

# Q1

## INTERIM REPORT

## THREE MONTHS ENDED MARCH 31, 2002

## FINANCIAL REVIEW

(\$ millions, except per share amounts) (Unaudited)

Three months ended March 31,	2002	2001
Revenue	\$ 50.4	\$ 64.1
Operating income*	15.3	26.0
Net income	7.4	14.2
Net income per share before		
goodwill amortization	(basic)	\$ 0.88
	(diluted)	\$ 0.84
Net income per share	(basic)	\$ 0.87
	(diluted)	\$ 0.83
Funds from operations	9.5	19.8

Trican Well Service Ltd. ("Trican") is pleased to announce its financial and operating results for the quarter ended March 31, 2002. The results for the quarter represent an improvement over the results for the last quarter of 2001 as the winter drilling season created increased demand for services. However, compared with the first quarter of 2001, demand for services decreased by as much as 22%, reducing operational utilization and creating downward pricing pressure.

Revenue for the quarter decreased 21% to \$50.4 million, compared with Q1 2001. Net income of \$7.4 million was recorded for the quarter compared to net income before goodwill amortization of \$14.4 million recorded in Q1 2001. As a result, earnings per share of \$0.45 (\$0.43 diluted) were significantly down from the earnings per share before goodwill amortization of \$0.88 (\$0.84 diluted) recorded in the first quarter of 2001. Funds from operations decreased \$10.3 million for the quarter compared to the 2001 first quarter.

As expected, the oil and gas services industry experienced higher levels of demand for services in the first quarter than were seen at the end of 2001; however, warmer than expected weather combined with continued uncertainty regarding near-term commodity prices pushed activity levels to the lower range of expectations. Oil and natural gas prices did strengthen during the quarter, which has some industry watchers forecasting higher activity levels, but demand for services was not impacted during the first quarter.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Well Service Division

<i>(First Quarter)</i>	<b>Q1 2002</b>	% of Revenue	<b>Q1 2001</b>	% of Revenue	Year Over Year Change
Revenue	\$ 43,283		\$ 53,748		(19%)
Expenses					
Material and operating	28,624	66.1%	29,945	55.7%	(4%)
General and administrative	102	0.2%	–	0.0%	100%
Total expenses	28,726	66.4%	29,945	55.7%	
Operating income	14,557	33.6%	23,803	44.3%	(39%)
Number of jobs	3,536		3,640		(3%)
Revenue per job	\$ 12,474		\$ 14,827		(16%)

Revenue for the quarter for the Well Service Division, which includes deep coiled tubing, nitrogen, fracturing and pumping services, fell by 19% compared with the same period in 2001 as a result of pricing pressure brought about by lower activity levels and changes in sales mix. Revenue per job fell by 16%, and despite lower levels of demand for services, the number of jobs fell by only 3%. During the quarter, well services made up 86% of total sales, an increase over the 2001 level of 84%. Unlike 2001, where fracturing services made up the largest segment of sales, cementing services contributed the largest segment in the first quarter of 2002. Cementing has a lower average revenue per job than fracturing which reduced the overall average. Total expenses increased as a percentage of sales as a result of lower levels of utilization, and the increased proportion of sales from cementing services, which has a lower operating income percentage than fracturing, coiled tubing and nitrogen services.

#### Production Services Division

<i>(First Quarter)</i>	<b>Q1 2002</b>	% of Revenue	<b>Q1 2001</b>	% of Revenue	Year Over Year Change
Revenue	7,072		10,320		(31%)
Expenses					
Material and operating	4,873	68.9%	5,861	56.8%	(17%)
General and administrative	7	0.1%	–	0.0%	100%
Total expenses	4,880	69.0%	5,861	56.8%	
Operating income	2,192	31.0%	4,459	43.2%	(51%)
Number of jobs	522		671		(22%)
Revenue per job	\$ 5,957		\$ 8,074		(26%)
Number of hours	8,488		8,895		(5%)
Revenue per hour	\$ 452		\$ 524		(14%)

The Production Services Division comprises intermediate depth coiled tubing services, stimulation services, Polybore and jet pumping. During the quarter, revenue from the Production Services Division fell by 31% on a year-over-year basis as a result of lower demand for services and pricing pressure. The number of jobs completed fell by 22% in line with the overall year-over-year decline in activity and revenue per job of 26%. Revenue per job was adversely impacted by pricing pressure associated with the decline in activity as well as the absence of a number of large acid jobs completed in 2001 that were not undertaken in the current quarter. The number of hours from the intermediate depth coiled tubing service line fell slightly on a year-over-year basis and the revenue per job fell as a result of the proliferation of new units in the last year. This additional industry capacity is expected to continue to impact results for the balance of the year.

