# CWC ENERGY SERVICES CORP.

Unaudited Condensed Interim Financial Statements

For the three and nine months ended September 30, 2014 and 2013

# CWC ENERGY SERVICES CORP.

## STATEMENTS OF FINANCIAL POSITION

As at September 30, 2014 and December 31, 2013

(unaudited)

| *Stated in thousands of Canadian dollars* | Note | **September 30, 2014** | December 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash | | **$ 55** | $ 202 |
| Accounts receivable | | **30,702** | 22,359 |
| Inventory | | **2,350** | 2,392 |
| Prepaid expenses and deposits | | **673** | 400 |
| | | **33,780** | 25,353 |
| Property and equipment | 5 | **215,233** | 123,646 |
| Intangibles | 6 | **1,470** | - |
| Goodwill | 6 | **37,528** | - |
| | | **$ 288,011** | $ 148,999 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | **$ 12,422** | $ 8,322 |
| Dividend payable | 9 | **4,725** | 2,524 |
| Current portion of long-term debt | 8 | **203** | 185 |
| | | **17,350** | 11,031 |
| Deferred tax liability | | **17,400** | 2,800 |
| Long-term debt | 8 | **60,110** | 43,824 |
| | | **94,860** | 57,655 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | **219,146** | 108,184 |
| Contributed surplus | | **6,934** | 6,056 |
| Deficit | | **(32,929)** | (22,896) |
| | | **193,151** | 91,344 |
| | | **$ 288,011** | $ 148,999 |

*See accompanying notes to the financial statements.*

## CWC ENERGY SERVICES CORP.

### STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2014 and 2013

(unaudited)

| *Stated in thousands of Canadian dollars except per share amounts* | Note | Three months ended September 30 **2014** | Three months ended September 30 2013 | Nine months ended September 30 **2014** | Nine months ended September 30 2013 |
|---|---|---|---|---|---|
| **Revenue** | | **$ 38,846** | $ 28,559 | **$ 97,707** | $ 81,782 |
| **Expenses** | 12 | | | | |
| Direct operating expenses | | **24,356** | 17,335 | **64,895** | 52,608 |
| Selling and administrative expenses | | **4,604** | 3,646 | **12,294** | 10,601 |
| Stock based compensation | | **498** | 236 | **1,135** | 626 |
| Finance costs | 8 | **588** | 569 | **1,554** | 2,781 |
| Transaction costs | | **-** | - | **788** | - |
| Depreciation and amortization | | **5,708** | 4,511 | **13,794** | 11,569 |
| Gain on disposal of equipment | | **(129)** | - | **(242)** | (125) |
| | | **35,625** | 26,297 | **94,218** | 78,060 |
| **Net income before income taxes** | | **3,221** | 2,262 | **3,489** | 3,722 |
| **Deferred income tax expense** | | **975** | 633 | **1,180** | 1,055 |
| **Net income and comprehensive income** | | **$ 2,246** | $ 1,629 | **$ 2,309** | $ 2,667 |
| **Earnings per share** | | | | | |
| Basic and diluted | 9 | **$ 0.01** | $ 0.01 | **$ 0.01** | $ 0.02 |

*See accompanying notes to the financial statements.*

**CWC ENERGY SERVICES CORP.**
**STATEMENTS OF CHANGES IN EQUITY**
For the nine months ended September 30, 2014 and 2013
(unaudited)

