CWC ENERGY SERVICES CORP.

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **CWC Energy Services Corp.**

Opinion

We have audited the consolidated financial statements of CWC Energy Services Corp. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Other Matter

The financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 28, 2018.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Jubenvill.

Ernst & Young LLP

Calgary, Canada
February 28, 2019

CWC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2018 and December 31, 2017

December 31, *Stated in thousands of Canadian dollars*	Note	**2018**	2017
ASSETS			
Current			
Cash		**$ 508**	$ 95
Accounts receivable	14,15	**23,579**	30,119
Prepaid expenses and deposits		**2,806**	1,531
		26,893	31,745
Property, plant and equipment	5	**225,658**	232,190
Intangibles	6	**114**	419
		$ 252,665	$ 264,354
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**$ 7,865**	$ 12,202
Current portion of long-term debt	7	**928**	176
		8,793	12,378
Deferred tax liability	8	**15,673**	15,823
Long-term debt	7	**43,968**	49,634
		68,434	77,835
SHAREHOLDERS' EQUITY			
Share capital	9	**261,353**	266,720
Contributed surplus		**13,390**	8,609
Deficit		**(90,512)**	(88,810)
		184,231	186,519
		$ 252,665	$ 264,354

Comments and contingencies (note 13)
See accompanying notes to the consolidated financial statements.

Approved on behalf of the board:

(signed) "Gary Bentham"
Gary Bentham, Director

(signed) "Jim Reid"
Jim Reid, Director

CWC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, 2018 and 2017

Stated in thousands of Canadian dollars except per share amounts	Note	**2018**	2017
Revenue	17	**$ 144,762**	$ 112,215
Expenses			
Direct operating expenses	12	**107,984**	82,361
Selling and administrative expenses		**18,289**	13,791
Transaction costs		**-**	1,549
Stock based compensation	9(d)(e)	**1,102**	869
Finance costs		**2,756**	2,054
Depreciation and amortization		**16,441**	17,103
Loss on disposal of equipment		**42**	40
Gain on acquisition	5	**-**	(9,128)
		146,614	108,639
(Loss) income before income taxes		**(1,852)**	3,576
Deferred income tax recovery	8	**(150)**	(1,285)
Net (loss) income and comprehensive (loss) income		**$ (1,702)**	$ 4,861
Net (loss) income per share			
Basic and diluted	9(f)	**$ (0.00)**	$ 0.01

See accompanying notes to the consolidated financial statements.

CWC ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2018 and 2017

Stated in thousands of Canadian dollars except share amounts	Note	**Number of Shares**	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance - January 1, 2017		391,920,676	$ 242,306	$ 6,847	$ (93,671)	$ 155,482
Net income and comprehensive income		-	-	-	4,861	4,861
Stock based compensation expense	9(d)(e)	-	-	869	-	869
Exercise of stock options	9(d)	983,333	194	(67)	-	127
Settlement of restricted share units	9(e)	1,819,668	441	(441)	-	-
Cancellation of common shares purchased under normal course issuer bid	9(c)	(3,493,500)	(2,157)	1,401	-	(756)
Rights offering, net of share issue costs	9(b)	130,148,781	25,936	-	-	25,936
Balance – December 31, 2017		521,378,958	$ 266,720	$ 8,609	$ (88,810)	$ 186,519
Balance – January 1, 2018		521,378,958	$ 266,720	$ 8,609	$ (88,810)	$ 186,519
Net loss and comprehensive loss		-	-	-	(1,702)	(1,702)
Stock based compensation expense	9(d)(e)	-	-	1,102	-	1,102
Exercise of stock options	9(d)	1,033,335	230	(82)	-	148
Settlement of restricted share units	9(e)	1,517,998	266	(266)	-	-
Cancellation of common shares purchased under normal course issuer bid	9(c)	(11,421,000)	(5,863)	4,027	-	(1,836)
Balance – December 31, 2018		512,509,291	$ 261,353	$ 13,390	$ (90,512)	$ 184,231

See accompanying notes to the consolidated financial statements.

