# CWC ENERGY SERVICES CORP.

Financial Statements

For the years ended December 31, 2017 and 2016

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of CWC Energy Services Corp.

We have audited the accompanying financial statements of CWC Energy Services Corp., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of CWC Energy Services Corp. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 28, 2018
Calgary, Canada

# CWC ENERGY SERVICES CORP.

## STATEMENTS OF FINANCIAL POSITION

As at December 31, 2017 and December 31, 2016

| **December 31,** *Stated in thousands of Canadian dollars* | Note | **2017** | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash | | **$ 95** | $ 2 |
| Accounts receivable | | **30,119** | 15,335 |
| Prepaid expenses and deposits | | **1,531** | 1,164 |
| | | **31,745** | 16,501 |
| Property, plant and equipment | 5 | **232,190** | 193,525 |
| Intangibles | 6 | **419** | 724 |
| | | **$ 264,354** | $ 210,750 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | **$ 12,202** | $ 7,359 |
| Current portion of long-term debt | 7 | **176** | 176 |
| | | **12,378** | 7,535 |
| Deferred tax liability | 8 | **15,823** | 14,767 |
| Long-term debt | 7 | **49,634** | 32,966 |
| | | **77,835** | 55,268 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | **266,720** | 242,306 |
| Contributed surplus | | **8,609** | 6,847 |
| Deficit | | **(88,810)** | (93,671) |
| | | **186,519** | 155,482 |
| | | **$ 264,354** | $ 210,750 |

*See accompanying notes to the financial statements.*

Approved on behalf of the board:

*(signed) "Gary Bentham"*
Gary Bentham, Director

*(signed) "Jim Reid"*
Jim Reid, Director

# CWC ENERGY SERVICES CORP.

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, 2017 and 2016

| *Stated in thousands of Canadian dollars except per share amounts* | Note | **2017** | 2016 |
|---|---|---|---|
| **Revenue** | | **$ 112,215** | $ 73,122 |
| **Expenses** | 12 | | |
| Direct operating expenses | | **82,361** | 53,209 |
| Selling and administrative expenses | | **13,791** | 11,693 |
| Transaction costs | | **1,549** | - |
| Stock based compensation | | **869** | 945 |
| Finance costs | | **2,054** | 2,515 |
| Depreciation and amortization | | **17,103** | 14,248 |
| Loss on disposal of equipment | | **40** | 394 |
| Gain on acquisition | 5 | **(9,128)** | - |
| | | **108,639** | 83,004 |
| **Net income (loss) before income taxes** | | **3,576** | (9,882) |
| **Deferred income tax recovery** | 8 | **(1,285)** | (2,414) |
| **Net income (loss) and comprehensive income (loss)** | | **$ 4,861** | $ (7,468) |
| **Net income (loss) per share** | | | |
| Basic and diluted | 9 | **0.01** | $ (0.02) |

*See accompanying notes to the financial statements.*

# CWC ENERGY SERVICES CORP.
## STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016

| *Stated in thousands of Canadian dollars except share amounts* | Note | **Number of Shares** | **Share Capital** | **Contributed Surplus** | **Deficit** | **Total Equity** |
|---|---|---|---|---|---|---|
| **Balance - January 1, 2016** | | 292,628,007 | $ 227,149 | $ 6,516 | $ (86,203) | $ 147,462 |
| Net loss and comprehensive loss | | - | - | - | (7,468) | (7,468) |
| Stock based compensation expense | 9(d)(e) | - | - | 945 | - | 945 |
| Settlement of restricted share units | 9(e) | 1,746,667 | 614 | (614) | - | - |
| Rights offering, net of share issue costs | 9(b) | 97,546,002 | 14,543 | - | - | 14,543 |
| **Balance – December 31, 2016** | | 391,920,676 | $ 242,306 | $ 6,847 | $ (93,671) | $ 155,482 |
| **Balance – January 1, 2017** | | 391,920,676 | $ 242,306 | $ 6,847 | $ (93,671) | $ 155,482 |
| Net income and comprehensive income | | - | - | - | 4,861 | 4,861 |
| Stock based compensation expense | 9(d)(e) | - | - | 869 | - | 869 |
| Exercise of stock options | 9(d) | 983,333 | 194 | (67) | - | 127 |
| Settlement of restricted share units | 9(e) | 1,819,668 | 441 | (441) | - | - |
| Cancellation of common shares purchased under normal course issuer bid | | (3,493,500) | (2,157) | 1,401 | - | (756) |
| Rights offering, net of share issue costs | 9(b) | 130,148,781 | 25,936 | - | - | 25,936 |
| **Balance – December 31, 2017** | | 521,378,958 | $ 266,720 | $ 8,609 | $ (88,810) | $ 186,519 |

*See accompanying notes to the financial statements.*

# CWC ENERGY SERVICES CORP.

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

| *Stated in thousands of Canadian dollars* | Note | **2017** | 2016 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net income (loss) | | **$ 4,861** | $ (7,468) |
| Adjustments for: | | | |
| Stock based compensation expense | 9(d) | **869** | 945 |
| Finance costs | | **2,054** | 2,515 |
| Depreciation and amortization | | **17,103** | 14,248 |
| Gain on acquisition | 5 | **(9,128)** | - |
| Loss on disposal of equipment | | **40** | 394 |
| Deferred income tax recovery | 8 | **(1,285)** | (2,414) |
| Funds from operations | | **14,514** | 8,220 |
| Changes in non-cash working capital balances | 10 | **(10,254)** | 568 |
| Operating cash flow | | **4,260** | 8,788 |
| **Investing activities:** | | | |
| Purchase of equipment | | **(6,800)** | (2,614) |
| Business acquisition | (5) | **(37,500)** | |
| Proceeds on disposal of equipment | | **530** | 1,053 |
| Investing cash flow | | **(43,770)** | (1,561) |
| **Financing activities:** | | | |
| Increase (repayment) of long-term debt | | **16,667** | (19,026) |
| Interest paid | | **(1,812)** | (2,202) |
| Finance costs paid | | **(309)** | (276) |
| Finance lease repayments | | **(217)** | (232) |
| Common shares issued, net of share issue costs | | **26,030** | 14,509 |
| Common shares purchased under NCIB | 9(c) | **(756)** | - |
| Financing cash flow | | **39,603** | (7,227) |
| Increase in cash during the year | | **93** | - |
| Cash, beginning of year | | **2** | 2 |
| Cash, end of year | | **$ 95** | $ 2 |

*See accompanying notes to the financial statements.*

**1. Reporting entity**

CWC Energy Services Corp. ("CWC" or the "Company") is incorporated under the *Business Corporations Act* (Alberta). The address of the Company's head office is Suite 610, 205 – 5th Avenue SW, Calgary, Alberta, Canada. The Company is an oilfield services company providing drilling and production services to oil and gas exploration and development companies throughout the Western Canadian Sedimentary Basin ("WCSB"). The Company's common stock is listed and traded on the TSX Venture Exchange under the symbol CWC. Additional information regarding CWC's business is available in CWC's most recent Annual Information Form available on SEDAR at www.sedar.com, on the Company's website www.cwcenergyservices.com, or by contacting the Company at the address noted above.