| *Stated in thousands of Canadian dollars except share amounts* | Note | Number of Shares | Share Capital | Contributed Surplus | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance – January 1, 2013** | | 154,915,899 | $ 108,001 | $ 5,762 | $ (17,298) | $ 96,465 |
| Net income and comprehensive income | | - | - | - | 2,667 | 2,667 |
| Stock based compensation expense | 9 | - | - | 542 | - | 542 |
| Exercise of stock options | 9 | 661,667 | 355 | (154) | - | 201 |
| Stock options settled in cash | | - | - | (190) | - | (190) |
| Cancellation of common shares purchased under normal course issuer bid | | (439,500) | (303) | (23) | - | (326) |
| Dividends declared | 9 | - | - | - | (7,822) | (7,822) |
| **Balance – September 30, 2013** | | 155,138,066 | $ 108,053 | $ 5,937 | $ (22,453) | $ 91,537 |
| Net income and comprehensive income | | - | - | - | 2,196 | 2,196 |
| Stock based compensation expense | | - | - | 250 | - | 250 |
| Exercise of stock options | | - | - | - | - | - |
| Stock options settled in cash | | - | - | - | - | - |
| Settlement of restricted share units | | 185,000 | 131 | (131) | - | - |
| Dividends declared | | - | - | - | (2,639) | (2,639) |
| **Balance December 31, 2013** | | **155,323,066** | **108,184** | **6,056** | **(22,896)** | **91,344** |
| Net income and comprehensive income | | **-** | **-** | **-** | **2,309** | **2,309** |
| Stock based compensation expense | 9 | **-** | **-** | **1,018** | **-** | **1,018** |
| Issued common shares for acquisition | 7 | **80,785,158** | **84,017** | **-** | **-** | **84,017** |
| Issued for cash | 9 | **34,270,000** | **27,323** | **-** | **-** | **27,323** |
| Exercise of stock options | 9 | **80,000** | **62** | **(25)** | **-** | **37** |
| Settlement of restricted share units | 9 | **58,333** | **44** | **(44)** | **-** | **-** |
| Cancellation of common shares purchased under normal course issuer bid | | **(597,500)** | **(484)** | **(71)** | **-** | **(555)** |
| Dividends declared | 9 | **-** | **-** | **-** | **(12,342)** | **(12,342)** |
| **Balance – September 30, 2014** | | **269,919,057** | **$ 219,146** | **$ 6,934** | **$ (32,929)** | **$ 193,151** |

*See accompanying notes to the financial statements.*

# CWC ENERGY SERVICES CORP.

**STATEMENTS OF CASH FLOWS**

For the three and nine months ended September 30, 2014 and 2013

(unaudited)

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| *Stated in thousands of Canadian dollars* | Note | **2014** | 2013 | **2014** | 2013 |
| **Operating activities:** | | | | | |
| Net income | | **$ 2,246** | $ 1,629 | **$ 2,309** | $ 2,667 |
| Adjustments for: | | | | | |
| Stock based compensation expense | 9 | **498** | 236 | **1,135** | 626 |
| Finance costs | | **588** | 569 | **1,554** | 2,781 |
| Depreciation and amortization | | **5,708** | 4,511 | **13,794** | 11,569 |
| Gain on disposal of equipment | | **(129)** | - | **(242)** | (125) |
| Deferred income tax expense | | **975** | 633 | **1,180** | 1,055 |
| | | **9,886** | 7,578 | **19,730** | 18,573 |
| Changes in non-cash working capital balances | 10 | **(7,395)** | (6,110) | **(4,795)** | 723 |
| Operating cash flow | | **2,491** | 1,468 | **14,935** | 19,296 |
| **Investing activities:** | | | | | |
| Business acquisition | 7 | **-** | - | **(18,189)** | - |
| Purchase of equipment | | **(12,244)** | (2,367) | **(19,488)** | (10,480) |
| Proceeds on disposal of equipment | | **6,484** | - | **7,468** | 670 |
| Investing cash flow | | **(5,760)** | (2,367) | **(30,209)** | (9,810) |
| **Financing activities:** | | | | | |
| Retirement of long-term debt | | **-** | - | **-** | (14,250) |
| Increase of long-term debt | | **9,014** | 4,171 | **424** | 15,788 |
| Interest paid | | **(545)** | (537) | **(1,438)** | (2,406) |
| Finance costs paid | | **-** | (40) | **(229)** | (414) |
| Finance lease repayments | | **(68)** | (46) | **(178)** | (136) |
| Common shares issued for cash | | **-** | - | **26,848** | - |
| Common shares issued on exercise of options | 9 | **-** | 60 | **37** | 200 |
| Common shares repurchased for cancellation | 9 | **(555)** | - | **(555)** | (326) |
| Stock options settled in cash | | **-** | (190) | **-** | (190) |
| Dividends paid | 9 | **(4,734)** | (2,519) | **(9,782)** | (7,557) |
| Financing cash flow | | **3,112** | 899 | **15,127** | (9,291) |
| (Decrease) Increase in cash during the period | | **(157)** | - | **(147)** | 195 |
| Cash, beginning of period | | **212** | 195 | **202** | - |
| Cash, end of period | | **$ 55** | $ 195 | **$ 55** | $ 195 |

*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). On May 15, 2014 CWC changed its name from CWC Well Services Corp. to CWC Energy Services Corp. and amalgamated with its wholly owned subsidiary, Ironhand Drilling Inc. (note 7). The address of the Company's head office is Suite 755, 255 – 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, or 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 IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements.