CWC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

Stated in thousands of Canadian dollars	Note	**2018**	2017
Operating activities:			
Net (loss) income		**$ (1,702)**	$ 4,861
Adjustments for:			
Stock based compensation expense	9(d)(e)	**1,102**	869
Finance costs		**2,756**	2,054
Depreciation and amortization		**16,441**	17,103
Gain on acquisition	5	**-**	(9,128)
Loss on disposal of equipment		**42**	40
Deferred income tax recovery	8	**(150)**	(1,285)
Funds from operations		**18,489**	14,514
Changes in non-cash working capital balances	10	**928**	(10,254)
Operating cash flow		**19,417**	4,260
Investing activities:			
Purchase of equipment		**(11,060)**	(6,800)
Business acquisition	(5)	**-**	(37,500)
Proceeds on disposal of equipment		**2,105**	530
Investing cash flow		**(8,955)**	(43,770)
Financing activities:			
Increase (repayment) of debt		**(5,404)**	16,667
Interest paid		**(2,594)**	(1,812)
Finance costs paid		**(58)**	(309)
Finance lease repayments		**(305)**	(217)
Common shares issued, net of share issue costs	9(d)	**148**	26,030
Common shares purchased under NCIB	9(c)	**(1,836)**	(756)
Financing cash flow		**(10,049)**	39,603
Increase in cash during the year		**413**	93
Cash, beginning of year		**95**	2
Cash, end of year		**$ 508**	$ 95

See accompanying notes to the consolidated financial statements.

1. Reporting entity

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

2. Basis of presentation

(a) Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved by the Board of Directors on February 28, 2019.

(b) Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis.

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

(d) Use of estimates and judgments
The preparation of the consolidated 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 consolidated 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 consolidated financial statements.

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

<u>Business combinations</u>
The consideration transferred on acquisitions of businesses is allocated to the identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date. All available information is used to estimate fair values, and external consultants may be engaged to assist in the fair value determination of property, plant and equipment. The preliminary allocation of consideration transferred may be adjusted, as necessary, up to one year after the acquisition closing date due to additional information affecting asset valuation and liabilities assumed.

The allocation process for the consideration transferred involves uncertainty as management is required to make assumptions and apply judgment to estimates of the fair value of the acquired assets and liabilities, including highest and best use of assets. Quoted market prices and widely accepted valuation techniques, including discounted cash flows and market multiple analyses are used to estimate the fair market value of the assets and liabilities and depreciated replacement costs are used for the valuation of tangible assets. These estimates include assumptions on inputs within the discounted cash flow calculations related to forecasted revenues, cash flows, contract renewals, asset lives, industry economic factors and business strategies.

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

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

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

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

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

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

3. Significant accounting policies

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

(a) Business combinations

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

(b) Property and equipment and depreciation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(g) Provisions
A provision is recognized in the consolidated financial statements when the Company has an obligation, whether existing or potential as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2018 and December 31, 2017 there were no provisions recognized in the consolidated financial statements.

(h) Revenue recognition
Contract Drilling provides drilling rigs and related ancillary equipment to oil and gas exploration and production companies. Customer contracts may be for a single well, multiple wells or a fixed term and are based upon daily, hourly or contracted rates. The Company recognizes revenue in when it has a right to invoice for all contracts in which the value of the performance completed to date directly corresponds with the right to consideration. Operating time is measured through industry standard tour sheets that document the daily activity of the rig.

Production Services provides well services to oil and gas exploration and production companies through the use of service rigs, swabbing rigs or coil tubing units. In general, Production Services are not performed under long-term contracts and do not include penalties for termination. Contracts are based upon daily, hourly or contracted rates and the Company recognizes revenue when it has a right to invoice for all contracts in which the value of the performance completed to date directly corresponds with the right to consideration. Operating time is measured through daily tour sheets and field tickets.

For both its Contract Drilling Services and its Production Services, the Company does not expect to have any revenue contracts where the period between the transfer of the promised goods or services to the customer and payments by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. The Company does not incur material costs to obtain contracts with customers and consequently, does not recognize any contract assets. The Company does not have any contract liabilities associated with its contract drilling or production services customer contracts. As revenue from Contract Drilling Services and Production Services contracts is recognized as-invoiced, the transaction price allocated to remaining performance obligations and an explanation of when the Company expects to recognize such amounts as revenue are not disclosed.