**2. Basis of presentation**

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved by the Board of Directors on February 28, 2018.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These annual financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand except where otherwise noted.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management's judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes. In many cases the use of judgment is required to make estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Further details of the nature of these estimates and assumptions may be found in the relevant notes to the financial statements.

Management considers the following to be the most significant of the judgments, apart from those involved in making estimates, made in preparation of the financial statements:

Business combinations

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible assets and intangible assets, the excess is recognized in income.

Goodwill is not depreciated, but is measured at cost less any accumulated impairment losses.

Transaction costs incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees are expensed as incurred.

Determination of cash generating units
For the purpose of assessing impairment of tangible and intangible assets, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units or "CGU's"). The grouping of assets into CGU's requires management exercise significant judgment.

Management considers the following to be the most significant of the estimates made in preparation of the financial statements:

Impairment of tangible and intangible assets
Tangible and intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenue, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Depreciation and amortization
Depreciation and amortization of property and equipment and intangible assets is carried out on the basis of the estimated useful lives of the related assets. Assessing the reasonableness of the estimated useful lives of property and equipment and intangibles requires judgment and is based on currently available information, including historical experience by the Company. Additionally, the Company may consult with external equipment builders or manufacturers to assess whether the methodologies and rates utilized are consistent with their expectations. Changes in circumstances, such as technological advances, changes to the Company's business strategy, changes in the Company's capital strategy or changes in regulations may result in the actual useful lives differing from the Company's estimates. A change in the remaining useful life of a group of assets, or their expected residual value, will affect the depreciation rate used to amortize the group of assets and thus affect depreciation expense as reported in the Company's results of operations. These changes are reported prospectively when they occur.

Income taxes
The Company uses the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recorded based on temporary differences between the carrying amount of an asset or liability and its tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The Company's operations are complex and computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. Any changes in the estimated amounts are recognized prospectively in the statement of income and comprehensive income.

(e) Comparative figures
Certain comparative amounts have been reclassified to conform to the current period's presentation.

*Stated in thousands of Canadian dollars except share and per share amounts*

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Business combinations

The Company uses the acquisition method to account for business acquisitions. The Company measures goodwill as the fair value of the consideration transferred, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a gain on acquisition is recognized immediately in net income. Goodwill is allocated as of the date of the business combination to the CGU and groups of CGU's that are expected to benefit from the business combination and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which can be no higher than the operating segment level. Goodwill is not amortized and is tested for impairment annually. Additionally, goodwill is reviewed at each reporting date to determine if events or changes in circumstances indicate that the asset might be impaired, in which case an impairment test is performed. Goodwill is measured at cost less accumulated impairment losses. Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred and recognized in other items within net income.

(b) Property and equipment and depreciation

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour; and
- any other costs directly attributable to bringing the assets to a working condition for their intended use.

The costs of replacing a component of property and equipment are capitalized only when it is probable that the future economic benefits associated with the component will flow to the Company. The carrying amount of the replaced component is derecognized. Cost of routine repairs and maintenance is expensed as incurred.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Items of property and equipment are depreciated from the date that they are inspected and determined to be ready for field use, or in respect of internally constructed assets, from the date that the asset is completed or ready for use. Depreciation is recorded annually over the estimated useful lives of the assets using the following deprecation methods and rates:

| Assets | Method | Rate |
|---|---|---|
| Drilling rigs and related equipment | Unit of production with residual values up to-20% | 1,500 to 5,000 operating days |
| Buildings | Straight-line with residual values of up to-20% | 25 years |
| Production equipment – service and swabbing rigs and Level IV recertifications | Unit of production with residual values up to-20% | 24,000 operating hours |
| Production equipment – coil | Straight-line with residual values of up to-20% | 10 years |
| Support equipment | Straight-line with residual values of up to-15% | 2 to 10 years |
| Miscellaneous equipment | Straight-line with no residual value | 3 to 5 years |

Intangible assets acquired in business combinations consist of trade names which are amortized over five years and customer contracts which are amortized over the remaining contractual term of up to two years.

Assets under construction are not depreciated until they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(c) Impairment of non-financial assets excluding inventories and deferred tax assets
Non-financial assets excluding inventories and deferred tax assets are assessed at the end of each reporting period to determine if any indication of impairment exists. If any such indication exists, the Company estimates the recoverable amount of the asset. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its VIU and its FVLCS. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU's.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of goodwill, if any, allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

CWC's corporate assets, which do not generate separate cash inflows, are allocated to the CGU's on a reasonable basis for impairment testing purposes.

(d) Financial instruments
Financial assets include accounts receivable and marketable securities (if any). The Company determines the classification of its financial assets at initial recognition and records the assets at their fair value. Subsequently, financial assets are carried at fair value or amortized cost less impairment charges. Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognized directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognized directly in net earnings.

All financial liabilities are initially recognized at fair value net of transaction costs and subsequently carried at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

The Company initially recognizes accounts receivable on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which it becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legal right to offset the amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss
A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

Financial assets designated as at fair value through profit or loss comprise equity securities that would otherwise would have been classified as available for sale.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(e) Cash
Cash comprises cash balances that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(f) Common shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are returned to treasury and cancelled no more than six months from repurchase.

(g) Provisions
A provision is recognized in the financial statements when the Company has an obligation, whether existing or potential as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2017 and December 31, 2016 there were no provisions recognized in the financial statements.

(h) Revenue recognition
The Company's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations. Revenue is recognized when services are rendered and when collectability of the consideration is probable and when the amount of revenue can be measured reliably.

(i) Leases
At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

- the fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- the arrangement contains a right to use the asset(s).

At the inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

Leasing contracts are classified as either finance or operating leases.

The Company classifies a lease as a finance lease if it transfers substantially all of the risks and rewards of ownership to the lessee. Upon the initial recognition of the lease asset it is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance lease and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

(j) Dividends
Dividends on shares are recognized in the Company's financial statements in the period in which the dividends are declared and approved by the Board of Directors of the Company.

(k) Finance costs
Finance costs encompass interest expense on financial liabilities and accretion expense on debt issuance costs and are recognized in profit or loss in the period in which they are incurred using the effective interest method.

(l) Foreign currency transactions
These financial statements are presented in Canadian dollars, which is the functional and reporting currency of the Company. Transactions in foreign currency are translated at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets are translated into Canadian dollars at the exchange rate prevailing on the date of acquisition.

(m) Income Tax
Tax is recognized in profit or loss, except to the extent that it relates to a business combination or items recognized in other comprehensive income or directly in equity.

Current tax is the expected tax on taxable income less adjustments to prior periods using tax rates enacted, or substantively enacted as at the reporting date in jurisdictions where the Company operates.