These condensed interim financial statements were approved by the Board of Directors on November 12, 2014.

(b) Use of estimates and judgments

The preparation of the condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended December 31, 2013.

(c) New standards, amendments and interpretations

Effective January 1, 2014, the Company adopted the following accounting standards or revisions thereto:

IAS 36 - Impairment of Assets - Amendments of IAS 36 require entities to disclose the recoverable amount of an impaired Cash Generating Unit ("CGU"). The Company assessed the effect of IAS 36 on its financial results and financial position and will adopt these disclosures, as applicable, in the annual financial statements.

IFRIC 21 - Levies - Interpretation of IAS 37, Provisions, Contingent Liabilities and Assets - sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as the result of a past event. The interpretation clarifies that the obligation that gives rise to the liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company assessed the effect of IFRIC 21 on its financial results and statement of financial position and has determined there is no material impact.

(d) 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 including changes and initial adoption

Except as described in note 2 (c) above, the accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended December 31, 2013. These unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013 as filed on SEDAR.

In connection with the acquisition of Ironhand Drilling Inc. (note 7) and the entrance into the contract drilling business, the following additional accounting policies have been adopted or changes to existing accounting policies have been made:

(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 Company's reporting segments 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 depreciation

Depreciation is recorded annually over the estimated useful lives of the contract drilling assets acquired using the following deprecation methods and rates:

| Contract drilling assets | Method | Rate |
|---|---|---|
| Drilling rigs and related equipment | Unit of production with residual values of up to 20% | 1,500 to 5,000 operating days |

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.

(c) Segmented information

The Company has changed its reportable operating segments to reflect the addition of contract drilling as an operating segment as more fully described in note 11.

(d) 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, 2014. The new standards, amendments to standards and interpretations have not been applied in preparing these condensed interim financial statements. None of these are expected to have a significant effect on the consolidated financial statements, except for:

> 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. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2017, with early adoption permitted under IFRS. The Company has not yet assessed the impact this standard will have on the financial statements.

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

## 4. Seasonality of operations

The Company's operations are located in western Canada. The ability to move heavy equipment safely and efficiently in western Canadian oil and natural gas fields is dependent on weather conditions. Activity levels during the first quarter are typically the most robust as the frost creates a stable ground mass that allows for easy access to well sites and easier service rig movement. The second quarter is traditionally the slowest due to road bans during spring break-up. When winter's frost leaves the ground, it renders many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. Road bans during this time restrict drilling rig, service rig and support equipment access to well sites. The third quarter has more activity as the summer months are typically drier than the second quarter. The fourth quarter is again quite active as winter temperatures freeze the ground allowing for site access. However, there may be temporary halts to operations in extreme cold weather.

## 5. Property and equipment

| | Contract drilling equipment | Production services equipment | Other equipment | Total |
|---|---|---|---|---|
| **Costs** | | | | |
| Balance, December 31, 2013 | $ - | $ 204,608 | $ 1,418 | $ 206,026 |
| Acquisition through business combination | 92,611 | - | 124 | 92,735 |
| Additions | 7,276 | 12,399 | 79 | 19,754 |
| Disposals | (133) | (15,806) | - | (15,939) |
| Balance, September 30, 2014 | 99,754 | 201,201 | 1,621 | 302,576 |
| **Accumulated depreciation** | | | | |
| Balance, December 31, 2013 | - | 81,300 | 1,080 | 82,380 |
| Depreciation | 2,471 | 11,002 | 203 | 13,676 |
| Disposals | (4) | (8,709) | - | (8,713) |
| Balance, September 30, 2014 | 2,467 | 83,593 | 1,283 | 87,343 |
| **Net book value** | | | | |
| Balance, December 31, 2013 | $ - | $ 123,308 | $ 338 | $ 123,646 |
| Balance, September 30, 2014 | $ 97,287 | $ 117,608 | $ 338 | $ 215,233 |

At September 30, 2014, property and equipment includes equipment under finance leases which are recorded at cost totaling $880 (December 31, 2013: $750), less accumulated depreciation of $492 (December 31, 2013: $455).

