# MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

Management's Discussion and Analysis ("MD&A") is a review of the results of operations and liquidity and capital resources of CWC Energy Services Corp. (unless the context indicates otherwise, a reference in this MD&A to "CWC", the "Company", "we", "us", or "our" means CWC Energy Services Corp.). The following discussion and analysis provided by CWC is dated August 10, 2018 and should be read in conjunction with unaudited condensed interim financial statements for the three and six months ended June 30, 2018, the audited annual financial statements for the year ended December 31, 2017 ("Annual Financial Statements"), and the annual management's discussion and analysis for the year ended December 31, 2017 ("Annual MD&A"). Additional information regarding CWC can be found in the Company's latest Annual Information Form ("AIF"). The condensed interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements. All amounts are expressed in Canadian dollars unless otherwise noted. Additional information relating to CWC, including the AIF, is available on SEDAR at www.sedar.com.

## Financial and Operational Highlights

| $ thousands, except shares, per share amounts, and margins | Three months ended June 30, 2018 | Three months ended June 30, 2017 | Change % | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change % |
|---|---|---|---|---|---|---|
| **FINANCIAL RESULTS** | | | | | | |
| Revenue | | | | | | |
| Contract drilling | 2,824 | 3,042 | (7%) | 14,509 | 14,178 | 2% |
| Production services | 19,421 | 12,072 | 61% | 56,661 | 33,444 | 69% |
| | 22,245 | 15,114 | 47% | 71,170 | 47,622 | 49% |
| Adjusted EBITDA [1] | 31 | 228 | (86%) | 7,509 | 5,378 | 40% |
| Adjusted EBITDA margin (%) [1] | 0% | 2% | | 11% | 11% | |
| Funds from operations | 31 | 228 | (86%) | 7,509 | 5,378 | 40% |
| Net loss and comprehensive loss | (3,067) | (2,677) | 15% | (1,871) | (3,045) | (39%) |
| Net loss and comprehensive loss margin (%) | (14%) | (18%) | n/m[2] | (3%) | (6%) | n/m[2] |
| Per share information: | | | | | | |
| Weighted average number of shares outstanding – basic and diluted | 521,289,658 | 392,935,814 | | 521,682,326 | 392,604,720 | |
| Adjusted EBITDA[1] per share- basic and diluted | $0.00 | $0.00 | | $0.01 | $0.01 | |
| Net loss per share – basic and diluted | ($0.01) | ($0.01) | | ($0.00) | ($0.01) | |

| $ thousands, except ratios | June 30, 2018 | December 31, 2017 |
|---|---|---|
| **FINANCIAL POSITION AND LIQUIDITY** | | |
| Working capital (excluding debt) [1] | 7,327 | 19,543 |
| Working capital (excluding debt) ratio [1] | 1.6:1 | 2.6:1 |
| Total assets | 250,039 | 264,354 |
| Total long-term debt (including current portion) | 36,803 | 49,810 |
| Shareholders' equity | 184,834 | 186,519 |

[1] Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.
[2] Not meaningful.

Working capital (excluding debt) has decreased 62% since December 31, 2017 driven by the collection of account receivable, combined with lower activity in Q2 2018 compared to Q4 2017. Due to the seasonality of the oilfield services business in Canada, working capital is typically lowest in Q2 and builds throughout the next three quarters. Long-term debt (including current portion) has decreased 26% from December 31, 2017 as positive funds from operations and a reduction in working capital were used to fund capital expenditures, purchase shares under the Normal Course Issuer Bid ("NCIB") and to repay debt. Shareholder equity has decreased since December 31, 2017 due to the net loss for the six months ended June 30, 2018 and the purchase and cancellation of common shares under the NCIB program offset by issuance of common shares under the Company stock option and restricted share plans.

## Highlights for the Three Months Ended June 30, 2018

- Average Q2 2018 crude oil pricing, as measured by WTI, of US$67.97/bbl was 8% higher than Q1 2018 average price of US$62.89/bbl. However, the price differential between Canadian heavy crude oil, as represented by WCS, and WTI widened at times during the quarter from US$20 to US$25/bbl compared to the historical normalized range of US$10/bbl to US$15/bbl causing E&P companies to shorten their drilling program Natural gas prices, as measured by AECO, decreased 45% from an average of $2.06/GJ in Q1 2018 to $1.14/GJ in Q2 2018 (Q2 2017: $2.64/GJ), and is extremely low in historically terms.

- CWC's drilling rig utilization of 16% in Q2 2018 (Q2 2017: 19%) was consistent with the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 17%. Activity levels decreased 14% in Q2 2018 compared to Q2 2017 due to a longer than expected spring breakup with significant rain in some key operating areas in June 2018, as well as exploration and production ("E&P") companies shortening their drilling programs due to the widening price differential in Q2 2018 between WTI and WCS along with low natural gas prices. However, average revenue per operating day of $21,227 increased 8% over the comparable year ago quarter. In addition, significant customer driven improvements and upgrades to Rig #2 and Rig #4 were made during Q2 2018 which delayed these rigs from being in active service. The upgrades are expected to increase these two drilling rigs' capacity resulting in higher expected utilization for future quarters.

- CWC's service rig utilization of 30% in Q2 2018 (Q2 2017: 33%) was achieved with a Q2 Company record setting 28,831 operating hours, 44% higher than the 20,047 operating hours in Q2 2017 as a result of the additional service rigs acquired from C&J Energy Production Services-Canada Ltd ("C&J Canada"), while average revenue per hour of $642 increased 17% over the comparable year ago quarter. Q2 2018 spring breakup faced wetter weather conditions compared to the immediate two prior years, which provided equipment downtime to complete scheduled repairs and maintenance. During Q2 2018, CWC sold one inactive service rig for gross proceeds of $0.8 million.

- CWC's coil tubing utilization of 17% in Q2 2018 (Q2 2017: 19%) with 1,212 operating hours, 22% lower than the 1,557 operating hours in Q2 2017. While average revenue per hour of $762 increased 16% over the comparable year ago quarter. Q2 2018 operating hours were negatively impacted by the continuation of extremely low natural gas prices and the widening differential between WTI and WCS in the second quarter causing delays in allocation and commitment of capital by our E&P customers, as well as from unexpected repairs and maintenance to equipment causing delays in revenue generation.

- Revenue of $22.2 million, an increase of $7.1 million (47%) compared to $15.1 million in Q2 2017. The increase is primarily a result of the addition of the service assets of C&J Canada.

- Adjusted EBITDA [(1)] of $0.03 million in Q2 2018, a decrease of $0.2 million (-86%) compared to $0.2 million in Q2 2017. The decrease in Adjusted EBITDA in Q2 2018 is due to lower Contract Drilling rig activity and gross margins when compared to Q2 2017 and higher selling and administrative costs due to the C&J Canada acquisition. These are offset by a higher gross margin from the Production Services business, on higher operating hours. CWC has achieved 20 continuous quarters of positive Adjusted EBITDA since Q2 2013.