Deferred income taxes are recognized based on temporary differences arising between the tax value of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill and are not accounted for if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income taxes are calculated on the basis of the tax laws enacted or substantively enacted as at the reporting date and apply to when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Current and deferred income tax assets and liabilities are offset when there is a legally enforceable right to settle on a net basis and when such assets and liabilities relate to income taxes imposed by the same taxation authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Employee costs

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the bonus plan when a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can reasonably be estimated.

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be measured reliably. If benefits are payable more than twelve months after the reporting date, then they are discounted to their present value.

Under the Company's stock option plan described in note 9(d), options to purchase common shares are granted to directors, officers and employees. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the vesting period of the option with an offsetting credit to contributed surplus. Upon exercise of the share purchase options: i) if shares are issued from treasury, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in common share capital, or ii) if a cash payment is made to the participant, contributed surplus is reduced by the amount of the cash payment. It is the Company's intent to settle future common share purchase options by means of the issue of shares from treasury.

Under the Company's restricted share unit plan described in note 9(e), RSUs are granted to directors, officers and employees. The fair value of RSUs is calculated at the date of grant using the market price of the common shares and that value is recorded as compensation expense over the vesting period of the RSU with an offsetting credit to contributed surplus. Upon settlement of the RSUs: i) if shares are issued from treasury, share capital is increased and contributed surplus is decreased by the amount previously expensed for stock based compensation for the RSUs, or ii) if common shares are purchased in open market purchases or purchases pursuant to private transactions with third parties, the amount paid for such purchases is recorded as a reduction in contributed surplus, or iii) if a cash payment is made to the participant, contributed surplus is reduced by the amount of the cash payment. It is the Company's intent to settle future RSUs by means of the issue of shares from treasury.

The Company estimates future forfeitures for both stock options and RSUs and expenses stock options and RSUs based on the Company's estimate of stock options and RSUs expected to reach vesting. Any difference between the number of stock options and RSUs expected to vest and the number of stock options and RSUs which actually vest is accounted for as a change in estimate when those stock options or RSUs become vested or are forfeited before vesting.

The Company has a dividend bonus plan to compensate stock option holders for dividends paid on common shares. Under the terms of the plan option holders of vested, in-the-money options are entitled to a bonus payment equal to the dividend amount grossed up to negate the tax consequences of receiving employment income versus dividend income. These amounts are accrued at each dividend declaration date and paid out annually, at the time of option exercise or on termination of employment, whichever event occurs first.

(o) Per share amounts
Basic per share amounts are calculated using the weighted average number of common shares outstanding during the period. Diluted per share amounts are calculated considering the effects of all dilutive potential common shares. The Company's dilutive potential common shares assumes that all dilutive stock options and restricted share units are exercised and the proceeds obtained on the exercise of dilutive stock options would be used to purchase common shares at the average market price during the period. The weighted average number of common shares outstanding is then adjusted accordingly

(p) Segmented information
The operating divisions are grouped into two distinct reporting segments: Contract Drilling and Production Services and are supported by the Corporate reporting segment. The reporting segments share common economic characteristics and are differentiated by the type of service provided and customer needs. The reporting segments financial results are reviewed regularly by the Company's senior management. Senior management makes decisions about resource allocation and assesses segment performance based on the internally prepared segment information.

(q) New accounting standards not yet effective
A number of new standards, amendments to standards and interpretations have been issued by the IASB and are not yet effective for the year ended December 31, 2017. The following new standards, amendments to standards and interpretations have not been applied in preparing these financial statements.

IFRS 9, Financial Instruments Classification and Measurement, which introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. Based on our assessment, we do not expect adoption of the standard to have a material impact on the financial statements, however, we do expect to have additional disclosures.

IFRS 15, Revenue from Contracts with Customers, which provides guidance on revenue recognition and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. Our assessment primarily involved reviewing our sales contracts to determine if any performance obligations exist that will need to be separately identified that may affect the timing of when revenue will be recognized under IFRS 15. Based on our assessment, CWC has not identified any material impacts on the timing and measurement of revenue from our existing revenue recognition practices from the adoption of the new standard, however, we do expect to have additional disclosures.

IFRS 16, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its financial statements.

## 4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

The carrying amounts for cash, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The fair value of long-term debt approximates its carrying value as the debt bears interest at floating rates and the credit spreads approximate current market rates.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment
The fair value of property and equipment recognized as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence.

(b) Inventories
The net realizable value of inventories is determined based on the estimated selling price in the ordinary course of business less cost and a reasonable profit margin.

(c) Share based compensation transactions
The fair value of employee stock options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility, the weighted average expected life of the instruments, the expected dividends, the expected forfeiture rate, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

The fair value of RSUs issued is determined on the grant date based on the market price of the common shares on the grant date.

(d) Fair value hierarchy
Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quote prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The Company did not have any financial instruments that were required to be classified in Level 1, 2 or 3 as at December 31, 2017.

*Stated in thousands of Canadian dollars except share and per share amounts*

## 5. Property, plant and equipment

| | Contract drilling equipment | Production services property, plant and equipment | Other equipment | Total |
|---|---|---|---|---|
| **Costs** | | | | |
| Balance, January 1, 2017 | **$ 108,947** | **$ 206,269** | **$ 1,874** | **$ 317,090** |
| Additions | **3,964** | **52,062** | **9** | **56,035** |
| Disposals | **(433)** | **(1,347)** | **-** | **(1,780)** |
| Balance, December 31, 2017 | **112,478** | **256,984** | **1,883** | **371,345** |
| **Accumulated depreciation and impairment losses** | | | | |
| Balance, January 1, 2017 | **15,073** | **106,944** | **1,548** | **123,565** |
| Depreciation | **5,910** | **10,730** | **158** | **16,798** |
| Disposals | **(365)** | **(843)** | **-** | **(1,208)** |
| Balance, December 31, 2017 | **20,618** | **116,831** | **1,706** | **139,155** |
| **Net book value** | | | | |
| Balance, December 31, 2017 | **$ 91,860** | **$ 140,153** | **$ 177** | **$ 232,190** |

| | Contract drilling equipment | Production services property, plant and equipment | Other equipment | Total |
|---|---|---|---|---|
| Costs | | | | |
| Balance, January 1, 2016 | $ 108,508 | $ 206,314 | $ 1,881 | $ 316,703 |
| Additions | 1,662 | 930 | 66 | 2,658 |
| Disposals | (1,223) | (907) | (141) | (2,271) |
| Transfers | - | (68) | 68 | - |
| Balance, December 31, 2016 | 108,947 | 206,269 | 1,874 | 317,090 |
| Accumulated depreciation and impairment losses | | | | |
| Balance, January 1, 2016 | 12,230 | 96,710 | 1,505 | 110,445 |
| Depreciation | 2,979 | 10,800 | 165 | 13,944 |
| Disposals | (136) | (566) | (122) | (824) |
| Balance, December 31, 2016 | 15,073 | 106,944 | 1,548 | 123,565 |
| Net book value | | | | |
| Balance, December 31, 2016 | $ 93,874 | $ 99,325 | $ 326 | $ 193,525 |

At December 31, 2017, property and equipment includes equipment under finance leases which are recorded at cost totaling $878 (December 31, 2016: $854), less accumulated depreciation of $547 (December 31, 2016: $586).