Included in additions of $19,754 are $266 of additions under finance lease (September 30, 2013: $30).

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

## 6. Goodwill and intangible assets

| | Goodwill | Intangible assets |
|---|---|---|
| **Cost** | | |
| Balance, December 31, 2013 | $ - | $ - |
| Acquisition through business combination (note 7) | 37,528 | 1,588 |
| Balance, September 30, 2014 | 37,528 | 1,588 |
| | | |
| **Accumulated amortization** | | |
| Balance, December 31, 2013 | - | - |
| Amortization of intangible assets | - | 118 |
| Balance, September 30, 2014 | - | 118 |
| | | |
| **Net book value** | | |
| Balance, December 31, 2013 | $ - | $ - |
| Balance, September 30, 2014 | $ 37,528 | $ 1,470 |

## 7. Business acquisition

On May 15, 2014, CWC acquired Ironhand Drilling Inc. ("Ironhand") pursuant to a plan of arrangement whereby all of the issued and outstanding common shares of Ironhand were exchanged for aggregate cash consideration of $18,189 and 80,785,158 common shares of CWC at an ascribed price of $1.04 per share, based on the trading price of CWC at closing.

The Ironhand acquisition enabled the Company to continue its growth strategy and enter the contract drilling services business in western Canada. At closing, Ironhand's fleet consisted of eight telescopic double drilling rigs with depth ratings from 3,200 to 4,500 metres with a ninth rig under construction. Seven of these eight rigs have top drives. All of the drilling rigs are ideally suited for the most active depths for horizontal drilling in the WCSB.

The fair value of consideration transferred at the acquisition date consisted of:

| | Amount |
|---|---|
| Cash | $ 18,189 |
| Common shares | 84,017 |
| Assumption of bank debt | 26,542 |
| Total consideration | $ 128,748 |

This acquisition has been accounted for using the acquisition method on May 15, 2014, whereby the assets acquired and the liabilities assumed were recorded at their fair values with the surplus of the aggregate consideration relative to the fair value of the identifiable net assets recorded as goodwill. The Company assessed the fair values of the net assets acquired based on management's best estimate of market value, which takes into consideration the condition of the assets acquired, current industry conditions and the discounted future cash flows expected to be received from the assets as well as the amount it is expected to cost to settle the outstanding liabilities. Subsequent to the acquisition date, Ironhand's operating results have been included in CWC's revenues, expenses and capital spending.

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

The fair value of consideration transferred for the Ironhand acquisition was allocated on the basis of the fair value of the net assets acquired as at May 15, 2014 as follows:

| | | Amount |
|---|---|---|
| Net working capital (1) | $ | 10,792 |
| Property and equipment | | 92,735 |
| Intangibles – trade name and customer contracts | | 1,588 |
| Goodwill | | 37,528 |
| Deferred income tax liability | | (13,895) |
| Total fair value of net assets acquired | $ | 128,748 |

(1) Net working capital included no cash and trade receivables in the contractual amount and fair value of $12,031, all of which is expected to be collected.

The Company estimates that had the acquisition closed on January 1, 2014, $40.2 million of revenue for the nine month period ended September 30, 2014 would have been attributable to Ironhand's assets. Included in this estimated amount is $18.5 million of revenue recognized by the Company subsequent to the acquisition date relating to Ironhand's assets. The Company estimates that had the acquisition closed on January 1, 2014, $5.8 million of net income for the nine month period ended September 30, 2014 would have been attributable to Ironhand's assets. Included in this estimated amount is $3.2 million of net income recognized by the Company subsequent to the acquisition date relating to Ironhand's assets.

The Company assessed the acquisition for intangible assets and concluded that customer relationship and the Ironhand Drilling trade name, which is being retained, met the criteria for recognition as intangible assets. The trade name was valued using the relief-from-royalty method and the customer contracts were valued using the multi-period excess earnings method. The allocations described above are preliminary and subject to changes upon finalization of purchase price adjustments. These adjustments may include, but are not limited to, the allocation of fair values between assets acquired, deferred tax balance adjustments on the filing of tax returns and final working capital adjustments on the respective balances acquired.