Total expenses, as a percentage of revenue, increased from 57% last year to 69% in the current quarter due primarily to pricing pressure and lower utilization of acidizing services.

### **CORPORATE DIVISION**

As a result in the overall decline in revenue, corporate expenses for the quarter, which include general and administrative expenses were lower than prior year both in dollar terms and as a percentage of revenue. Corporate expenses decreased from \$2.3 million in 2001, or 3.5% of revenue, to \$1.4 million, or 2.8% of revenue, in 2002.

### **OTHER EXPENSES**

Interest expense was 1.6% of revenue, an increase from 1.1% recorded in the first quarter of 2001. Depreciation increased by \$0.4 million for the quarter relative to the same period in 2001. This non-cash expense has increased as a result of the continued expansion of the Company's equipment capacity.

### **LIQUIDITY**

Funds from operations for the three months ended March 31, 2002 amounted to \$9.5 million which represents a 52% decrease from the first quarter 2001 total of \$19.8 million. Capital expenditures for the quarter totalled \$2.1 million compared with \$11.5 million for the same period in 2001.

At March 31, the Company had working capital of \$13.7 million compared to \$7.9 million at the end of 2001. The Company has an operating line of credit to finance working capital requirements. Maximum availability under the line is \$23.0 million subject to certain conditions. At March 31, 2002, \$15.6 million was drawn on this facility. The inventory of operating supplies, parts and materials required to carry on daily operations remain at levels consistent with those at December 31, 2001.

### **CAPITAL RESOURCES**

Trican had long-term debt (excluding current portion) of \$27.9 million at the end of the first quarter compared with \$28.9 million at the end of 2001. The Company believes that its strong balance sheet and unutilized borrowing capacity combined with funds from operations will provide sufficient capital resources to fund its on-going operations and future expansion.

### **INVESTING ACTIVITIES**

Capital expenditures of \$2.1 million were incurred during the first quarter compared with \$11.5 million during the same period in 2001. These additions related primarily to the completion of capital projects initiated in 2001. The increase in other assets relates to a long-term receivable related to Trican's international operations.

## **CASH REQUIREMENTS**

The Company has historically financed its capital expenditures with funds from operations, equity issues and debt. Including the 2002 capital budget of \$4.5 million and \$5.5 million required for projects initiated in 2001, total capital spending for 2002 is expected to be \$10.0 million and will be financed by funds from operations and/or credit facilities. At March 31, 2002, the Company had a number of ongoing capital projects relating to the 2001 and 2002 capital programs. The Company estimates that \$7.9 million of additional investment will be required to complete these projects.

## **BUSINESS RISKS**

The demand for Trican's services is largely dependent upon the level of expenditures by oil and gas companies on exploration, development and production activities. The price received by our customers for the crude oil and natural gas they produce has a direct impact on cash flow available to them to finance the acquisition of services provided by the Company. Exploration, development and production activities are also influenced by a number of factors including taxation and regulatory changes, access to pipeline capacity and changes in equity markets. Demand for crude oil and natural gas is also strongly influenced by the strength of the global economy, but particularly the strength of the U.S. economy. A slowdown in the U.S. economy could weaken demand for crude oil and natural gas and reduce the demand for well services.

A more complete discussion on the business risks faced by the Company may be found in Trican's 2001 annual report.

As the demand for well services is strongly influenced by a number of different factors, the Company believes that it is difficult to predict, with any degree of accuracy, future levels of activity. To mitigate this risk, Trican has maintained a streamlined operation and effective cost structures so that it can respond quickly to evolving market conditions. In addition, our strong balance sheet and adherence to conservative financing practices provides the resilience to withstand and benefit from volatility in activity levels in our sector.

## **OUTLOOK**

Higher oil and gas prices combined with positive North American economic trends have created a more positive atmosphere with respect to demand for well services for the near to medium term. Management expects that should these trends continue, demand for services should strengthen by the end of the year. Based on these positive indicators, many industry watchers have begun to forecast a positive growth in demand for services in 2003.