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

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

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

Leasing contracts are classified as either finance or operating leases.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(p) IFRS 15
The Company adopted IFRS 15, "Revenue from Contracts with Customers" on January 1, 2018. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five-step model and there were no material changes to net earnings. Under this method, there was no effect to opening deficit from the application of IFRS 15 to revenue contracts in progress at January 1, 2018. Revenue has been disaggregated into categories based on type of services provided consistent with its reportable operating segments outlined in Note 17.

(r) IFRS 9
The Company adopted IFRS 9, "Financial Instruments" on January 1, 2018. The transition to IFRS 9 had no material effect on the Company's consolidated financial statements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The new standard also introduces an expected credit loss model for evaluating impairment of financial assets, which results in credit losses being recognized earlier than the previous standard.

Cash and accounts receivable continue to be measured at amortized cost and are now classified as "amortized costs". There was no change to the Company's classification of accounts payable and accrued liabilities or long-term debt. The Company has identified the Mortgage Loan interest rate swap as a FVTPL.

(s) Future Accounting Pronouncements

IFRS 16, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019. The Company anticipates that the most significant impact of adopting IFRS 16 will be the recognition of right-of-use ("ROU") assets and corresponding lease obligations on its operating leases for office space. As a result, the nature of the expenses related to these leases will change as IFRS 16 replaces the straight-line operating lease expense with depreciation expense on the ROU asset and a finance charge on the lease obligation. On adoption of IFRS 16. The Company will recognize lease liabilities in relation to leases under the principles of the new standard. These liabilities will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The associated ROU asset will initially be measured at the amount equal to the lease liability on January 1, 2019 with no impact on retained earnings. The Company has identified ROU assets and lease liabilities primarily related to office space. The impact will result in higher adjusted EBITDA throughout the term of the lease. In addition, cash flow from operating activities and adjusted cash flow from operating activities will increase and cash flow from financing activities will decrease as lease obligations repayments will be reported as financing activities on the Consolidated Statement of Cash Flows. There will be no net impact on cash flows.

4. Determination of fair values

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

The fair value of long-term debt approximates its carrying value as the debt bears interest at floating rates and the credit spreads approximate current market rates.

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

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

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

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

(c) Fair value hierarchy

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

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

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

5. Property, plant and equipment

	Contract drilling equipment	Production services property, plant and equipment	Other equipment	Total
Costs				
Balance, January 1, 2018	**$ 112,478**	**$ 256,984**	**$ 1,883**	**$ 371,345**
Additions	**7,116**	**4,609**	**28**	**11,753**
Disposals	**(62)**	**(5,907)**	**-**	**(5,969)**
Transfers	**-**	**(31)**	**31**	**-**
Balance, December 31, 2018	**119,532**	**255,655**	**1,942**	**377,129**
Accumulated depreciation and impairment losses				
Balance, January 1, 2018	**20,618**	**116,831**	**1,706**	**139,155**
Depreciation	**5,717**	**10,312**	**107**	**16,136**
Disposals	**(53)**	**(3,767)**	**-**	**(3,820)**
Balance, December 31, 2018	**26,282**	**123,376**	**1,813**	**151,471**
Net book value				
Balance, December 31, 2018	**$ 93,250**	**$ 132,279**	**$ 129**	**$ 225,658**

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

At December 31, 2018, property and equipment includes equipment under finance leases which are recorded at cost totaling $1,144 (December 31, 2017: $878), less accumulated depreciation of $435 (December 31, 2017: $547).

Given the degree of uncertainty regarding oil and natural gas activity and pricing for 2018 and into 2019, and the impact thereof, the Company concluded indicators of impairment existed and performed an impairment test for each CGU using value-in-use to determine the recoverable amounts. For each CGU, the recoverable amount exceeded its carrying amount and therefore no impairment was recognized.