Goodwill on the Ironhand acquisition is attributable to the price paid for Ironhand's newly constructed modern drilling rig fleet complete with trained and assembled workforce in competitive market conditions. None of the goodwill recognized is expected to be deductible for income tax purposes. CWC's share price on March 18, 2014, the day prior to the announcement of the acquisition was $0.88 per share. The share price on the closing date, which was the price CWC was required to use to value the shares issued for the acquisition was $1.04 per CWC share.

The Company incurred costs related to the acquisition of Ironhand of $788 relating to due diligence as well as external legal and advisory fees, which were expensed in the period incurred.

This acquisition was a related party transaction for CWC as certain directors and shareholders of CWC were also directors, officers and / or shareholders of Ironhand.

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

## 8. Loans and borrowings

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Current liabilities: | | |
| Current portion of finance lease liabilities | $ 203 | $ 185 |
| | 203 | 185 |
| Non-current liabilities: | | |
| Bank Loan | 60,369 | 44,041 |
| Finance lease liabilities | 190 | 119 |
| Financing fees | (449) | (336) |
| | 60,110 | 43,824 |
| Total loans and borrowings | $ 60,313 | $ 44,009 |

The Company has a credit facility 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. The Bank Loan is for a committed term until June 21, 2017 (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.

The Bank Loan bears interest based on a sliding scale pricing grid tied to the Company's trailing debt to EBITDAS[1] ratio from a minimum of the bank's prime rate plus 0.75% to a maximum of the bank's prime rate plus 2.25% 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 3.25%. Standby fees under the Bank Loan range between 0.39% and 0.73%. Interest and fees under the Bank Loan is 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 September 30, 2014, $100 million was available for immediate borrowing under the $100 million Bank Loan facility and $60.4 million was outstanding (December 31, 2013: $44.0 million). The Bank Loan has an accordion feature which provides the Company with an ability to increase the maximum borrowings to up to $125 million, 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 September 30, 2014 the applicable rates under the Bank Loan are: bank prime rate plus 0.875%, bankers acceptances rate plus a stamping fee of 1.875%, and standby fee rate of 0.42%.

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

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

| | Covenant limits | Actual September 30, 2014 |
|---|---|---|
| Consolidated Debt(2) to EBITDAS(1) | 3.00:1.00 or less | 1.48:1.00 |
| Consolidated Debt(2) to Capitalization(3) | 0.50:1.00 or less | 0.24:1.00 |
| Consolidated Adjusted Cash Flow(4) to Consolidated Finance Obligations(5) | 1.15:1.00 or more | 11.03:1.00 |

(1) EBITDAS is calculated as net income(loss) plus finance costs, plus current and deferred income taxes, plus depreciation, plus stock based compensation, plus any non recurring losses or impairment losses, 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. EBITDAS 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.
(2) Consolidated Debt is calculated as total loans and borrowings as shown in the schedule above adjusted 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 EBITDAS minus amounts paid for transaction costs, dividends or share repurchases in the twelve month period ended the calculation date.
(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.

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 5.3% 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 $116 were amortized and included in finance costs during the nine month period ended September 30, 2014 (year ended December 31, 2013: $410).

## 9. Share capital

(a) Authorized
Unlimited number of common voting shares without par value.
Unlimited number of preferred shares without par value.

(b) Common shares
On April 10, 2014, CWC issued a total of 34,270,000 subscription receipts at a price of $0.84 per subscription receipt for aggregate gross proceeds of $28,787 ($27,323 after deduction of $1,939 in share issue costs plus deferred income taxes of $475). On May 15, 2014, contemporaneous with the closing of the acquisition of Ironhand, each subscription receipt was converted to one common share of CWC.

(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 13,520,411 of its issued and outstanding common shares at prevailing market prices on the TSX Venture Exchange or other recognized marketplaces during the 12-month period ending May 21, 2015. During the three months ended September 30, 2014, the Company purchased 597,500 shares for consideration of $555 including commissions.

