administrative	1,567,285	1,100,991
Interest expense	315,303	43,423
Depreciation and amortization	2,842,120	915,395
	36,217,172	24,421,602
Income before income taxes	3,233,419	3,667,199
Provision for income taxes (Note 6)	1,400,136	1,437,704
Net income	1,833,283	2,229,495
Retained earnings, beginning of year	4,676,468	2,446,973
Retained earnings, end of year	$ 6,509,751	$ 4,676,468
Basic earnings per share	$ 0.15	$ 0.24
Fully diluted earnings per share	$ 0.15	$ 0.23

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31	1998	1997
Cash Provided By (Used In):		
Operations		
Net income	$ 1,833,283	$ 2,229,495
Changes to income not involving cash		
Depreciation and amortization	2,842,120	915,395
Deferred income taxes	1,584,080	1,310,129
Funds from operations	6,259,483	4,455,019
Net change in non-cash working		
capital from operations	(5,838,791)	567,057
	420,692	5,022,076
Investments		
Purchase of capital assets	(11,376,643)	(20,871,079)
Net change in non-cash working capital		
from the purchase of capital assets	(3,369,339)	3,369,339
Acquisition of subsidiary (Note 2)	(117,000)	(3,960,611)
	(14,862,982)	(21,462,351)
Financing		
Net proceeds from issuance of share capital	8,477,928	9,692,269
Increase (decrease) in long-term debt	4,566,190	(566,763)
	13,044,118	9,125,506
Decreases in cash position	(1,398,172)	(7,314,769)
Cash (bank indebtedness), beginning of year	(1,450,324)	5,864,445
Bank indebtedness, end of year	$ (2,848,496)	$ (1,450,324)

See accompanying notes to the consolidated financial statements.

For the years ended December 31, 1998 and 1997

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 in Western Canada.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

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	3 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.

NOTE 2 – ACQUISITION OF SUBSIDIARY

Effective September 15, 1998, the Company acquired all of the issued and outstanding share capital of Birchwood Industries Ltd. ("Birchwood"). The transaction was accounted for using the purchase method. As at December 31, 1998, Birchwood had not commenced commercial activities.

Net assets acquired at fair market value:

Net non-cash working capital	$	(52,422)
Capital assets	$	185,421
Goodwill	$	102,522
Long-term debt	$	(118,521)
	$	117,000
Financed by:		
Cash	$	117,000

NOTE 3 – CAPITAL ASSETS

	1998	1997
Capital Assets:		
Land	$ 457,316	$ 457,316
Buildings and improvements	989,979	864,031
Equipment	41,003,996	30,120,564
Furniture and fixtures	799,214	455,607
	43,250,505	31,897,518
Accumulated Depreciation:		
Buildings and improvements	400,979	373,743
Equipment	6,382,123	4,105,826
Furniture and fixtures	218,464	74,270
	7,001,566	4,553,839
	$ 36,248,939	$ 27,343,679

NOTE 4 – LONG-TERM DEBT

Long-term debt is comprised of the following:

	1998	1997
Equipment loan	$ 5,550,000	$ 865,289
Less: Current Portion	693,750	129,793
	$ 4,856,250	$ 735,496

The Company's loan facility allows for borrowings up to $7,000,000, bearing interest at bank prime rate plus 1/4%, repayable in 48 equal monthly installments commencing July, 1999. Under the terms of the loan agreement, the lender is entitled to additional payments based on performance. The provision for additional payment has been waived for 1999. The loan, together with the current bank loan, is secured by a general security agreement.

The estimated repayments required subsequent to December 31, 1998 are as follows:

1999	$	693,750
2000	$	1,387,500
2001	$	1,387,500
2002	$	1,387,500
2003	$	693,750

Interest expense on long-term debt was $273,679 in the year ended December 31, 1998 ($23,914 – 1997).

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, 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 $273,390	–	(320,934)
Balance, December 31, 1997	10,645,027	$ 18,454,156
Issued pursuant to private placement	2,000,000	9,000,000
Exercise of stock options	8,250	16,500
Share issue costs, net of deferred income tax benefit of $199,809	–	(338,762)
Balance, December 31, 1998	12,653,277	27,131,894

The weighted average number of common shares outstanding for the year ended December 31, 1998 was 11,992,835 (1997 – 9,108,187).

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 1,500,000 common shares as at December 31, 1998 (December 31, 1997 – 960,000) for issuance under a stock option plan for directors, officers and employees. The maximum number of Common Shares permitted to be subject to outstanding options at any point in time is limited to 10% of the Common Shares then outstanding. As of December 31, 1998 1,094,000 options (December 31, 1997 – 910,250) were outstanding at prices ranging from $2.00 – $6.00.

NOTE 6 – INCOME TAXES

Years Ended December 31	1998	1997
Current (reduction)	$ (183,944)	$ 127,575
Deferred	1,584,080	1,310,129
	$ 1,400,136	$ 1,437,704

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:

Years Ended December 31	1998	1997
Expected combined federal and provincial income tax	$ 1,442,105	$ 1,635,571
Manufacturing and processing rate reduction	(283,510)	(275,040)
Non-deductible depreciation and amortization	139,805	–
Other	101,736	77,173
	$ 1,400,136	$ 1,437,704

At December 31, 1998, the Company has capital assets and goodwill with a net book value of $2,919,248 (December 31, 1997 – $3,130,193) that have no cost base for income tax purposes. These differences arose on the acquisition of subsidiaries.

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 – COMMITMENTS

The Company has future operating lease obligations on office and shop premises and automobile equipment for various periods up to 2003. The minimum lease payments with respect to these leases are:

1999	$ 214,943
2000	$ 162,818
2001	$ 153,619
2002	$ 88,200
2003	$ 73,500

NOTE 9 – UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Corporate information

1998

Board of Directors

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

Gary R. Bugeaud (2)
Partner, Burnet, Duckworth & Palmer

Murray L. Cobbe
President and Chief Executive Officer

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

Douglas F. Robinson (1) (2)
Independent Businessman

Victor J. Stobbe (1)
President,
American Leduc Petroleums 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, Chief Financial Officer
and Corporate Secretary

Dale M. Dusterhoft
Vice President, Technical Services

David L. Charlton
Vice President, Sales

Michael A. Baldwin, C.A.
Controller

(1) *Member of the Audit Committee*
(2) *Member of the Compensation Committee*

Auditors

KPMG LLP, 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, Alberta and Toronto, Ontario

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 Chief Financial Officer

Corporate Office

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