- Net loss of $3.1 million, an increase of $0.4 million (18%) compared to a net loss of $2.7 million in Q2 2017. The change in net loss is primarily due to the lower Adjusted EBITDA, higher finance and stock based compensation costs and losses on disposal of equipment, offset by lower depreciation and deferred income tax recovery.

- On June 29, 2018 the Company obtained a new five year credit facility (the "Mortgage Loan") in the principal amount of $12.8 million. The Mortgage Loan is secured by, among other things, a collateral mortgage from the Company in favour of the bank over properties located in Sylvan Lake, Brooks and Slave Lake Alberta. These new borrowing arrangements

significantly reduce the Company's overall borrowing costs by reducing standby charges on the syndicated credit facilities (the "Bank Loan") and realizing a lower interest rate on the term Bank Loan. The Mortgage Loan has been amortized over 22 years with blended monthly principal and interest payments. Subsequent to June 30, 2018 the Company entered into an interest rate swap to effectively fix the interest rate at 4.00% until June 28, 2023.

- At the request of the company the Bank Loan was reduced from $100 million to $75 million to reduce borrowing costs and standby charges.

- On April 10, 2018, the Company renewed its Normal Course Issuer Bid ("NCIB") as an Automatic Securities Purchase Plan ("ASPP") with Raymond James Ltd., which now expires on April 9, 2019. During Q2 2018, 1,023,000 (Q2 2017: 1,404,000) common shares were purchased under the ASPP and 935,500 common shares were cancelled and returned to treasury.

## Highlights for the Six Months Ended June 30, 2018

- CWC's drilling rig utilization in the first six months of 2018 of 39% (2017: 42%) exceeded the CAODC industry average of 29%. Activity levels in 2018 have decreased 8% compared to 2017 due to exploration and production ("E&P") companies shortening their drilling programs due to widening price differential between WCS and WTI and low natural gas prices. Year-to-date 2018 operating days of 630 (2017: 687 operating days) is the second most active since the acquisition of Ironhand Drilling Inc. in May 2014.

- For the first six months of 2018, CWC's service rig utilization was 43% compared to 44% in the same period in 2017. Activity levels in 2018 continue to set new Company records by increasing 56% to 82,809 operating hours (2017: 53,043 operating hours). The increase resulted from the additional service rigs acquired from C&J Canada.

- For the first six months of 2018, CWC's coil tubing utilization was 29% compared to 36% in 2017. Activity levels in 2018 have decreased 27% to 4,219 operating hours (2017: 5,780 operating hours). Operating hours were negatively impacted by the continuation of low natural gas prices and the widening differential between WTI and WCS causing delays in allocation and commitment of capital by our E&P customers as well as from unexpected repairs and maintenance to equipment. During the first half of 2018, CWC sold one inactive coil tubing unit and one picker unit for gross proceeds of $0.8 million.

- Revenue of $71.2 million, an increase of $23.6 million (49%) compared to $47.6 million in the first six months of 2017. The increase is primarily a result of the addition of the service rig and swabbing rig assets of C&J Canada.

- Adjusted EBITDA [1] of $7.5 million, an increase of $2.1 million (40%) compared to $5.4 million in the first six months of 2017. The increase in Adjusted EBITDA is consistent with increased activity ($3.6 million) from Production Services due to the C&J Canada acquisition, offset by a decrease in Adjusted EBITDA in Contract Drilling ($0.3 million) and corporate expense of ($1.2 million).

- Net loss of $1.9 million, a decrease of $1.1 million (-39%) compared to a net loss of $3.0 million in the first six months of 2017. The decrease in net loss is due primarily to an increase in Adjusted EBITDA from Production Services as a result of increased activity from the C&J Canada acquisition.

- For the six months ended June 30, 2018, the Company purchased 2,417,500 (2017: 1,686,500) common shares under its NCIB and 2,254,000 (2017: 1,647,000) common shares were cancelled and returned to treasury.

(1) Please refer to the "Reconciliation of Non-IFRS Measures" section for further information

# Corporate Overview

CWC Energy Services Corp. is a premier Contract Drilling and Well Servicing company operating in the Western Canadian Sedimentary Basin ("WCSB") with a complementary suite of oilfield services including drilling rigs, service rigs, swabbing rigs and coil tubing units. The Company's corporate office is located in Calgary, Alberta, with operational locations in Nisku, Grande Prairie, Slave Lake, Sylvan Lake, Drayton Valley, Lloydminster, Provost and Brooks, Alberta. The Company's shares trade on the TSX Venture Exchange under the symbol "CWC".

# Operational Overview

**Contract Drilling**

CWC Ironhand Drilling, the Company's Contract Drilling segment, has a fleet of nine telescopic double drilling rigs with depth ratings from 3,200 to 5,000 metres, eight of nine rigs have top drives and three have pad rig walking systems. All of the drilling rigs are well suited for the most active depths for horizontal drilling in the WCSB, including the Montney, Cardium, Duvernay and other deep basin horizons. Part of the Company's strategic initiatives is to continue to increase the capabilities of its existing fleet to meet the growing demands of E&P customers for deeper depths at a cost effective price while providing a sufficient internal rate of return for CWC's shareholders.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **OPERATING HIGHLIGHTS** | **Jun. 30, 2018** | **Mar. 31, 2018** | **Dec. 31, 2017** | **Sep. 30, 2017** | **Jun. 30, 2017** | **Mar 31, 2017** | **Dec. 31, 2016** | **Sep. 30, 2016** |
| **Drilling Rigs** | | | | | | | | |
| Active drilling rigs, end of period | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Inactive drilling rigs, end of period | - | - | - | - | - | - | - | - |
| Total drilling rigs, end of period | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| | | | | | | | | |
| Revenue per operating day [1] | $21,227 | $23,485 | $23,572 | $19,424 | $19,575 | $20,942 | $20,623 | $16,835 |
| Drilling rig operating days | 133 | 498 | 463 | 522 | 155 | 532 | 257 | 301 |
| Drilling rig utilization % [2] | 16% | 61% | 56% | 63% | 19% | 66% | 31% | 37% |
| CAODC industry average utilization % | 17% | 52% | 28% | 29% | 17% | 40% | 24% | 17% |
| | | | | | | | | |
| Wells drilled | 11 | 45 | 30 | 29 | 17 | 41 | 21 | 21 |
| Average days per well | 12.1 | 11.1 | 15.0 | 18.0 | 9.1 | 13.0 | 12.2 | 14.3 |
| Meters drilled (thousands) | 41.0 | 161.7 | 128.1 | 112.2 | 45.6 | 151.8 | 82.0 | 70.0 |
| Meters drilled per day | 309 | 325 | 277 | 215 | 294 | 285 | 319 | 232 |
| Average meters per well | 3,724 | 3,593 | 4,270 | 3,869 | 2,684 | 3,702 | 3,906 | 3,332 |

[1] Revenue per operating day is calculated based on operating days (i.e. spud to rig release basis). New or inactive drilling rigs are added based on the first day of field service.
[2] Drilling rig utilization is calculated based on operating days (i.e. spud to rig release basis) in accordance with the methodology prescribed by the CAODC.