No asset impairment loss or impairment reversal was recorded for the year ended December 31, 2017 as triggers for an impairment test were not identified in any of the CGUs.

*Stated in thousands of Canadian dollars except share and per share amounts*

Acquisition of Canadian Assets of C&J Canada

On November 5, 2017, the Company completed the acquisition of all of the service and swabbing rig assets and ongoing operations of C&J Energy Production Services-Canada Ltd. ("C&J Canada") from C&J Energy Services, Inc. for total consideration of $37.5 million in cash. The acquisition of C&J Canada has been accounted for as a business combination under IFRS 3. The purchase equation is as follows:

| Consideration transferred | | Purchase Price Equation |
|---|---|---|
| Cash | $ | **37,500** |
| Identifiable assets (liabilities) acquired | | |
| Buildings | $ | **7,432** |
| Land | | **11,467** |
| Rigs | | **29,580** |
| Other Equipment | | **470** |
| Property taxes & other deposits | | **54** |
| Deferred tax liabilities | | **(2,375)** |
| Bargain purchase gain | | **(9,128)** |
| | $ | **37,500** |

C&J Canada's identifiable assets and liabilities have been measured at their fair values on the date of acquisition. Determinations of fair value often require management to make assumptions and estimates about future events. CWC has determined the fair value of assets acquired and liabilities assumed as of the date of acquisition. The fair value of buildings, land and rigs were determined based on third party appraisal. Prepaid expenses and deposits and other equipment book value was determined to be equal to the fair value. Deferred tax liabilities were determined by applying statutory tax rate to assets acquired fair value less available tax pools.

Between the acquisition date and December 31, 2017 approximately $4.4 million of revenue and $2.0 million of gross margin was recognized relating to the C&J Canada assets.

CWC incurred approximately $1.5 million of transaction costs related to the acquisition that are expensed in the Statement of Comprehensive Income (Loss).

*Stated in thousands of Canadian dollars except share and per share amounts*

## 6. Intangible assets

| | | Intangible assets |
|---|---|---|
| **Costs** | | |
| Balance, January 1, 2017 & December 31, 2017 | **$** | **1,588** |
| | | |
| **Accumulated depreciation and impairment losses** | | |
| Balance, January 1, 2017 | | **864** |
| Depreciation of intangible assets | | **305** |
| Balance, December 31, 2017 | | **1,169** |
| | | |
| Net book value | | |
| Balance, December 31, 2017 | **$** | **419** |

| | | Intangible assets |
|---|---|---|
| Costs | | |
| Balance, January 1, 2016 and December 31, 2016 | $ | 1,588 |
| | | |
| Accumulated depreciation and impairment losses | | |
| Balance, January 1, 2016 | | 560 |
| Depreciation of intangible assets | | 304 |
| Balance, December 31, 2016 | | 864 |
| | | |
| Net book value | | |
| Balance, December 31, 2016 | $ | 724 |

## 7. Loans and borrowings

The following table provides information with respect to amounts included in the statement of financial position related to loans and borrowings:

| As at December 31, | | **2017** | | 2016 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Current portion of finance lease liabilities | **$** | **176** | $ | 176 |
| | **$** | **176** | $ | 176 |
| | | | | |
| Non-current liabilities: | | | | |
| Bank Loan | **$** | **50,000** | $ | 33,333 |
| Finance lease liabilities | | **165** | | 97 |
| Financing fees | | **(531)** | | (464) |
| | **$** | **49,634** | $ | 32,966 |
| | | | | |
| Total loans and borrowings | **$** | **49,810** | $ | 33,142 |

The Company has credit facilities with a syndicate of four Canadian financial institutions (the “Credit Facility”). The Credit Facility provides the Company with a $100 million extendible revolving term facility (the “Bank Loan”) and other credit instruments. Of the Bank Loan, $90 million is a syndicated facility with the remaining $10 million being an operating facility. During the third quarter, the Bank Loan was extended for a committed term until July 31, 2020 (the “Maturity Date”). No principal payments are required under the Bank Loan until the Maturity Date, at which time any amounts outstanding are due and payable. The Company may, on an annual basis, request the Maturity Date be extended for a period not to exceed three years from the date of the request. If a request for an extension is not approved by the banking syndicate, the Maturity Date will remain unchanged.

*Stated in thousands of Canadian dollars except share and per share amounts*

The Bank Loan bears interest based on a sliding scale pricing grid tied to the Company's trailing Consolidated Debt to Consolidated EBITDA[1] ratio from a minimum of the bank's prime rate plus 0.75% to a maximum of the bank's prime rate plus 3.75% or from a minimum of the bankers acceptances rate plus a stamping fee of 1.75% to a maximum of the bankers acceptances rate plus a stamping fee of 4.75%. Standby fees under the Bank Loan range between 0.39% and 1.07%. Interest and fees under the Bank Loan are payable monthly. The Company has the option to borrow funds denominated in either Canadian or United States dollars under the Credit Facility. Borrowings under the Bank Loan are limited to an aggregate of 75% of accounts receivable outstanding less than 90 days plus 60% of the net book value of property and equipment less certain priority payables. As at December 31, 2017, of the $100,000 Bank Loan facility, $40,000 was available for immediate borrowing and $60,000 was outstanding (December 31, 2016: $41,013). The Bank Loan has an accordion feature which provides the Company with an ability to increase the maximum borrowings up to $125,000, subject to the approval of the lenders. The Bank Loan is secured by a security agreement covering all of the assets of the Company and a first charge Security Interest covering all assets of the Company. Effective December 31, 2017, the applicable rates under the Bank Loan are: bank prime rate plus 1.00%, banker's acceptances rate plus a stamping fee of 2.00%, and standby fee rate of 0.45%.

Under the terms of the Credit Facility, the Company is required to comply with the following financial covenants:

| | Covenant limits | Actual December 31, 2017 |
|---|---|---|
| Consolidated Debt[2] to Consolidated EBITDA[1] | 4.00:1.00 or less | 1.75:1.00 |
| Consolidated Debt[2] to Capitalization[3] | 0.50:1.00 or less | 0.21:1.00 |
| Consolidated Adjusted Cash Flow[4] to Consolidated Finance Obligations[5] | 1.15:1.00 or more | 10.00:1.00 |

(1) Consolidated EBITDA is calculated as net income plus finance costs, plus current and deferred income taxes, plus depreciation, plus stock based compensation, plus any non-recurring losses or impairment losses, or permitted severance costs, minus any non-recurring gain, plus any expenses related to corporate or business acquisitions with all amounts being for the twelve month period ended the calculation date. EBITDA is adjusted to reflect the inclusion of material acquisitions or material dispositions on a pro forma basis for the twelve month period ended the calculation date. Consolidated EBITDA is increased if debt repayments from the proceeds of equity issuance are used to repay the syndicated facility and designated by the Company as an Equity Cure amount. The Consolidated Debt to Consolidated EBITDA covenant limit reduces to 4.00:1.00 for the periods commencing December 31, 2017, to maturity.
(2) Consolidated Debt is calculated as total loans and borrowings as shown in the schedule above adjusted to exclude the funds held in the segregated account and to remove any financing fees included.
(3) Capitalization is calculated as Consolidated Debt plus Shareholders' Equity as at the calculation date.
(4) Consolidated Adjusted Cash Flow is calculated as Consolidated EBITDA minus amounts paid for transaction costs, dividends or share repurchases in the twelve month period ended the calculation date. The Calculation of Adjusted Cash Flow excludes Consolidated EBITDA resulting from an Equity Cure.
(5) Consolidated Finance Obligations is calculated as finance costs plus scheduled principal payments on debt including scheduled principal payments under finance leases minus accretion of finance fees included in finance costs for the twelve month period ended the calculation date.