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

Acquisition of C&J Canada Assets

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

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

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

6. Intangible assets

		Intangible assets
Costs		
Balance, January 1, 2018 & December 31, 2018	$	**1,588**
Accumulated depreciation and impairment losses		
Balance, January 1, 2018		**1,169**
Depreciation of intangible assets		**305**
Balance, December 31, 2018		**1,474**
Net book value		
Balance, December 31, 2018	$	**114**

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

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

7. Loans and borrowings

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

As at December 31,		**2018**		2017
Current liabilities:				
Current portion of finance lease liabilities	**$**	**346**	$	176
Current portion of Mortgage Loan		**582**		
	$	**928**	$	176
Non-current liabilities:				
Bank Loan	**$**	**32,087**	$	50,000
Mortgage Loan		**11,927**		-
Finance lease liabilities		**381**		165
Financing fees		**(427)**		(531)
	$	**43,968**	$	49,634
Total loans and borrowings	**$**	**44,896**	$	49,810

The Company has credit facilities with a syndicate of four Canadian financial institutions (the "Credit Facility"). During the second quarter of 2018, at the request of the Company, the Credit Facility was reduced from $100 million to $75 million. The Credit Facility provides the Company with a $75 million extendible revolving term facility (the "Bank Loan") and other credit instruments. Of the Bank Loan, $65 million is a syndicated facility with the remaining $10 million being an operating facility. On August 4, 2017, the Bank Loan was extended for a committed term until July 31, 2020 ("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 Consolidated Debt(2) to Consolidated EBITDA (1) ratio from a minimum of the bank's prime rate plus 0.75% to a maximum of the bank's prime rate plus 3.75% or from a minimum of the bankers acceptances rate plus a stamping fee of 1.75% to a maximum of the bankers acceptances rate plus a stamping fee of 4.75%. Standby fees under the Bank Loan range between 0.39% and 1.07%. Interest and fees under the Bank Loan are payable monthly. The Company has the option to borrow funds denominated in either Canadian or United States dollars under the Credit Facility. Borrowings under the Bank Loan are limited to an aggregate of 75% of accounts receivable outstanding less than 90 days plus 60% of the net book value of property and equipment less certain priority payables. As at December 31, 2018, of the $75,000 Bank Loan facility,

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

$42,913 was available for immediate borrowing and $32,087 was outstanding (December 31, 2017: $50,000). The Bank Loan has an accordion feature which provides the Company with an ability to increase the maximum borrowings up to $125,000, subject to the approval of the lenders. The Bank Loan is secured by a security agreement covering all of the assets of the Company and a first charge Security Interest covering all assets of the Company (other than real estate assets related to the Mortgage Loan). Effective December 31, 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%.

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

	Covenant limits	Actual December 31, 2018
Consolidated Debt[2] to Consolidated Adjusted EBITDA[1]	4.00:1.00 or less	1.35:1.00
Consolidated Debt[2] to Capitalization[3]	0.50:1.00 or less	0.20:1.00
Consolidated Adjusted Cash Flow[4] to Consolidated Finance Obligations[5]	1.15:1.00 or more	8.10:1.00

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

On December 18, 2017, the Company received gross proceeds of $26,027 from a rights offering of common shares of which $10,000 was placed in a segregated bank account. On July 5, 2018, $5,000 was paid on the Bank Loan. Additionally on October 5, 2018 the remaining $5,098 held in the segregated account was paid on the Bank Loan. Consolidated Debt to Consolidated EBITDA at December 31, 2018 includes the impact of a $10,098 equity cure designated on July 5, 2018 and October 5, 2018.

Mortgage Loan is a loan maturing on June 28, 2023 that is amortized over 22 years with blended monthly principal and interest payments of $86. At maturity, approximately $9,891 of principal will become payable assuming only regular monthly payments are made. On July 27, 2018 the Company entered into an interest rate swap to exchange the floating rate interest payments for fixed rate interest payments, which fix the Bankers Acceptance-Canadian Dollar Offered Rate components of its interest payment on the outstanding term debt. Under the interest rate swap agreement, the Company pays a fixed rate of 2.65% per annum plus the applicable credit spread of 1.35%, for an effective fixed rate of 4.0%. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate. As of December 31, 2018 the mark-to-market value of the interest rate swap resulted in a net loss of $206 included within finance costs on the statement of net loss.