Contract Drilling revenue of $2.8 million for Q2 2018 (Q2 2017: $3.0 million) was achieved with a utilization rate of 16% (Q2 2017: 19%), compared to the CAODC industry average of 17%. CWC had 133 drilling rig operating days in Q2 2018, a 14% decrease from the 155 drilling rig operating days in Q2 2017, which was the most drilling rig operating days in Q2 that CWC has had since its purchase of Ironhand Drilling Inc. in May 2014. The reduced operating days were due to a longer than expected spring breakup with significant rain in some key operating areas in June 2018, as well as E&P companies shortening their drilling programs due to the widening price differential in Q2 2018 between WTI and WCS along with low natural gas prices. However, Q2 2018 average revenue per operating day of $21,227 increased 8% over the $19,575 per day in Q2 2017. In addition, significant customer driven improvements and upgrades to Rig #2 and Rig #4 were made during Q2 2018 which delayed these rigs from being in active service. The upgrades are expected to increase these two drilling rigs' capacity resulting in higher expected utilization for future quarters.

**Production Services**

With a fleet of 148 service rigs, CWC is the largest well servicing company in Canada as measured by operating hours. CWC's service rig fleet consists of 77 single, 57 double, and 14 slant rigs providing services which include completions, maintenance, workovers and abandonments with depth ratings from 1,500 to 5,000 metres. CWC has chosen to park 41 of its service rigs and focus its sales and operational efforts on the remaining 107 active service rigs.

CWCs fleet of nine coil tubing units consist of four Class I and five Class II coil tubing units having depth ratings from 1,500 to 3,200 metres. The Company continues to focus its sales and operational efforts on servicing SAGD wells that are shallower in depth and more appropriate for coil tubing operations.

CWC's fleet of 13 swabbing rigs were acquired as part of the C&J Canada acquisition and operate under the trade name CWC Swabtech. The swabbing rigs are used to remove liquids from the wellbore and allow reservoir pressures to push the commodity up the tubing casing. The Company has chosen to park five of its swabbing rigs and focus its sales and operational efforts on the remaining eight active swabbing rigs.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **OPERATING HIGHLIGHTS** | **Jun. 30, 2018** | **Mar. 31, 2018** | **Dec. 31, 2017** | **Sep. 30, 2017** | **Jun. 30, 2017** | **Mar. 31, 2017** | **Dec. 31, 2016** | **Sep. 30, 2016** |
| **Service Rigs** | | | | | | | | |
| Active service rigs, end of period | 107 | 108 | 111 | 66 | 66 | 66 | 67 | 66 |
| Inactive service rigs, end of period | 41 | 41 | 38 | 8 | 8 | 8 | 7 | 8 |
| Total service rigs, end of period | 148 | 149 | 149 | 74 | 74 | 74 | 74 | 74 |
| Operating hours | 28,831 | 53,979 | 40,879 | 28,320 | 20,047 | 32,997 | 27,091 | 22,927 |
| Revenue per hour | $642 | $637 | $606 | $559 | $551 | $584 | $536 | $543 |
| Service rig utilization % (1) | 30% | 56% | 46% | 47% | 33% | 56% | 45% | 38% |
| **Coil Tubing Units** | | | | | | | | |
| Active coil tubing units, end of period | 8 | 8 | 9 | 9 | 9 | 9 | 8 | 8 |
| Inactive coil tubing units, end of period | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 |
| Total coil tubing units, end of period | 9 | 9 | 10 | 10 | 10 | 10 | 10 | 9 |
| Operating hours | 1,212 | 3,007 | 1,978 | 1,783 | 1,557 | 4,243 | 2,349 | 2,160 |
| Revenue per hour | $762 | $724 | $728 | $688 | $657 | $491 | $507 | $458 |
| Coil tubing units utilization % (2) | 17% | 39% | 24% | 22% | 19% | 52% | 32% | 29% |
| **Swabbing Rigs** | | | | | | | | |
| Active Swabbing rigs, end of period | 8 | 8 | 9 | | | | | |
| Inactive swabbing rigs, end of period | 5 | 5 | 4 | | | | | |
| Total swabbing rigs, end of period | 13 | 13 | 13 | | | | | |
| Operating hours | 958 | 2,258 | 1,063 | | | | | |
| Revenue per hour | $265 | $310 | $286 | | | | | |
| Swabbing rig utilization % (1) | 13% | 31% | 19% | | | | | |

(1) Service and swabbing rig utilization is calculated based on 10 hours a day, 365 days a year. New service and swabbing rigs are added based on the first day of field service. Service and swabbing rigs requiring their 24,000 hour recertification, refurbishment or have been otherwise removed from service for greater than 90 days are excluded from the utilization calculation until their first day back in field service.

(2) Coil tubing unit utilization is calculated based on 10 hours a day, 365 days a year. New coil tubing units are added based on the first day of field service. Coil tubing units that have been removed from service for greater than 90 days are excluded from the utilization calculation until their first day back in field service.

Production Services revenue was $19.4 million in Q2 2018, up $7.3 million (61%) compared to $12.1 million in Q2 2017 primarily as a result of adding an additional 39 active service rigs and 8 active swabbing rigs from the C&J Canada acquisition. CWC's achieved service rig utilization of 30% in Q2 2018 (Q2 2017: 33%) with 28,831 operating hours (a new Q2 Company record) being 43% higher than the 20,047 operating hours in Q2 2017, while Q2 2018 average revenue per hour of $642 increased 17% over the $551 per hour in Q2 2017. Q2 2018 spring breakup faced wetter weather conditions compared to the immediate two prior years, which provided equipment downtime to complete scheduled repairs and maintenance.

CWC's coil tubing utilization of 17% in Q2 2018 (Q2 2017: 19%) with 1,212 operating hours being 22% lower than the 1,557 operating hours in Q2 2017. Q2 2018 operating hours were negatively impacted by the continuation of extremely low natural

gas prices and the widening differential between WTI and WCS in the second quarter causing delays in allocation and commitment of capital by our E&P customers, as well as from unexpected repairs and maintenance to equipment causing delays in revenue generation. Average revenue per hour for coil tubing services of $762 in Q2 2018 is 15% higher than $657 in Q2 2017, which reflects some modest price improvements, but is primarily due to a higher mix of deeper Class II units, compared to lower priced Class I shallow units compared to Q2 2017.