On October 30, 2017, CWC and its syndicated lenders agreed to the Company's exercise of the accordion feature to expand its credit facilities from $65 million to $100 million.

On December 11, 2017, the Company received gross proceeds of $26,027 from a rights offering of common shares (see Note 9), $10,000 of the funds were placed into a segregated bank account. At December 31, 2017 the $10,000 plus earned interest has been offset against long-term debt as the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

*Stated in thousands of Canadian dollars except share and per share amounts*

| | December 31, 2017 | | |
|---|---|---|---|
| | **Cash** | **Long-Term Debt** | **Net** |
| Gross amounts | **$ 10,000** | **$ (59,634)** | **$ (49,634)** |
| Amount offset | **(10,000)** | **10,000** | **-** |
| Net amounts | **$ -** | **$ (49,634)** | **$ (49,634)** |

Obligations under finance leases are primarily for leased automobiles with an expected term of three years and a one year minimum term. Interest rates on finance leases are specific to each leased asset, are fixed for the lease term and vary between 4.4% and 5.2% per annum.

Financing fees consist of commitment fees and legal expenses relating to the Credit Facility and are being amortized using the effective interest rate method over the term of the Credit Facility. Financing fees of $242 were amortized and included in finance costs during the year ended December 31, 2017 (year ended December 31, 2016: $313).

## 8. Income taxes

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

| Years ended December 31, | **2017** | 2016 |
|---|---|---|
| Net income (loss) before income taxes | **$ 3,576** | $ (9,882) |
| Combined federal and provincial income tax rate | **27%** | 27% |
| Expected income taxes | **965** | (2,668) |
| Increase (decrease) resulting from: | | |
| Non-deductible items | **36** | 29 |
| Gain on acquisition | **(2,465)** | - |
| Stock based compensation | **235** | 255 |
| Other | **(56)** | (30) |
| | **$ (1,285)** | $ (2,414) |

The deferred income tax liability is comprised of:

| | December 31, 2016 | Recognized in Earnings | Recognized in Equity | Gain on Acquisition | **December 31, 2017** |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Non capital losses | $ 13,370[(1)] | (2,012) | - | - | **$ 11,358[(1)]** |
| Share issue costs | 196 | (85) | 33 | - | **144** |
| Finance lease liabilities | 74 | 19 | - | - | **93** |
| Other | 119 | (104) | - | - | **15** |
| | 13,759 | (2,182) | 33 | - | **11,610** |
| Deferred tax liabilities: | | | | | |
| Property and equipment | (28,526) | 3,467 | - | (2,374) | **(27,433)** |
| Net deferred income tax liability | $ (14,767) | 1,285 | 33 | (2,374) | **$ (15,823)** |

(1) The Company has $42,063 (2016: $49,520) of non-capital loss carry forwards for income tax purposes which are available for application against future taxable income. These non-capital loss carry forwards expire between 2027 and 2037.

All changes in deferred income tax temporary differences were recognized in income in the years ended December 31, 2017 and 2016.

## 9. Share capital

(a) Authorized
Unlimited number of Common voting shares without par value.
Unlimited number of Preferred shares without par value.

(b) Rights offering
On December 13, 2017, CWC closed a rights offering for aggregate gross proceeds of $26,027 ($25,936 after deductions of $125 in share issue costs plus deferred taxes of $34). Under the fully subscribed offering, 130,148,781 common shares were issued to shareholders who exercised their rights. Each eligible shareholder received one right for every three common shares held and each right was exercisable for one common share at a price of $0.20 per share.

On June 2, 2016, CWC closed a rights offering for the aggregate gross proceeds of $14,632 ($14,543 after deductions of $123 in share issues costs plus deferred taxes of $33). Under the fully subscribed offering, 97,546,002 common shares were issued to shareholders who exercised their rights. Each eligible shareholder received one right for every three common shares held and each right was exercisable for one common share at a price of $0.15 per share.

(c) Normal course issuer bid
The Company has a program to purchase its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities laws. Pursuant to the issuer bid, CWC is allowed to purchase for cancellation up to 19,653,292 of its issued and outstanding common shares at prevailing market prices on the TSX Venture Exchange or other recognized marketplaces during the twelve month period ending April 6, 2018.

On April 7, 2017, CWC entered into an automatic securities purchase plan (the "ASPP") (as defined under applicable securities laws) with Raymond James Ltd. ("Raymond James") for the purpose of making purchases under the ASPP. Such purchases will be determined by Raymond James in its sole discretion, without consultation with CWC having regard to the price limitation and aggregate purchase limitation and other terms of the ASPP and the rules of the TSXV. Conducting the NCIB as an ASPP allows common shares to be purchased at times when CWC would otherwise be prohibited from doing so pursuant to securities laws and its internal trading policies.

For the year ended December 31, 2017, 3,493,500 shares (2016: nil) for consideration of $756, including commissions (2016: nil) were purchased under the NCIB. In the year ended December 31, 2017, a total of 3,493,500 shares were cancelled and returned to treasury (2016: nil).

(d) Stock options
The Company has a stock option plan which allows the Company to issue options to purchase common shares at prevailing market prices on the date of the option grant. The aggregate number of stock options and RSUs outstanding is limited to a maximum of ten percent of the outstanding common shares. The Company has granted stock options to directors, officers and key employees. Stock options vest annually over three years from the date of grant as employees or directors render continuous service to the Corporation and have a maximum term of five years. The Company may choose to settle stock options for the intrinsic value of the stock option on the exercise date, but the Company has no current intention or obligation to do so.