*\* Operating income is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that in addition to net income, operating income is a useful supplemental measure as it provides investors with an indication of earnings before depreciation, taxes and interest. Investors should be cautioned that operating earnings should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Trican's performance. Trican's method of calculating operating earnings may differ from other companies and accordingly may not be comparable to measures used by other companies.*

## CONSOLIDATED BALANCE SHEETS

	March 31 2002	December 31 2001
<i>(Stated in Thousands of Dollars) (Unaudited)</i>		
<b>ASSETS</b>		
Current assets		
Cash	\$ 116	\$ 1,164
Accounts receivable	42,126	27,398
Inventory	4,204	4,234
Prepaid expenses	2,622	1,315
	<b>49,068</b>	34,111
Capital assets	118,230	118,852
Other assets	4,992	4,001
Goodwill	7,086	7,086
	<b>\$ 179,376</b>	<b>\$ 164,050</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Bank loans	\$ 15,635	\$ 4,750
Accounts payable and accrued liabilities	10,591	15,786
Current income taxes payable	4,629	963
Current portion of long-term debt	4,549	4,693
	<b>35,404</b>	26,192
Long-term debt	27,923	28,908
Future income taxes	15,757	16,359
Shareholders' equity		
Share capital	45,406	45,086
Retained earnings	54,886	47,505
	<b>100,292</b>	92,591
	<b>\$ 179,376</b>	<b>\$ 164,050</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

*(Stated in Thousands of Dollars) (Unaudited)*

Three months ended March 31,	2002	2001
Revenue	\$ 50,355	\$ 64,068
Expenses		
Materials and operating	33,682	36,401
General and administrative	1,337	1,661
Operating income	15,336	26,006
Interest expense	796	709
Depreciation	2,726	2,356
Income before income taxes and goodwill amortization	11,814	22,941
Provision for income taxes	4,433	8,528
Net income before goodwill amortization	7,381	14,413
Goodwill amortization, net of income taxes	-	228
Net income	7,381	14,185
Retained earnings, beginning of quarter	47,505	25,632
Retained earnings, end of quarter	\$ 54,886	\$ 39,817
Earnings per share before goodwill amortization		
Basic	\$ 0.45	\$ 0.88
Diluted	\$ 0.43	\$ 0.84
Earnings per share		
Basic	\$ 0.45	\$ 0.87
Diluted	\$ 0.43	\$ 0.83

## CONSOLIDATED CASH FLOW STATEMENTS

*(Stated in Thousands of Dollars) (Unaudited)*

Three months ended March 31,	2002	2001
Cash Provided By (Used In):		
Operations		
Net income	\$ 7,381	\$ 14,185
Changes to income not involving cash		
Depreciation and amortization	2,726	2,584
Future income taxes	(602)	3,008
Funds from operations	9,505	19,777
Net change in non-cash working capital from operations	(13,421)	(10,783)
	(3,916)	8,994
Investments		
Purchase of capital assets	(2,086)	(11,464)
Purchase of other assets	(1,009)	(224)
Net change in non-cash working capital from the purchase of capital assets	(4,113)	(499)
	(7,208)	(12,187)
Financing		
Net proceeds from issuance of share capital	320	669
Issuance of long-term debt	–	26,904
Repayment of long-term debt	(1,129)	(23,671)
Increase in short-term borrowings	10,885	2,060
	10,076	5,962
Increase (decrease) in cash position	(1,048)	2,769
Cash position, beginning of quarter	1,164	475
Cash position, end of quarter	\$ 116	\$ 3,244

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Amounts Stated in Thousands)*

The Company's accounting policies applied to these consolidated financial statements are consistent and should be read in conjunction with those described in the 2001 Annual Report, except for the Change in Accounting Policy described below.

The Company's businesses are seasonal in nature with the highest activity in the winter months (first and fourth fiscal quarters) and the lowest activity during spring break-up (second fiscal quarter) due to road weight restrictions and reduced accessibility to remote areas.

### **NOTE 1 – CHANGE IN ACCOUNTING POLICIES**

- a) Effective January 1, 2002, the Company adopted new accounting standards for business combinations, goodwill and other intangible assets. Under the new standards for business combinations, the Company is required to use the purchase method to account for all business combinations initiated in the future, and identify, separate from goodwill, other intangible assets that arise from contractual or legal rights or that can be separately sold. The new accounting standard conforms to the accounting policies followed by the Company for all prior business combinations.

Under the new standard of accounting for goodwill, goodwill is no longer amortized, but is tested for impairment at least annually. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of the impairment loss, if any. The Company will perform the first step of the impairment test on goodwill prior to June 30, 2002, in accordance with the timeline set out in the new accounting standard.