CWC achieved swabbing rig utilization of 13% in Q2 2018 (Q2 2017: nil) with 958 operating hours. The low activity level reflects the continuation of extremely low natural gas prices as CWC's swabbing rigs are used primarily to remove liquids from shallow natural gas wellbores.

# Outlook

The second quarter typically represents the seasonal low point during the year in activity, financial results and cash flow in the Canadian oilfield services sector as the thaw of frozen ground combined with typical wet weather conditions limits the ability to move heavy equipment to E&P customers' well sites. The steady rise in crude oil prices throughout 2017 and Q1 2018 carried on during Q2 2018 as WTI stayed between US$62/bbl and US$75/bbl in the second quarter. Crude oil, as represented by WTI, averaged US$67.97/bbl in Q2 2018, an increase of 8% over Q1 2018 average price of US$62.89/bbl and 41% higher than US$48.15/bbl in Q2 2017. However, the price differential between Canadian heavy crude oil, as represented by WCS, and WTI widened at times during the first half of 2018 to a range of US$20 to US$25/bbl compared to the historical normalized range of US$10/bbl to US$15/bbl causing E&P companies to shorten their drilling programs. Natural gas prices, as represented by AECO, averaged $1.14/GJ, a 45% decrease from Q1 2018 average of $2.06/GJ, and 57% lower than $2.64/GJ in Q2 2017. With the backdrop of an improving crude oil price and a depressed natural gas price, the Petroleum Services Association of Canada ("PSAC") on July 31, 2018 updated its 2018 forecast of number of wells drilled to 6,900 wells; a decrease of 500 wells or 6% compared to their January 31, 2018 forecast, and less than the 7,550 wells drilled in 2017.

CWC is currently experiencing continued strong utilization in our drilling rig and service rig business units. The Company expects to have nine of nine (100%) drilling rigs working in August 2018 once capital expenditure upgrades are completed on Rig #4. The Company's service rigs are anticipated to see continued strong industry demand and operate at utilization levels similar to 2017. CWC believes modest pricing increases will continue in the second half of 2018, but will be constrained by intense pricing from our competitors, which will put a cap on how high we will be able to increase our day and hourly rates. CWC has sustainably positioned by providing its E&P customers with the highest quality service from the highest quality people at reasonable prices. However, uncertainties around the proposed Government of Canada's Bill 69 legislation on the creation of the Canadian Energy Regulator and the Impact Assessment Act, which may impact the ability to develop new pipelines, will continue to negatively affect investment capital and growth in Canada's oil and gas industry in the near term. However, investment capital and growth could return if a positive result came from a final investment decision being made by proponents of a liquefied natural gas process facility in northeast British Columbia. CWC believes it would be very well positioned to benefit in the long-term should such a liquefied natural gas processing facility come to fruition.

While CWC remains focused on its operational and financial performance, it also recognizes the need to pursue opportunities that create long-term shareholder value. With the support of the Board of Directors, management continues to actively pursue opportunities to achieve higher utilization and EBITDA margins on its existing fleet while evaluating opportunities to consolidate the North American drilling and well servicing industry. CWC cautions that there are no guarantees that strategic opportunities will result in a transaction, or if a transaction is undertaken, as to its terms or timing.

# Discussion of Financial Results

### Revenue, Direct Operating Expenses and Gross Margin

| $ thousands | Three months ended June 30, 2018 | 2017 | Change $ | Change % | Six months ended June 30, 2018 | 2017 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Contract drilling | 2,824 | 3,042 | (218) | (7%) | 14,509 | 14,178 | 331 | 2% |
| Production services | 19,421 | 12,072 | 7,349 | 61% | 56,661 | 33,444 | 23,217 | 69% |
| | 22,245 | 15,114 | 7,131 | 47% | 71,170 | 47,622 | 23,548 | 49% |
| Direct operating expenses | | | | | | | | |
| Contract drilling | 2,672 | 2,228 | 444 | 20% | 10,775 | 10,431 | 344 | 3% |
| Production services | 15,232 | 9,536 | 5,696 | 60% | 43,475 | 25,351 | 18,124 | 71% |
| | 17,904 | 11,764 | 6,140 | 52% | 54,250 | 35,782 | 18,468 | 52% |
| Gross margin [(1)] | | | | | | | | |
| Contract drilling | 152 | 814 | (662) | (81%) | 3,734 | 3,747 | (13) | 0% |
| Production services | 4,189 | 2,536 | 1,653 | 65% | 13,186 | 8,093 | 5,093 | 63% |
| | 4,341 | 3,350 | 991 | 30% | 16,920 | 11,840 | 5,080 | 43% |
| Gross margin percentage [(1)] | | | | | | | | |
| Contract drilling | 5% | 27% | n/a | (22%) | 26% | 26% | n/a | 0% |
| Production services | 22% | 21% | n/a | 1% | 23% | 24% | n/a | (1%) |
| | 20% | 22% | n/a | (2%) | 24% | 25% | n/a | (1%) |

[(1)] Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

Q2 2018 revenue of $22.2 million, an increase of $7.1 million (47%) compared to $15.1 million in Q2 2017. Revenue decreased $0.2 million (-7%) in the Contract Drilling segment and increased $7.3 million (61%) in the Production Services segment in Q2 2018 compared to Q2 2017.

For the six months ended June 30, 2018, revenue of $71.2 million, an increase of $23.5 million (49%) compared to $47.6 million in the first six months of 2017. Revenue increased $0.3 million (2%) in the Contract Drilling segment and $23.2 million (69%) in the Production Services segment for the first six months of 2018 compared to the same period in 2017.

CWC increased its revenue and diversified its customer base, reducing reliance on its top ten customers. Revenue contribution from the Company's top ten customers dropped to 54% for the first six months of 2018 from 67% for the same period in 2017 with CWC's top customer's revenue contribution increasing slightly to 21% in the first six months of 2018 from 20% for the same period in 2017.

Approximately 82% of revenue in the first six months of 2018 was from work on crude oil wells while 18% was from natural gas wells. Further, approximately 28% of revenue was related to drilling and completions work, 60% from maintenance and workovers on producing wells and 12% from abandonments.

Many direct operating expenses, including labour costs related to field operating employees, are variable in nature and increase or decrease with activity levels such that changes in operating costs generally correspond to changes in revenue or activity levels. Contract Drilling's gross margin percentage of 5% in Q2 2018 is lower than the 27% in Q2 2017 due to reduced activity and increased amounts of scheduled repairs and maintenance. For the six months ended June 30, 2018 Contract Drilling's 26% gross margin is consistent with that obtained for the first six months of 2017. Production Services gross margin of 22% in Q2 2018 is consistent with 21% in Q2 2017 and the 23% for the six months ended June 30, 2018 is consistent with that obtained for the first six months of 2017 and reflects the ability of CWC to pass on higher labour and fuel costs in 2018 to its E&P customers.