*Stated in thousands of Canadian dollars except share and per share amounts*

The following table summarizes changes in the number of stock options outstanding:

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance at January 1, 2016 | 14,400,000 | 0.43 |
| Granted | 11,291,000 | 0.18 |
| Forfeited | (3,900,000) | 0.57 |
| Balance at December 31, 2016 | 21,791,000 | 0.28 |
| **Granted** | **8,307,000** | **0.20** |
| **Exercised for common shares** | **(983,333)** | **0.13** |
| **Forfeited** | **(1,568,000)** | **0.43** |
| **Balance at December 31, 2017** | **27,546,667** | **0.25** |

The following table summarizes information about stock options outstanding as at December 31, 2017:

| Exercise price | Number of options outstanding | Weighted average remaining life (years) contractual | Weighted average exercise price | Number of options exercisable |
|---|---|---|---|---|
| **$ 0.20** | **8,307,000** | **4.95** | **$ 0.20** | **-** |
| **$ 0.19** | **5,273,000** | **3.94** | **$ 0.19** | **1,757,661** |
| **$ 0.175** | **5,083,333** | **3.19** | **$0.175** | **1,516,677** |
| **$0.11** | **4,983,334** | **2.94** | **$ 0.11** | **3,133,336** |
| **$0.45** | **2,200,000** | **1.98** | **$ 0.45** | **2,200,000** |
| **$ 1.04** | **1,700,000** | **1.37** | **$1.04** | **1,700,000** |
| **$ 0.11 - $ 1.04** | **27,546,667** | **3.61** | **0.25** | **10,307,674** |

The fair value of stock options is estimated as at the grant date using the Black-Scholes option pricing model, with the following weighted average assumptions used for stock options issued during the years ended December 31:

| | **2017** | 2016 |
|---|---|---|
| Risk free interest rate (%) | **1.6%** | 0.8% |
| Expected life (years) | **4.7** | 4.5 |
| Expected volatility (%) | **75%** | 77% |
| Expected forfeiture rate (%) | **12%** | 12% |
| Expected dividend per share | **$ 0.00** | $ 0.00 |

The weighted average fair value of the stock options issued during the year ended December 31, 2017 was $0.20 (year ended December 31, 2016 - $0.13). For the year ended December 31, 2017, stock-based compensation expense relating to stock options totaled $592 (year ended December 31, 2016: $371).

(e) Restricted share unit plan

The Company has a restricted share unit plan which allows CWC to issue RSUs which are redeemable for common shares at future vesting dates. The aggregate number of RSUs and stock options outstanding is limited to a maximum of ten percent of the outstanding common shares. The Corporation has granted RSUs to officers and key employees. RSUs vest annually over three years from the date of grant as employees or directors render continuous service to the Company and have a maximum term of the end of the third year following their grant date. The Company may choose to settle RSUs for the intrinsic value of the RSUs on the settlement date, but the Company has no current intention or obligation to do so.

*Stated in thousands of Canadian dollars except share and per share amounts*

The following table summarizes changes in the number of Restricted Share Units ("RSUs") outstanding:

| | **Number of RSUs** | **Weighted average fair value at issue date** |
|---|---|---|
| Balance at January 1, 2016 | 2,290,001 | 0.39 |
| Granted | 4,301,333 | 0.19 |
| Redeemed for common shares | (1,746,667) | 0.35 |
| Forfeited – unvested | (371,667) | 0.42 |
| Balance at December 31, 2016 | 4,473,000 | 0.21 |
| Granted | **2,682,000** | **0.20** |
| Redeemed for common shares | **(1,819,668)** | **0.24** |
| Forfeited - unvested | **(200,000)** | **0.21** |
| Balance at December 31, 2017 | **5,135,332** | **0.19** |

The following table summarizes information about RSUs outstanding as at December 31, 2017:

| Issue date fair value | Number of RSUs outstanding | Weighted average remaining life (years) contractual | Weighted average exercise price ($) | Number of RSUs exercisable |
|---|---|---|---|---|
| **$0.09 -$0.39** | **5,135,332** | **2.924** | **n/a** | **811,322** |

For the year ended December 31, 2017, stock based compensation expense relating to RSUs totaled $274 (year ended December 31, 2016: $574).

(f) Net income (loss) per share
The following table reconciles the common shares used in computing per share amounts for the periods noted:

| | **Year ended December 31,** | |
|---|---|---|
| | **2017** | 2016 |
| Weighted average common shares outstanding – basic | **399,008,915** | 349,836,144 |
| Dilutive stock options & RSUs | **4,350,622** | - |
| Weighted average common shares outstanding – diluted | **403,359,537** | 349,836,144 |

Outstanding stock options and RSUs are currently the only instruments which could potentially dilute earnings per share. For the year ended December 31, 2016, 21,791,000 stock options and 4,473,000 RSUs were not included in the computation of net loss per common share because to do so would be anti-dilutive.

(g) Contributed surplus
Contributed surplus comprises amounts paid in by equity holders. Contributed surplus in the form of surplus paid in by equity holders includes premiums on shares issued, any portion of the proceeds of issue of shares without par value not allocated to share capital, gain on forfeited shares, proceeds arising from shares donated by equity holders, credits resulting from redemption or conversion of shares at less than the amount set up as share capital, and any other contribution by equity holders in excess of amounts allocated to share capital. Contributed surplus also includes increases and decreases in equity as a result of share based payments under the Company's stock option and RSU plans.

*Stated in thousands of Canadian dollars except share and per share amounts*

## 10. Supplemental cash flow information

| For the years ended December 31, | **2017** | 2016 |
|---|---|---|
| Change in non-cash working capital items: | | |
| Accounts receivable | **$ (14,784)** | $ (1,535) |
| Prepaid expenses and deposits | **(313)** | 255 |
| Accounts payable and accrued liabilities | **4,843** | 1,848 |
| | **$ (10,254)** | $ 568 |

## 11. Operating segments

The Company operates in the western Canadian oilfield service industry through its Contract Drilling and Production Services segments. The Contract Drilling segment provides drilling rigs and related ancillary equipment to oil and gas exploration and production companies. The Production Services segment provides well services to oil and gas exploration and production companies through the use of service rigs, swabbing rigs and coil tubing units.

Management uses net income before depreciation and income taxes ("segment profit") in management reports reviewed by key management personnel and the board of directors to measure performance at a segment basis. Segment profit is used to measure performance as management believes this is the most relevant measure in evaluating the results of our segments relative to each other and other entities that operate within the respective industries.

The Corporate segment captures general and administrative expenses associated with supporting each of the reporting segments operations, plus costs associated with being a public company. Also included in the Corporate segment is interest expense for debt servicing, income tax expense and other amounts not directly related to the two primary segments.