(d) Stock options
The following table summarizes changes in the number of stock options outstanding:

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance at December 31, 2013 | 8,307,012 | 0.37 |
| Exercised for common shares | (80,000) | 0.47 |
| Granted | 3,550,000 | 1.04 |
| Balance at September 30, 2014 | 11,777,012 | $ 0.57 |

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

The following table summarizes information about stock options outstanding as at September 30, 2014:

| Exercise price | Number of options outstanding | Weighted average remaining life (years) contractual | Weighted average exercise price | Number of options exercisable |
|---|---|---|---|---|
| $ 0.25 | 5,927,012 | 1.2 | $ 0.25 | 5,927,012 |
| $ 0.60 | 1,450,000 | 2.4 | $ 0.60 | 966,641 |
| $ 0.75 | 600,000 | 3.8 | $ 0.75 | 200,000 |
| $ 0.80 | 250,000 | 2.7 | $ 0.80 | 166,667 |
| $ 1.04 | 3,550,000 | 4.9 | $ 1.04 | - |
| $ 0.25-1.04 | 11,777,012 | 2.7 | $ 0.57 | 7,260,320 |

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 nine months ended September 30, 2014:

| | 2014 |
|---|---|
| Risk free interest rate (%) | 1.44% |
| Expected life (years) | 4.0 |
| Expected volatility (%) | 55% |
| Expected dividend per share | $ 0.07 |

The weighted average fair value of the stock options issued during the nine months ended September 30, 2014 was $0.29. For the three months ended September 30, 2014, stock-based compensation expense relating to stock options totaled $226 (three months ended September 30, 2013: $171). For the nine months ended September 30, 2014, stock-based compensation expense relating to stock options totaled $388 (nine months ended September 30, 2013: $419).

(e) Restricted share units

The following table summarizes changes in the number of Restricted Share Units (“RSU’s”) outstanding:

| | Number of RSU’s |
|---|---|
| Balance, December 31, 2013 | 1,600,000 |
| Exercised for common shares | (58,333) |
| Granted | 465,000 |
| Balance at September 30, 2014 | 2,006,667 |

The following table summarizes information about RSU’s outstanding as at September 30, 2014:

| Issue date fair value | Number of RSU’s outstanding | Weighted average remaining life (years) contractual | Weighted average exercise price ($) | Number of RSU’s exercisable |
|---|---|---|---|---|
| $0.71 – 0.97 | 2,006,667 | 1.9 | n/a | - |

For the three months ended September 30, 2014, stock-based compensation expense relating to RSU’s totaled $232 (three months ended September 30, 2013: $65). For the nine months ended September 30, 2014, stock-based compensation expense relating to RSU’s totaled $630 (nine months ended September 30, 2013: $207).

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

(f) Earnings per share

The following table reconciles the common shares used in computing earnings per share for the periods noted:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Weighted average common shares outstanding – basic | 270,344,750 | 155,128,284 | 213,489,814 | 155,037,479 |
| Dilutive stock options | 4,995,950 | 4,406,964 | 4,996,656 | 4,480,253 |
| Dilutive RSU's | 1,057,891 | 303,769 | 792,036 | 214,095 |
| Weighted average common shares outstanding – diluted | 276,398,591 | 159,839,017 | 219,278,506 | 159,731,827 |

Outstanding stock options and RSU’s are currently the only instruments which could potentially dilute earnings per share. For the three months ended September 30, 2014, 3,550,000 stock options and NIL RSU's (three months ended September 30, 2013: 1,333,359 stock options and 175,000 RSU's) were not included in the computation of net income per common share because to do so would be anti-dilutive. For the nine months ended September 30, 2014, 3,633,333 stock options and 465,000 RSU's (nine months ended September 30, 2013: 1,866,715 stock options and 175,000 RSU's) were not included in the computation of net income per common share because to do so would be anti-dilutive.

(g) Dividends

On August 14, 2014, the Company declared dividends of $0.0175 per common share to shareholders of record on September 30, 2014 to be paid on October 15, 2014. Subsequent to quarter end, on October 15, 2014, the dividend was paid to shareholders of record as at the close of business on September 30, 2014. On November 12, 2014, the Company declared a dividend of $0.0175 per common share to shareholders of record on December 31, 2014 to be paid on January 15, 2015.