### Selling and Administrative Expenses

| $ thousands | Three months ended June 30, 2018 | 2017 | Change $ | Change % | Six months ended June 30, 2018 | 2017 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Selling and administrative expenses | 4,310 | 3,122 | 1,188 | 38% | 9,411 | 6,462 | 2,949 | 46% |

Selling and administrative expenses of $4.3 million in Q2 2018, an increase of $1.1 million (38%) compared to $3.1 million in Q2 2017.

Selling and administrative expenses of $9.4 million for the six months ended June 30, 2018, an increase of $2.9 million (46%) compared to $6.4 million in 2017.

For both the quarter and six months ended June 30, 2018 the increased selling and administrative expenses are due primarily to the 24 salaried employees that joined the Company from the C&J Canada acquisition, additional costs to recruit field employees combined with other costs incurred due to significant higher year-over-year activity levels across all segments.

### Adjusted EBITDA [(1)]

| $ thousands | Three months ended June 30, 2018 | 2017 | Change $ | Change % | Six months ended June 30, 2018 | 2017 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Adjusted EBITDA [(1)] | | | | | | | | |
| Contract drilling | (180) | 623 | (803) | (129%) | 3,085 | 3,313 | (228) | (7%) |
| Production services | 1,549 | 505 | 1,044 | 207% | 7,540 | 3,935 | 3,605 | 92% |
| Corporate | (1,338) | (900) | (438) | (49%) | (3,116) | (1,870) | (1,246) | (67%) |
| | 31 | 228 | (197) | (86%) | 7,509 | 5,378 | 2,131 | 40% |
| Adjusted EBITDA margin (%) [(1)] | 0% | 2% | n/a | (2%) | 11% | 11% | n/a | 0% |

[(1)] Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

Management uses Adjusted EBITDA as a measure of the cash flow generated by the Company. Positive Adjusted EBITDA provides the cash flow needed to grow the business through purchase of equipment or business acquisitions, fund working capital, service and reduce outstanding long-term debt, pay a dividend or repurchase outstanding common shares under the Company's NCIB.

Adjusted EBITDA of $0.03 million in Q2 2018, a decrease of $0.2 million (-86%) compared to $0.2 million in Q2 2017. The decrease in Adjusted EBITDA in Q2 2018 is due to longer than expected spring breakup, wet weather conditions and scheduled equipment repairs and maintenance.

For the six months ended June 30, 2018, Adjusted EBITDA of $7.2 million, an increase of $2.1 million (40%) compared to $5.3 million for the same period in 2017. The $3.6 million increase in Adjusted EBITDA from Production Services was offset by a $0.2 million decrease in Contract Drilling and a $1.2 increase in Corporate costs.

### Stock Based Compensation

| $ thousands | Three months ended June 30, 2018 | 2017 | Change $ | Change % | Six months ended June 30, 2018 | 2017 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Stock based compensation | 237 | 226 | 11 | 5% | 522 | 426 | 96 | 23% |

Stock based compensation is primarily a function of outstanding stock options and restricted share units ("RSU's") being expensed over their vesting term.

Stock based compensation of $0.2 million in Q2 2018 is consistent with $0.2 million in Q2 2017.

Stock based compensation of $0.5 million for the six months ended June 30, 2018, an increase of $0.1 million (23%) compared to $0.4 million in 2017.

For both the quarter and six months ended June 30, 2018 the increase in 2018 stock based compensation is primarily due to a greater number of stock options and RSU's granted to directors, management and employees for managing a larger pool of assets as a result of the C&J Canada acquisition.

**Finance Costs**

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **$ thousands** | **2018** | **2017** | **Change $** | **Change %** | **2018** | **2017** | **Change $** | **Change %** |
| Finance costs | 593 | 570 | 23 | 4% | 1,283 | 1,115 | 168 | 15% |

Finance costs of $0.6 million in Q2 2018 is consistent with $0.6 million in Q2 2017.

Finance costs of $1.3 million for the six months ended June 30, 2018, an increase of 0.2 million (15%) compared to $1.1 million in 2017.

For both the quarter and six months ended June 30, 2018 the increase in finance costs was due to higher debt levels due to the acquisition of C&J Canada assets.

**Depreciation and Amortization**

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **$ thousands** | **2018** | **2017** | **Change $** | **Change %** | **2018** | **2017** | **Change $** | **Change %** |
| **Depreciation and amortization** | | | | | | | | |
| Contract drilling | 633 | 635 | (2) | (0%) | 2,376 | 2,412 | (36) | (1%) |
| Production services | 2,048 | 2,346 | (298) | (13%) | 5,093 | 5,286 | (193) | (4%) |
| Corporate | 224 | 41 | 183 | 446% | 449 | 82 | 367 | 448% |
| | 2,905 | 3,022 | (117) | (4%) | 7,918 | 7,780 | 138 | 2% |

Depreciation and amortization for drilling rigs, service rigs and swabbing rigs are based on operating days and hours. Coil tubing units, capitalized recertifications and other production equipment are depreciated on a straight line basis resulting in consistent depreciation and amortization expense regardless of activity. Amortization of Intangibles is based on estimated remaining life. As such, the change in depreciation for Q2 2018 and the six months ended June 30, 2018 predominately reflect changes in utilizations compared to the same periods in 2017.

**Loss (Gain) on Disposal of Equipment**

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **$ thousands** | **2018** | **2017** | **Change $** | **Change %** | **2018** | **2017** | **Change $** | **Change %** |
| Loss (Gain) on disposal of equipment | 407 | (6) | 413 | n/m[(1)] | 153 | 42 | 111 | 264% |

[(1)] Not meaningful.

Management continually monitors the asset mix and equipment needs and invests and divests assets as needed to optimize operations.

During Q2 2018 and the first six months of 2018, the loss (gain) on disposal of equipment was the result of the sale of equipment with proceeds on sale of $1.0 million (Q2 2017: $0.02 million) and $2.0 million (2017: $0.4 million) respectively. The equipment sold consisted primarily of one inactive coil tubing unit, one picker unit and one inactive service rig.

### Deferred Income Taxes

| $ thousands | Three months ended June 30, 2018 | 2017 | Six months ended June 30, 2018 | 2017 |
|---|---|---|---|---|
| Net loss before income taxes | (4,111) | (3,584) | (2,367) | (3,985) |
| Deferred income tax recovery | (1,044) | (907) | (496) | (940) |
| Deferred income tax recovery as a % of net loss before income taxes | 25% | 25% | 21% | 24% |
| Expected statutory income tax rate | 27% | 27% | 27% | 27% |

Income taxes are a function of taxable income and are calculated differently than accounting net income. Differences between accounting net income and taxable income include such things as gains or losses on disposal of fixed assets, stock based compensation, differences between income tax estimates and actual tax filings, goodwill impairment, and other differences.