*Stated in thousands of Canadian dollars except share and per share amounts*

The amounts related to each industry segment are as follows:

| For the year ended December 31, 2017 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| **Revenue** | **$ 35,222** | **$ 76,993** | **$ -** | **$112,215** |
| **Direct operating expenses** | **24,690** | **57,671** | **-** | **82,361** |
| **Selling and administrative expenses** | **941** | **8,249** | **4,601** | **13,791** |
| **Transaction costs** | **-** | **-** | **1,549** | **1,549** |
| **Stock based compensation** | **-** | **-** | **869** | **869** |
| **Finance costs** | **-** | **-** | **2,054** | **2,054** |
| **Gain on acquisition** | **-** | **-** | **(9,128)** | **(9,128)** |
| **Loss (gain) on disposal of equipment** | **48** | **(8)** | **-** | **40** |
| **Net income before depreciation and taxes** | **9,543** | **11,081** | **55** | **20,679** |
| **Depreciation** | **6,215** | **10,730** | **158** | **17,103** |
| **Net income before tax** | **3,328** | **351** | **(103)** | **3,576** |
| **Deferred income tax recovery** | **-** | **-** | **(1,285)** | **(1,285)** |
| **Net income** | **$ 3,328** | **$ 351** | **$ 1,182** | **$ 4,861** |
| **Capital expenditures** | **3,964** | **52,062** | **9** | **56,035** |
| **As at December 31, 2017** | | | | |
| **Property and equipment** | **91,860** | **140,153** | **177** | **232,190** |
| **Intangibles** | **419** | **-** | **-** | **419** |

| For the year ended December 31, 2016 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 15,903 | $ 57,219 | $ - | $ 73,122 |
| Direct operating expenses | 12,356 | 40,853 | - | 53,209 |
| Selling and administrative expenses | 1,125 | 6,875 | 3,693 | 11,693 |
| Stock based compensation | - | - | 945 | 945 |
| Finance costs | - | - | 2,515 | 2,515 |
| Loss on disposal of equipment | 238 | 156 | - | 394 |
| Net income (loss) before depreciation and taxes | 2,184 | 9,335 | (7,153) | 4,366 |
| Depreciation | 3,284 | 10,799 | 165 | 14,248 |
| Net loss before tax | (1,100) | (1,464) | (7,318) | (9,882) |
| Deferred income tax recovery | - | - | (2,414) | (2,414) |
| Net loss | $ (1,100) | $ (1,464) | $ (4,904) | $ (7,468) |
| Capital expenditures | 1,662 | 930 | 66 | 2,658 |
| **As at December 31, 2016** | | | | |
| Property and equipment | 93,874 | 99,325 | 326 | 193,525 |
| Intangibles | 724 | - | - | 724 |

*Stated in thousands of Canadian dollars except share and per share amounts*

## 12. Expenses by nature

| For the year ended December 31, 2017 | Direct operating expenses | Selling and administrative expenses & Transaction costs | Stock based compensation | Finance costs | Depreciation expense | Loss on sale of equipment | Total |
|---|---|---|---|---|---|---|---|
| **Personnel expenses** | **$ 56,477** | **$ 8,187** | **$ 869** | **$ -** | **$ -** | **$ -** | **$ 65,533** |
| **Other operating expenses(1)** | **25,884** | **-** | **-** | **-** | **-** | **-** | **25,884** |
| **Other selling and administrative expenses** | **-** | **3,621** | **-** | **-** | **-** | **-** | **3,621** |
| **Transaction costs** | | **1,549** | | | | | **1,549** |
| **Bad debt expenses** | **-** | **9** | **-** | **-** | **-** | **-** | **9** |
| **Facility expenses** | **-** | **1,974** | **-** | **-** | **-** | **-** | **1,974** |
| **Depreciation expense** | **-** | **-** | **-** | **-** | **17,103** | **-** | **17,103** |
| **Finance costs** | **-** | **-** | **-** | **2,054** | **-** | **-** | **2,054** |
| **Loss on disposal of equipment** | **-** | **-** | **-** | **-** | **-** | **40** | **40** |
| **Total** | **$ 82,361** | **$ 15,340** | **$ 869** | **$ 2,054** | **$ 17,103** | **$ 40** | **$117,767** |

| For the year ended December 31, 2016 | Direct operating expenses | Selling and administrative expenses | Stock based compensation | Finance costs | Depreciation expense | Loss on sale of equipment | Total |
|---|---|---|---|---|---|---|---|
| Personnel expenses | $ 36,330 | $ 6,994 | $ 945 | $ - | $ - | $ - | $ 44,269 |
| Other operating expenses(1) | 16,879 | - | - | - | - | - | 16,879 |
| Other selling and administrative expenses | - | 2,564 | | - | - | - | 2,564 |
| Bad debt recovery | - | (38) | - | - | - | - | (38) |
| Facility expenses | - | 2,173 | - | - | - | - | 2,173 |
| Depreciation expense | - | - | - | - | 14,248 | - | 14,248 |
| Finance costs | - | - | - | 2,515 | - | - | 2,515 |
| Loss on disposal of equipment | - | - | - | - | - | 394 | 394 |
| Total | $ 53,209 | $ 11,693 | $ 945 | $ 2,515 | $ 14,248 | $ 394 | $ 83,004 |

(1) Other operating expenses consists of the following:

| December 31, | 2017 | 2016 |
|---|---|---|
| Repairs and maintenance | **$ 11,218** | $ 7,082 |
| Fuel | **8,098** | 4,876 |
| Operating supplies and consumables | **1,609** | 1,193 |
| Certification and inspection | **1,346** | 1,130 |
| License, registration and permits | **1,244** | 983 |
| Travel and accommodation | **1,573** | 846 |
| Equipment rental | **470** | 562 |
| Other | **326** | 207 |
| | **$ 25,884** | $ 16,879 |

*Stated in thousands of Canadian dollars except share and per share amounts*

## 13. Commitments and contingencies:

As at December 31, 2017, the Company has lease commitments and other contractual obligations as follows:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **Next 12 months** | **Between 1 and 3 years** | **Between 4 and 5 years** | **Greater than 5 years** | **Total** |
| Contractual obligations: | | | | | |
| Bank Loan | $ - | $ 50,000 | $ - | $ - | $ 50,000 |
| Finance lease liabilities | 176 | 165 | - | - | 341 |
| Operating lease payments | 920 | 712 | - | - | 1,632 |
| Total contractual obligations | $ 1,096 | $ 50,877 | $ - | $ - | $ 51,973 |

Operating leases relate primarily to buildings and lands leased for use in day-to-day operating activities. In the normal course of business the Company makes short term commitments for the purchase and delivery of new items of property and equipment.

The Company is a party to legal proceedings and claims that arise during the ordinary course of business. It is the opinion of the Company that the ultimate outcome of these matters will not have a material effect upon the Company's financial position, results of operations, or cash flows.

## 14. Related parties

Of the total outstanding shares of the Company, 78.0% are directly or indirectly owned by Brookfield Capital Partners Ltd and Brookfield Business Partners LP (together "Brookfield"). The Company is related to Brookfield by virtue of control, and is therefore also related to Brookfield's affiliates. During 2017, the Company had revenue totaling $1,101 (2016: $1,195) ($14 in accounts receivable as at December 31, 2017 (December 31, 2016: $271)) in the normal course of business with companies under common control. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-related companies on an arm's length basis.

During the year, as part of the rights offering discussed in note 9, Brookfield acquired 122,577,317 shares. The Company received total proceeds of $24,515 from Brookfield for the shares.

Key management personnel include the Company's directors and officers. The following table summarizes compensation provided to key management personnel for the years ended:

| | **December 31, 2017** | December 31, 2016 |
|---|---|---|
| Short term employee benefits (including directors' fees) | **$ 1,268** | $ 1,335 |
| Share based payments (stock options and RSUs) | **718** | 564 |
| Termination benefits | **200** | - |
| Total compensation to key management including directors and officers | **$ 2,186** | $ 1,899 |

Certain executive officers are subject to a mutual term of notice of three months. On resignation at the Company's request, they are entitled to termination benefits of 12 to 24 months gross salary.