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 4.5% and 6.4% 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. For the year ended of December 31, 2018 financing fees of $162 were amortized and included in finance costs (December 31, 2017: $242).

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8. Income taxes

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

Years ended December 31,	**2018**	2017
Income (loss) before income taxes	**$ (1,852)**	$ 3,576
Combined federal and provincial income tax rate	**27%**	27%
Expected income taxes	**(500)**	965
Increase (decrease) resulting from:		
Non-deductible items	**79**	36
Gain on acquisition	**-**	(2,465)
Stock based compensation	**297**	235
Other	**(26)**	(56)
	$ (150)	$ (1,285)

The deferred income tax liability is comprised of:

	December 31, 2017	Recognized in Earnings	**December 31, 2018**
Deferred tax assets			
Non capital losses	$ 11,358[1]	(2,460)	**$ 8,898 [1]**
Share issue costs	144	(111)	**33**
Finance lease liabilities	93	104	**197**
Other	15	40	**55**
	11,610	(2,427)	**9,183**
Deferred tax liabilities:			
Property and equipment	(27,433)	2,577	**(24,856)**
Net deferred income tax liability	$ (15,823)	150	**$ (15,673)**

[1] The Company has $32,949 (2017: $42,063) of non-capital loss carry forwards for income tax purposes which are available for application against future taxable income. These non-capital loss carry forwards expire between 2029 and 2032.

All changes in deferred income tax temporary differences were recognized in income in the years ended December 31, 2018 and 2017.

9. Share capital

(a) Authorized

Unlimited number of Common voting shares without par value.
Unlimited number of Preferred shares without par value.

(b) Rights offering

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

(c) Normal course issuer bid

On April 10, 2018, the Company replaced its expired Normal Course Issuer Bid (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 entered into an automatic securities purchase plan (the “ASPP”) (as defined under applicable securities laws) with Raymond James Ltd. ("Raymond James") for the purpose of making purchases under the ASPP. Such purchases will be determined by Raymond James in its sole discretion, without consultation with CWC having regard to the price limitation and aggregate purchase limitation and other terms of the ASPP and the rules of the TSXV. Conducting the NCIB as an ASPP allows common shares to be purchased at times when CWC would otherwise be prohibited from doing so pursuant to securities laws and its internal trading policies.

For the year ended December 31, 2018, 11,421,000 shares (2017: 3,493,500) for consideration of $1,836, including commissions (2017: $756) were purchased under the NCIB. In the year ended December 31, 2018, a total of 11,421,000 shares were cancelled and returned to treasury (2017: 3,493,500).

(d) Stock options

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

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

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

	Number of options	Weighted average exercise price
Balance at January 1, 2017	21,791,000	0.28
Granted	8,307,000	0.20
Exercised for common shares	(983,333)	0.13
Forfeited	(1,568,000)	0.43
Balance at December 31, 2017	27,546,667	0.25
Granted	**-**	**-**
Exercised for common shares	**(1,033,335)**	**0.14**
Forfeited	**(2,161,999)**	**0.31**
Balance at December 31, 2018	**24,351,333**	**0.25**

The following table summarizes information about stock options outstanding as at December 31, 2018:

Exercise price	Number of options outstanding	Weighted average remaining life (years) contractual	Weighted average exercise price	Number of options exercisable
$ 0.20	**7,929,000**	**3.96**	**$ 0.20**	**2,643,000**
$ 0.19	**4,639,000**	**2.94**	**$ 0.19**	**3,092,656**
$ 0.175	**4,533,333**	**2.20**	**$0.175**	**2,933,350**
$0.11	**4,350,000**	**1.94**	**$ 0.11**	**4,350,000**
$0.45	**1,200,000**	**0.98**	**$ 0.45**	**1,200,000**
$ 1.04	**1,700,000**	**0.37**	**$1.04**	**1,700,000**
$ 0.11 - $ 1.04	**24,351,333**	**2.74**	**$0.25**	**15,919,006**

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

	2018	2017
Risk free interest rate (%)	**n/a**	1.6%
Expected life (years)	**n/a**	4.7
Expected volatility (%)	**n/a**	75%
Expected forfeiture rate (%)	**n/a**	12%
Expected dividend per share	**n/a**	$ 0.00

No stock options were issued during the year ended December 31, 2018. The weighted average fair value of the stock options issued during the year ended December 31, 2017 was $0.20. For the year ended December 31, 2018, stock-based compensation expense relating to stock options totaled $732 (year ended December 31, 2017: $592).