The deferred income tax recovery in Q2 2018 and the first six months of 2018 of $1.0 million (Q2 2017: $0.9 million) and $0.5 million (2017: $0.9 million) respectively, is a result of the net loss before income taxes in each period.

The Company has substantial tax pools and non-capital losses available to reduce future taxable income such that the Company does not expect to pay any cash taxes for the next several years.

### Net Loss and Comprehensive Loss

| $ thousands | Three months ended June 30, 2018 | 2017 | Change $ | Change % | Six months ended June 30, 2018 | 2017 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Net loss and comprehensive loss | (3,067) | (2,677) | (390) | 15% | (1,871) | (3,045) | 1,174 | (39%) |

Net loss and comprehensive loss has increased $0.4 million year-over-year for the quarter and decreased $1.2 million for the six months ended June 30, 2018. In Q2 2018, the increase in Adjusted EBITDA from the Production Services segment combined with lower depreciation and amortization was more than offset by reduced Adjusted EBITDA for Contract Drilling and increased Corporate costs. For the six months ended June 30, 2018, the increase in Adjusted EBITDA from Production Services cost exceeded lower reduced Adjusted EBITDA from Contract Drilling and the increased Corporate costs, depreciation and amortization.

## Liquidity and Capital Resources

### Source of Funds

The Company's liquidity needs in the short-term and long-term can be sourced in several ways including: funds from operations, borrowing against existing credit facilities, new debt instruments, equity issuances and proceeds from the sale of assets. Cash inflows are used to repay outstanding amounts on the Company's credit facilities, acquire shares under the NCIB and fund capital requirements.

During the first six months of 2018, the Company's Funds from Operations of $7.5 million combined with a $12.2 million decrease in non-cash working capital, $0.1 million from common share issuances and $2.0 million proceeds on disposal of equipment was used to fund a $13.3 million reduction in long term debt, $6.7 million of capital expenditures, $1.2 million of interest on long-term debt and finance lease payments and $0.5 million in acquisitions of shares under the NCIB.

At June 30, 2018 the Company had working capital (excluding debt) of $7.3 million compared to $19.5 million at December 31, 2017. (Please refer to the "Reconciliation of Non-IFRS Measures" section for further information). The decrease in working capital (excluding debt) from December 31, 2017 is due to lower accounts receivable from lower revenue in Q2 2018 versus Q4 2017 and a small increase in accounts payable. Typically, as activity levels increase or decrease working capital will also increase or decrease.

During Q2 2018 at the request of the Company the syndicated credit facility ("Bank Loan") was reduced from $100 million to $75 million to reduce borrowing costs and standby charges. The $75 million Bank Loan provides financial security and flexibility to July 31, 2020 and a quarterly financial covenant for Consolidated Debt to Consolidated EBITDA ratio of 4.00 to 1. The Bank Loan is secured by a general security agreement and a first charge security interest covering all of the assets of the Company.

Under the terms of the Bank Loan, the Company is required to comply with certain financial covenants. The Company is in compliance with each of the financial covenants at June 30, 2018. The Company expects to be able to renew the Bank Loan prior to maturity. Effective June 30, 2018, 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%.

On June 29, 2018 the Company obtained a new five year credit facility (the "Mortgage Loan") in the principal amount of $12.8 million. The Mortgage Loan is secured by, among other things, a collateral mortgage from the Company in favour of the bank over properties located in Sylvan Lake, Brooks and Slave Lake Alberta. These new borrowing arrangements significantly reduce the Company's overall borrowing costs by reducing standby charges on the syndicated Bank Loan and realizing a lower interest rate on the term Bank Loan. The Mortgage Loan has been amortized over 22 years with blended monthly principal and interest payments. Subsequent to June 30, 2018 the Company entered into an interest rate swap to effectively fix the interest rate at 4.00% until June 28, 2023.

**Capital Requirements**

On December 13, 2017 the Company announced its capital expenditure budget for 2018 of $12.7 million, $7.2 million of which is growth capital to improve certain drilling and coil tubing equipment while the remaining $5.5 million is maintenance and infrastructure capital related to recertification's, additions and upgrades to field equipment for the drilling rigs, service rigs, swabbing rigs and coil tubing divisions as well as information technology infrastructure. The increase to the 2018 capital expenditure budget compared to the 2017 capital expenditure of $6.8 million is consistent with CWC's commitment to safety and operational efficiency with high quality and well maintained equipment. CWC intends to finance its 2018 capital expenditure budget from operating cash flows.

As utilization of the Company's equipment increases, CWC plans to recertify several of its service rigs. As at June 30, 2018, the Company has capital spending plans as noted in the section titled "Capital Expenditures". Additional discretionary capital expenditures will be required in order to continue to grow the Company's assets and revenue in the future. It is anticipated future cash requirements for capital expenditures will be met through a combination of funds from operations and borrowing against existing credit facilities as required. However, additional funds may be raised by new debt instruments, equity issuances and proceeds from the sale of assets.

CWC may require additional financing in the future to implement its strategies and business objectives. It is possible that such financing will not be available, or if available, will not be available on favorable terms. If CWC issues any shares in the future to finance its operations or implement its strategies, the current shareholders of CWC may incur a dilution of their interest.

## Common Shares and Dividends

The following table summarizes outstanding share data and potentially dilutive securities:

| | August 10, 2018 | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Common shares | 520,463,960 | 520,463,960 | 521,378,958 |
| Stock options | 24,373,666 | 24,763,000 | 27,546,667 |
| Restricted share units | 4,579,332 | 4,656,665 | 5,135,332 |

During the six months ended June 30, 2018, 1,033,335 stock options were exercised and 1,750,332 were forfeited. In addition, 305,667 RSU's were exercised, 54,000 were granted and 227,000 were forfeited.

On April 7, 2017, the Company initiated an NCIB which expired on April 6, 2018. Under the NCIB the Company may purchase, from time to time as it considers advisable, up to 19,653,292 of issued and outstanding common shares through the facilities of the TSX Venture Exchange ("TSXV") or other recognized marketplaces. In addition, 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.

On April 10, 2018, the Company replaced its expired NCIB with a new NCIB which now expires on April 9, 2019. Under the new NCIB the Company may purchase, from time to time as it considers advisable, up to 26,057,889 of issued and outstanding common shares through the facilities of the TSXV or other recognized marketplaces. In addition, CWC renewed its ASPP with Raymond James for the purpose of making purchases under the ASPP.

During the six months ended June 30, 2018, 2,417,500 common shares were purchased under the NCIB and 2,254,000 common shares were cancelled and returned to treasury.