The Board of Directors of the Company has a Compensation and Corporate Governance Committee which recommends compensation for directors and key executives of the Company for review and approval by the Board of Directors.

*Stated in thousands of Canadian dollars except share and per share amounts*

**15. Financial risk management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's audit committee is also responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its policies and procedures and training, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company has exposure to credit risk, liquidity risk and market risk as follows:

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The carrying amount of accounts receivable and cash, prior to the amount offset against long-term debt, represents the maximum exposure to credit risk as at December 31, 2017 and December 31, 2016.

Accounts receivable includes balances from a large number of customers primarily operating in the oil and gas industry. The Company assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer, however, management also considers the demographics of the Company's customer base. Currently, all of the Company's sales are concentrated within the Western Canadian Sedimentary Basin ("WCSB"). For the year ended December 31, 2017, ten customers comprised 62% of revenue (2016: 74%) and one customer comprised 21% of revenue (2016: 32%). At December 31, 2017, ten customers comprised 62% of trade accounts receivables (2016: 66%) and one customer comprised 23% of trade accounts receivables (2016: 21%).

The Company has a credit policy under which each new customer is analyzed individually for creditworthiness before the Company begins to provide services to the customer and prior to offering standard payment terms and conditions. The Company's review includes external ratings, when available, as well as contacting credit references and evaluating banking information provided by the customer. Customers that fail to meet the Company's benchmark creditworthiness may be required to provide a cash deposit for part or all of the anticipated job cost until they have sufficient payment history with the Company. Under some circumstances the Company may lien a customer's location where the services were provided.

The following table details the age of the outstanding trade accounts receivable and the related allowance for impairment of accounts:

| **As at December 31,** | **2017** | 2016 |
|---|---|---|
| Trade accounts receivable: | | |
| 1 to 30 days outstanding – not past due | **$ 16,081** | $ 9,646 |
| 31 to 90 days outstanding | **13.723** | 5,351 |
| >90 days overdue | **441** | 414 |
| Allowance for impairment of accounts | **(126)** | (76) |
| | **$ 30,119** | $ 15,335 |

*Stated in thousands of Canadian dollars except share and per share amounts*

The change in the allowance for impairment in respect of trade accounts receivable for the years ended December 31 is as follows:

| | **2017** | 2016 |
|---|---|---|
| Balance as at January 1 | **$ 76** | $ 147 |
| Additional allowance | **89** | 328 |
| Amounts recovered | **(13)** | (306) |
| Amounts used | **(26)** | (93) |
| Balance as at December 31 | **$ 126** | $ 76 |

Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company records a specific allowance for impairment when management considers that the expected recovery is less than the actual amount receivable. Recoveries are the result of amounts which were previously determined to be uncollectable being collected in a period subsequent to an allowance for impairment being recorded.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

At December 31, 2017, the Company has available committed amounts under its Credit Facility in the amount of $37,321 (2016: $13,987), segregated cash of $10,000 (2016: $7,680), plus trade and other receivables of $30,182 (2016: $15,335) for a total of $77,503 (2016: $37,002) available to fund the cash outflows related to its financial liabilities.

The Company anticipates that its existing capital resources including its Credit Facility and cash flows from operations will be adequate to satisfy its liquidity requirements through fiscal 2018. This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's Credit Facility, which, if not amended or waived, could limit the Company's access to the credit facility. If available liquidity is not sufficient to meet CWC's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, pursuing alternative financing arrangements, asset dispositions, or pursuing other corporate strategic alternatives.

The following table summarizes contractual maturities for non-derivative financial instruments:

| **Years ended December 31, 2017** | **2018** | **2019** | **2020** | **2021** | **2022 and beyond** |
|---|---|---|---|---|---|
| **Accounts payable and accrued liabilities** | **$ 12,202** | **$ -** | **$ -** | **$ -** | **$ -** |
| **Long-term debt** | **176** | **-** | **49,634** | **-** | **-** |
| | **$ 12,378** | **$ -** | **$ 49,634** | **$ -** | **$ -** |

| Years ended December 31, 2016 | 2017 | 2018 | 2019 | 2020 | 2021 and beyond |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 7,359 | $ - | $ - | $ - | $ - |
| Long-term debt | 176 | 32,966 | - | - | - |
| | $ 7,535 | $ 32,966 | $ - | $ - | $ - |

c) Market risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates, and interest rates will affect the net earnings or the value of financial instruments. The objective of managing market risk is to control market risk exposures within acceptable limits, while maximizing returns. Market risks to which the Company is subject include:

Foreign currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not engage in significant foreign currency denominated transactions and exposure to foreign currency risk is negligible.

Interest rate risk

Interest rate risk is the risk that future cash flow will fluctuate as a result of change in market interest rates. The Company is exposed to interest rate fluctuations on its long-term debt which bears interest at floating market rates. For the year ended December 31, 2017, if the prime interest rate increased/decreased by 1%, with all other variables held constant, net income would have been $486 lower/higher (2016: $329). The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the Company's exposure to interest rate fluctuations.

Commodity price risk

The Company is not directly exposed to commodity price risk as it does not have any contracts that are directly based on commodity prices, however, many of the Company's customers are exposed to commodity price risk which poses an indirect risk to the Company. A change in commodity prices, specifically crude oil and natural gas prices may have a material impact on cash flows of the Company's customers and therefore affect the demand for our products or services from these customers. However, given that this is an indirect influence, the financial impact for the Company of changing oil and natural gas prices is not reasonably determinable.

## 16. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company strives to maintain a balance between debt and equity to ensure the continued access to capital markets to fund growth and ensure long-term viability. The Company continually assesses the cash flow from operations to make decisions regarding required capital maintenance, growth capital and dividends to ordinary shareholders. When those cash flows are not anticipated to be sufficient, the Company then assesses the impact on its capital structure of funding through additional debt.

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may, but is not limited to, issue new shares, issue new debt, issue new debt replacing existing debt with different characteristics, pay a dividend to ordinary shareholders, or purchase shares for cancellation pursuant to normal course issuer bids.

The Company monitors capital using a key financial metric of Consolidated Debt to Consolidated EBITDA ratio as defined in the Credit Facility (see Note 7). Consolidated Debt to Consolidated EBITDA is not a recognized measure under IFRS and, therefore, is unlikely to be comparable to similar measures of other companies.

During the year ended December 31, 2017, the actual and forecasted Consolidated Debt to Consolidated EBITDA of the Company has declined, primarily due to the rights offering, increased pricing and utilization and amendments to credit facility terms. The Consolidated Debt to Consolidated EBITDA ratio at December 31, 2017 was 1.75:1.00 (at December 31, 2016: 2.70:1.00). The Company was in compliance with all externally imposed capital requirements as at December 31, 2017 and 2016.

## 17. Comparative Figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.