## 10. Supplemental cash flow information

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Change in non-cash working capital items: | | | | |
| Accounts receivable | $ (10,229) | $ (8,073) | $ (8,343) | $ 840 |
| Inventory | 13 | 70 | 42 | 115 |
| Prepaid expenses and deposits | 64 | (58) | (273) | (206) |
| Accounts payable and accrued liabilities | 2,757 | 1,951 | 3,779 | (26) |
| | $ (7,395) | $ (6,110) | $ (4,795) | $ 723 |

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

## 11. Operating segments

The Company operates in the western Canadian oilfield service industry through its production services and contract drilling segments. The production services segment provides well services to oil and gas exploration and production companies through the use of service rigs, coil tubing units, snubbing units and production testing equipment. The contract drilling segment provides drilling rigs and related ancillary equipment to oil and gas exploration and production companies. The production services segment combines what was previously reported as the well servicing and other oilfield services segments in prior period financial statements.

Management uses net income before depreciation and income taxes ("segment profit") as included in the 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.

The amounts related to each industry segment are as follows:

| For the three months ended September 30, 2014 | Contract drilling | Production services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 15,271 | $ 23,575 | $ - | $ 38,846 |
| Finance costs | - | - | 588 | 588 |
| Net income (loss) before depreciation and taxes | 5,877 | 5,764 | (2,712) | 8,929 |
| Depreciation | 2,124 | 3,452 | 132 | 5,708 |
| Net income (loss) before tax | 3,753 | 2,312 | (2,844) | 3,221 |
| Income tax expense | - | - | 975 | 975 |
| Net income (loss) | 3,753 | 2,312 | (3,819) | 2,246 |
| Capital expenditures | 5,473 | 6,742 | 29 | 12,244 |
| | | | | |
| As at September 30, 2014 | | | | |
| Property and equipment | 97,287 | 117,608 | 338 | 215,233 |
| Goodwill | 37,528 | - | - | 37,528 |
| Intangibles | 1,470 | - | - | 1,470 |

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

| For the three months ended September 30, 2013 | Contract drilling | Production services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ - | $ 28,559 | $ - | $ 28,559 |
| Finance costs | - | - | 569 | 569 |
| Net income (loss) before depreciation and taxes | - | 8,708 | (1,935) | 6,773 |
| Depreciation | - | 4,396 | 115 | 4,511 |
| Net income (loss) before tax | - | 4,312 | (2,050) | 2,262 |
| Deferred income tax expense | - | - | 633 | 633 |
| Net income (loss) | - | 4,312 | (2,683) | 1,629 |
| Capital expenditures | | 2,365 | 2 | 2,367 |
| | | | | |
| As at September 30, 2013 | | | | |
| Property and equipment | - | 126,174 | 766 | 126,940 |

| For the nine months ended September 30, 2014 | Contract drilling | Production services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 18,510 | $ 79,197 | $ - | $ 97,707 |
| Finance costs | - | - | 1,554 | 1,554 |
| Net income (loss) before depreciation and taxes | 6,573 | 18,282 | (7,572) | 17,283 |
| Depreciation | 2,602 | 10,815 | 377 | 13,794 |
| Net income (loss) before tax | 3,971 | 7,467 | (7,949) | 3,489 |
| Income tax expense | - | - | 1,180 | 1,180 |
| Net income (loss) | 3,971 | 7,467 | (9,129) | 2,309 |
| Capital expenditures | 7,276 | 12,399 | 79 | 19,754 |

| For the nine months ended September 30, 2013 | Contract drilling | Production services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ - | $ 81,782 | $ - | $ 81,782 |
| Finance costs | - | - | 2,781 | 2,781 |
| Net income (loss) before depreciation and taxes | - | 21,987 | (6,696) | 15,291 |
| Depreciation | - | 11,197 | 372 | 11,569 |
| Net income (loss) before tax | - | 10,790 | (7,068) | 3,722 |
| Deferred income tax expense | - | - | 1,055 | 1,055 |
| Net income (loss) | - | 10,790 | (8,123) | 2,667 |
| Capital expenditures | - | 10,416 | 64 | 10,480 |

For the nine months ended September 30, 2014, revenue from two customers of the Company’s production services segment represented approximately $20.0 million (nine months ended September 30, 2013: two customers represented $20.7 million) of the Company’s total revenues.