## Capital Expenditures

| $ thousands | Three months ended June 30, 2018 | Three months ended June 30, 2017 | Change $ | Change % | Six months ended June 30, 2018 | Six months ended June 30, 2017 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Contract drilling | 4,986 | 1,138 | 3,848 | 338% | 5,116 | 1,284 | 3,832 | 298% |
| Production services | 1,123 | 1,283 | (160) | (12%) | 1,930 | 1,789 | 141 | 8% |
| Corporate | - | 3 | (3) | (100%) | 28 | 9 | 19 | 211% |
| Total capital expenditures | 6,109 | 2,424 | 3,685 | 152% | 7,074 | 3,082 | 3,992 | 130% |
| | | | | | | | | |
| Growth capital | 4,278 | 372 | 3,906 | 1,050% | 4,278 | 372 | 3,906 | 1,050% |
| Maintenance and infrastructure capital | 1,831 | 2,052 | (211) | 11% | 2,796 | 2,710 | 86 | 3% |
| Total capital expenditures | 6,109 | 2,424 | 3,685 | 152% | 7,074 | 3,082 | 3,992 | 130% |

Capital expenditures for the first six months of 2018 of $7.1 million are $4.0 million higher than $3.1 million in 2017 and primarily consist of drilling rig upgrades, recertification costs, replacement components and leased vehicles. Growth capital of $4.3 million in Q2 2018 consists primarily of customer driven upgrades to drilling Rig #2 and Rig #4. Rig #2 upgrades of $1.0 million included a new mast, rising cylinders, catwalk and top drive integration. Drilling Rig #4 upgrades of $2.7 million in Q2 2018, with a further $0.8 million in July 2018 will provide a pad rig walking system, increase drilling capacity, torque, pump pressure and dual fuel engine capabilities while operating on a smaller footprint. These upgrades are expected to increase these two drilling rigs' capacity resulting in higher expected utilization for future quarters. Rig #2 and Rig #4's upgrades align with our strategic initiatives and meet our E&P customers' demands for deeper depths at cost effective prices while providing a sufficient internal rate of return for CWC's shareholders.

## Commitments and Contractual Obligations

Under the terms of the Company's amended Bank Loan, the borrowing under the Bank Loan are due in full on July 31, 2020. The Company is committed to monthly payments of interest and bank charges until July 31, 2020. The Company's Mortgage Loan is being amortized over 22 years with blended monthly principal and interest payments and matures on June 28, 2023. There have been no significant changes in other commitments or contractual obligations since December 31, 2017. Management believes that there will be sufficient cash flows generated from operations to service the interest on the debt and finance the required maintenance and growth capital of the Company in 2018.

## Summary and Analysis of Quarterly Data

| $ thousands, except per share amounts | 2018 | | 2017 | | | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| Three months ended | Jun. 30 | Mar. 31 | Dec. 31 | Sep. 30 | Jun. 30 | Mar. 31 | Dec. 31 | Sep. 30 |
| Revenue | 22,245 | 48,925 | 37,420 | 27,173 | 15,114 | 32,580 | 20,922 | 18,506 |
| Adjusted EBITDA | 31 | 7,478 | 6,630 | 4,055 | 228 | 5,150 | 2,923 | 1,741 |
| Net income (loss) | (3,067) | 1,196 | 8,544 | (638) | (2,677) | (368) | (1,717) | (2,042) |
| Net income (loss) per share: basic and diluted | (0.01) | 0.00 | 0.02 | 0.00 | (0.01) | 0.00 | 0.00 | (0.01) |
| Total assets | 250,039 | 268,479 | 264,354 | 208,355 | 203,265 | 218,171 | 210,750 | 212,634 |
| Total long-term debt | 36,803 | 51,377 | 49,810 | 34,404 | 28,887 | 38,987 | 33,142 | 34,013 |
| Shareholders' equity | 184,834 | 187,829 | 186,519 | 151,833 | 152,596 | 155,358 | 155,482 | 156,605 |

The table above summarizes CWC's quarterly results for the previous eight financial quarters. CWC's operations are carried out in western Canada. The second quarter is typically expected to be the weakest financial and operating quarter for the Company

due to ground conditions being impacted by spring breakup. The ability to move heavy equipment in the Canadian crude oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this spring breakup has a direct impact on the Company's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen enough to support equipment. As a result, late March through May is traditionally the Company's slowest time, and as such the revenue, operating costs, and financial results of the Company will vary on a quarterly basis.

Through the eight quarters presented, the amount of revenue and net income (loss), adjusted for the effects of seasonality, have fluctuated primarily due to changes in the utilization of equipment, changes in the day and hours billing rate, and the increase in the number of drilling rigs, service rigs, swabbing rigs and coil tubing units over the period as detailed in the section titled "Operational Overview".

Other significant impacts have been a result of:

- Q2 2018 saw significant customer driven capital expenditure upgrades to two drilling rigs to meet customer demands for deeper depths at cost effective prices. During Q2 2018, 1,023,000 common shares were purchased under the NCIB and a total of 935,500 common shares were cancelled and returned to treasury.
- Q1 2018 service rig fleet set a new Company record of 53,979 operating hours as a result of the increase in the number of service rigs from the acquisition of the C&J Canada assets. During Q1 2018, 1,394,000 common shares were purchased under the NCIB and a total of 1,318,500 common shares were cancelled and returned to treasury.
- Q4 2017 saw the acquisition of C&J Canada's service and swabbing rig assets for $37.5 million. Higher operating activity and pricing in the Contract Drilling and Production Services' segments also contributed to the improved financial results compared to the previous quarters. CWC closed a rights offering for aggregate gross proceeds of $26.0 million ($25.9 million after deductions of shares issue costs) to partially finance the acquisition of the C&J Canada assets. Under the fully subscribed offering, 130,148,781 common shares were issued to shareholders who exercised their rights. During Q4 2017, 405,000 common shares were purchased under the NCIB and a total of 1,441,500 common shares were cancelled and returned to treasury.
- Q3 2017, 1,402,000 common shares were purchased under the NCIB and a total of 1,478,000 common shares were cancelled and returned to treasury.
- Q1 2017 saw significantly higher operating activity in the Company's Contract Drilling and Production Services segments than what had been experienced in the last eight to twelve quarters.
- Q4 2016 saw improved utilizations in both drilling and service rig activity as a result of increased global crude oil and natural gas prices after OPEC's agreement on crude oil production cuts.
- Q3 2016 activity and pricing continued to be negatively impacted by low global crude oil and natural gas prices. However, the Company continued to see leading market share and utilization of its service rigs.

# Critical Accounting Estimates and Judgments

This MD&A of the Company's financial condition and results of operations is based on the financial statements which are prepared in accordance with IFRS. 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 Annual Financial Statements and the section titled "Critical Accounting Estimates and Judgments" in the Annual MD&A. There have been no significant or material changes in the nature of critical accounting estimates and judgements since December 31, 2017.

The Company adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" on January 1, 2018. The transitions had no material effect on the Company's Financial Statements. Please refer to the financial statements and related notes for further details on the adoption of these standards.