- b) Effective January 1, 2002, the Company adopted the new accounting standard for stock-based compensation. The Company applies the intrinsic value based method of accounting for stock options granted to employees under its incentive stock option plan. Accordingly, no compensation expense has been recognized in the financial statements for stock options granted during the quarter. Had compensation expense been determined based on the fair value at the grant dates for options awarded under the stock option plan, the Company's net income and earnings per share would not have changed from those amounts reported.

### **NOTE 2 – SEGMENTED INFORMATION**

The Company provides a comprehensive array of specialized products, equipment, services and technology to customers in western Canada through two operating divisions:

- Well Service provides cementing, fracturing, deep coiled tubing and nitrogen services which are performed on new and producing oil and gas wells;
- Production Services provides acidizing, intermediate depth coiled tubing, Polybore, jet pumping and Industrial Services which are predominantly used in the stimulation and reworking of existing oil and gas wells.



	Well Service	Production Services	Corporate	Total
<b>Three months ended March 31, 2002</b>				
<b>Revenue</b>	<b>\$ 43,283</b>	<b>\$ 7,072</b>	<b>\$ –</b>	<b>\$ 50,355</b>
<b>Operating income</b>	<b>14,557</b>	<b>2,192</b>	<b>(1,413)</b>	<b>15,336</b>
<b>Assets</b>	<b>144,195</b>	<b>32,868</b>	<b>2,313</b>	<b>179,376</b>
<b>Capital expenditures</b>	<b>1,974</b>	<b>112</b>	<b>–</b>	<b>2,086</b>
<b>Three months ended March 31, 2001</b>				
Revenue	\$ 53,748	\$ 10,320	\$ –	\$ 64,068
Operating income	23,803	4,459	(2,256)	26,006
Assets	133,729	26,069	2,311	162,109
Capital expenditures	10,993	471	–	11,464

### **NOTE 3 – SHARE CAPITAL**

The issued and outstanding common shares of the Corporation along with securities convertible into common shares are as follows:

	March 31, 2002	December 31, 2001
Issued and outstanding:		
Common shares	16,523	16,428
Securities convertible into common shares:		
Employee stock options	1,329	1,422
Common share purchase warrants	200	200
	<b>18,052</b>	<b>18,050</b>

### **NOTE 4 – SUBSEQUENT EVENT**

As at April 30, 2002 the Company had 16,539 common shares, 1,312 employee stock options and 200 common share purchase warrants outstanding.

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

Kenneth M. Bagan <sup>(1)</sup> <sup>(2)</sup>  
Vice President, Corporate Development and  
General Counsel, Tesco Corporation

Gary R. Bugeaud <sup>(2)</sup>  
Partner, Burnet, Duckworth & Palmer LLP

Murray L. Cobbe  
President and Chief Executive Officer

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

Douglas F. Robinson <sup>(1)</sup> <sup>(2)</sup>  
Chairman and Chief Executive Officer  
Integrated Production Services Ltd.

Victor J. Stobbe <sup>(1)</sup>  
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, Chief Financial Officer  
and Corporate Secretary

Dale M. Dusterhoft  
Vice President, Technical Services

David L. Charlton  
Vice President, Sales & Marketing

Michael A. Baldwin, C.A.  
Manager, Finance

Nadine A. Godlonton, C.G.A.  
Controller

### **CORPORATE OFFICE**

Trican Well Service Ltd.  
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Calgary, Alberta T2P 4G8  
Telephone: (403) 266-0202  
Facsimile: (403) 237-7716  
Website: [www.trican.ca](http://www.trican.ca)

### **AUDITORS**

KPMG LLP, Chartered Accountants  
Calgary, Alberta

### **SOLICITORS**

Burnet, Duckworth & Palmer LLP  
Calgary, Alberta

### **BANKERS**

Royal Bank of Canada  
Calgary, Alberta

### **REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada  
Calgary, Alberta

### **STOCK EXCHANGE LISTING**

The Toronto Stock Exchange  
Trading Symbol: TCW

### **INVESTOR RELATIONS INFORMATION**

Requests for information should be directed to:

Murray L. Cobbe  
President and Chief Executive Officer

Michael G. Kelly, C.A.  
Vice President, Finance, Chief Financial Officer  
and Corporate Secretary

(1) Member of the Audit Committee

(2) Member of the Compensation Committee