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

## 12. Expenses by nature

| For the three months ended September 30, 2014 | Direct operating expenses | Selling and administrative expenses and transaction costs | Stock based compensation | Finance costs | Depreciation and amortization expense | Gain on sale of equip-ment | Total |
|---|---|---|---|---|---|---|---|
| Personnel expenses | $ 14,137 | $ 2,744 | $ 498 | $ - | $ - | $ - | $ 17,379 |
| Other operating expenses | 10,219 | - | - | - | - | - | 10,219 |
| Other selling and administrative expenses | - | 1,292 | | - | - | - | 1,292 |
| Facility expenses | - | 568 | - | - | - | - | 568 |
| Depreciation expense | - | - | - | - | 5,708 | - | 5,708 |
| Transaction costs | - | - | - | - | - | - | - |
| Finance costs | - | - | - | 588 | - | - | 588 |
| Gain on disposal of equipment | - | - | - | - | - | (129) | (129) |
| Total | $ 24,356 | $ 4,604 | $498 | $ 588 | $5,708 | $ (129) | $ 35,625 |

| For the three months ended September 30, 2013 | Direct operating expenses | Selling and administrative expenses and transaction costs | Stock based compensation | Finance costs | Depreciation and amortization expense | Gain on sale of equip-ment | Total |
|---|---|---|---|---|---|---|---|
| Personnel expenses | $12,450 | $ 2,194 | $ 236 | $ - | $ - | $ - | $ 14,880 |
| Other operating expenses | 4,885 | - | - | - | - | - | 4,885 |
| Other selling and administrative expenses | - | 972 | - | - | - | - | 972 |
| Facility expenses | - | 480 | - | - | - | - | 480 |
| Depreciation expense | - | - | - | - | 4,511 | - | 4,511 |
| Finance costs | - | - | - | 569 | - | - | 569 |
| Gain on disposal of equipment | - | - | - | - | - | - | - |
| Total | $ 17,335 | $ 3,646 | $ 236 | $ 569 | $ 4,511 | $ - | $ 26,297 |

| For the nine months ended September 30, 2014 | Direct operating expenses | Selling and administrative expenses and transaction costs | Stock based compensation | Finance costs | Depreciation and amortization expense | Gain on sale of equip-ment | Total |
|---|---|---|---|---|---|---|---|
| Personnel expenses | $40,645 | $ 6,972 | $ 1,135 | $ - | $ - | $ - | $ 48,752 |
| Other operating expenses | 24,250 | - | - | - | - | - | 24,250 |
| Other selling and administrative expenses | - | 3,630 | | - | - | - | 3,630 |
| Facility expenses | - | 1,692 | - | - | - | - | 1,692 |
| Depreciation expense | - | - | - | - | 13,794 | - | 13,794 |
| Transaction costs | - | 788 | - | - | - | - | 788 |
| Finance costs | - | - | - | 1,554 | - | - | 1,554 |
| Gain on disposal of equipment | | | | | | (242) | (242) |
| Total | $ 64,895 | $ 13,082 | $1,135 | $1,554 | $13,794 | $ (242) | $ 94,218 |

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

| For the nine months ended September 30, 2013 | Direct operating expenses | Selling and administrative expenses and transaction costs | Stock based compensation | Finance costs | Depreciation and amortization expense | Gain on sale of equip-ment | Total |
|---|---|---|---|---|---|---|---|
| Personnel expenses | $ 36,318 | $ 6,212 | $ 626 | $ - | $ - | $ - | $ 43,156 |
| Other operating expenses | 16,290 | - | - | - | - | - | 16,290 |
| Other selling and administrative expenses | - | 2,949 | - | - | - | - | 2,949 |
| Facility expenses | - | 1,440 | - | - | - | - | 1,440 |
| Depreciation expense | - | - | - | - | 11,569 | - | 11,569 |
| Finance costs | - | - | - | 2,781 | - | - | 2,781 |
| Gain on disposal of equipment | - | - | - | - | - | (125) | (125) |
| Total | $ 52,608 | $ 10,601 | $ 626 | $ 2,781 | $ 11,569 | $ (125) | $ 78,060 |