# CEO and CFO Certifications

The CEO and CFO of TSX Venture Exchange listed companies, such as CWC, are not required to certify they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Instead, an optional form of certification has been made available to TSX Venture Exchange listed companies and has been used by CWC's certifying officers for the June 30, 2018 interim filings. The certification reflects what the Company considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Company's operations. This certification requires that the certifying officer's state:

- They have reviewed the annual financial report and MD&A;
- That, based on their knowledge, they have determined there is no untrue statement of a material fact, or any omission of material fact required to be stated which would make any statement not misleading in light of the circumstances under which it was made within the annual filings; and
- That based upon their knowledge, the annual filings, together with the other financial information included in the annual filings, fairly present in all material respects the financial condition, financial performance and cash flows of the Company as of the date and for the periods presented in the annual filings.

# Risks and Uncertainties

Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial, may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors" in the Company's most recent Annual Information Form which is available under the Company's profile at www.sedar.com or by contacting the Company.

**Forward-Looking Information**

*This MD&A contains certain forward-looking information and statements within the meaning of applicable Canadian securities legislation. Certain statements contained in this MD&A, including most of those contained in the section titled "Outlook" and including statements which may contain such words as "anticipate", "could", "continue", "should", "seek", "may", "intend", "likely", "plan", "estimate", "believe", "expect", "will", "objective", "ongoing", "project" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including management's assessment of future plans and operations, planned levels of capital expenditures, expectations as to activity levels, expectations on the sustainability of future cash flow and earnings and the ability to pay dividends, expectations with respect to crude oil and natural gas prices, activity levels in various areas, expectations regarding the level and type of drilling and production and related drilling and well services activity in the WCSB, expectations regarding entering into long term drilling contracts and expanding its customer base, and expectations regarding the business, operations, revenue and debt levels of the Company in addition to general economic conditions. Although the Company believes that the expectations and assumptions on which such forward-looking information and statements are based are reasonable, undue reliance should not be placed on the forward-looking information and statements because the Company can give no assurances that they will prove to be correct. Since forward-looking information and statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the drilling and oilfield services sector (ie. demand, pricing and terms for oilfield drilling and services; current and expected oil and gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety and environmental risks), integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties and environmental regulations, stock market volatility and the inability to access sufficient capital from external and internal sources and the inability to pay dividends. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through SEDAR at www.sedar.com. The forward-looking information and statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. Any forward-looking statements made previously may be inaccurate now.*

# Reconciliation of Non-IFRS Measures

| $ thousands except share and per share amounts | Three months ended June 30, 2018 | Three months ended June 30, 2017 | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|---|---|
| **NON-IFRS MEASURES** | | | | |
| Adjusted EBITDA: | | | | |
| Net loss and comprehensive loss | (3,067) | (2,677) | (1,871) | (3,045) |
| Add: | | | | |
| Depreciation | 2,905 | 3,022 | 7,918 | 7,780 |
| Finance costs | 593 | 570 | 1,283 | 1,115 |
| Deferred income tax recovery | (1,044) | (907) | (496) | (940) |
| Stock based compensation | 237 | 226 | 522 | 426 |
| Loss (gain) on sale of equipment | 407 | (6) | 153 | 42 |
| **Adjusted EBITDA** [(1)] | 31 | 228 | 7,509 | 5,378 |
| **Adjusted EBITDA per share – basic and diluted** [(1)] | $0.00 | $0.00 | $0.01 | $0.01 |
| **Adjusted EBITDA margin (Adjusted EBITDA/Revenue)** [(1)] | 0% | 2% | 11% | 11% |
| Weighted average number shares outstanding – basic and diluted | 521,289,658 | 392,935,814 | 521,682,326 | 392,604,720 |
| Gross margin: | | | | |
| Revenue | 22,245 | 15,114 | 71,170 | 47,622 |
| Less: Direct operating expenses | 17,904 | 11,764 | 54,250 | 35,782 |
| **Gross margin** [(2)] | 4,341 | 3,350 | 16,920 | 11,840 |
| **Gross margin percentage** [(2)] | 20% | 22% | 24% | 25% |

| $ thousands | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Working capital (excluding debt): | | |
| Current assets | 20,402 | 31,745 |
| Less: Current liabilities | (13,916) | (12,378) |
| Add: Current portion of long term debt | 841 | 176 |
| **Working capital (excluding debt)** [(3)] | 7,327 | 19,543 |
| **Working capital (excluding debt) ratio** [(3)] | 1.6:1 | 2.6:1 |
| Net debt: | | |
| Long term debt | 35,962 | 49,634 |
| Less: Current assets | (20,402) | (31,745) |
| Add: Current liabilities | 13,916 | 12,378 |
| **Net debt** [(4)] | 29,476 | 30,267 |

[(1)] Adjusted EBITDA (Earnings before interest and finance costs, income tax expense, depreciation, amortization, gain or loss on disposal of asset, goodwill impairment, stock based compensation and other one-time gains and losses) is not a recognized measure under IFRS. Management believes that in addition to net income, Adjusted EBITDA is a useful supplemental measure as it provides an indication of the Company's ability to generate cash flow in order to fund working capital, service debt, pay current income taxes, pay dividends, repurchase common shares under the Normal Course Issuer Bid, and fund capital programs. Investors should be cautioned, however, that Adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with IFRS as an indicator of the Company's performance. CWC's method of calculating Adjusted EBITDA may differ from other entities and accordingly, Adjusted EBITDA may not be comparable to measures used by other entities. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by revenue and provides a measure of the percentage of Adjusted EBITDA per dollar of revenue. Adjusted EBITDA per share is calculated by dividing Adjusted EBITDA by the weighted average number of shares outstanding as used for calculation of earnings per share.

[(2)] Gross margin is calculated from the statement of comprehensive loss as revenue less direct operating costs and is used to assist management and investors in assessing the Company's financial results from operations excluding fixed overhead costs. Gross margin percentage is calculated as gross margin divided by revenue. The Company believes the relationship between revenue and costs expressed by the gross margin percentage is a useful measure when compared over different financial periods as it demonstrates the trending relationship between revenue, costs and margins. Gross margin and gross margin percentage are non-IFRS measures and do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures provided by other companies.

[(3)] Working capital (excluding debt) is calculated based on current assets less current liabilities excluding the current portion of long-term debt. Working capital (excluding debt) is used to assist management and investors in assessing the Company's liquidity. Working capital (excluding debt) does not have any meaning prescribed under IFRS and may not be comparable to similar measures provided by other companies. Working capital (excluding debt) ratio is calculated as current assets divided by the difference of current liabilities less the current portion of long term debt.

[(4)] Net debt is not a recognized measure under IFRS and does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures provided by other companies. Management believes net debt is a useful indicator of a company's debt position.