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

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

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

	Number of RSUs	**Weighted average fair value at issue date**
Balance at January 1, 2017	4,473,000	0.19
Granted	2,682,000	0.20
Redeemed for common shares	(1,819,668)	0.24
Forfeited – unvested	(200,000)	0.21
Balance at December 31, 2017	5,135,332	0.19
Granted	**2,715,000**	**0.14**
Redeemed for common shares	**(1,517,998)**	**0.18**
Forfeited - unvested	**(422,333)**	**0.17**
Balance at December 31, 2018	**5,910,001**	**0.17**

The following table summarizes information about RSUs outstanding as at December 31, 2018:

Issue date fair value	Number of RSUs outstanding	Weighted average remaining life (years) contractual	Weighted average exercise price ($)	Number of RSUs exercisable
$0.14 -$0.23	**5,910,001**	**2.95**	**n/a**	**959,999**

For the year ended December 31, 2018, stock based compensation expense relating to RSUs totaled $370 (year ended December 31, 2017: $274).

(f) Weighted average common shares outstanding

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

	Year ended December 31,	
	2018	2017
Weighted average common shares outstanding – basic	**520,576,582**	399,008,915
Dilutive stock options & RSUs	**-**	4,350,622
Weighted average common shares outstanding – diluted	**520,576,582**	403,359,537

Outstanding stock options and RSUs are currently the only instruments which could potentially dilute earnings per share. For the year ended December 31, 2018, 24,351,333 (year ended December 31, 2017: 27,546,667) stock options and 5,910,001 (year ended December 31, 2017: 5,135,332) RSUs were not included in the computation of net (loss) income per common share because to do so would be anti-dilutive.

(g) Contributed surplus

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

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

10. Supplemental cash flow information

For the years ended December 31,		2018		2017
Change in non-cash working capital items:				
Accounts receivable	**$**	**6,540**	$	(14,784)
Prepaid expenses and deposits		**(1,275)**		(313)
Accounts payable and accrued liabilities		**(4,337)**		4,843
	$	**928**	$	(10,254)

11. Operating segments

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

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

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

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

The amounts related to each industry segment are as follows:

For the year ended December 31, 2018	**Contract Drilling**	**Production Services**	**Corporate**	**Total**
Revenue	**$ 38,223**	**$ 106,539**	**$ -**	**$ 144,762**
Direct operating expenses	**27,691**	**80,293**	**-**	**107,984**
Selling and administrative expenses	**1,300**	**10,696**	**6,293**	**18,289**
Stock based compensation	**-**	**-**	**1,102**	**1,102**
Finance costs	**-**	**-**	**2,756**	**2,756**
Loss on disposal of equipment	**-**	**42**	**-**	**42**
Net income before (loss) depreciation and taxes	**9,232**	**15,508**	**(10,151)**	**14,589**
Depreciation	**6,034**	**9,523**	**884**	**16,441**
Net income (loss) before tax	**3,198**	**5,985**	**(11,035)**	**(1,852)**
Deferred income tax recovery	**-**	**-**	**(150)**	**(150)**
Net income (loss)	**$ 3,198**	**$ 5,985**	**$ (10,885)**	**$ (1,702)**
Capital expenditures	**7,116**	**4,609**	**28**	**11,753**
As at December 31, 2018				
Property and equipment	**93,250**	**132,279**	**129**	**225,658**
Intangibles	**114**	**-**	**-**	**114**

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

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

12. Expenses by nature

For the year ended December 31, 2018	Direct operating expenses	Selling and administrative expenses	Stock based compensation	Finance costs	Depreciation expense	Loss on disposal of equipment	Total
Personnel expenses	**$ 71,451**	**$ 11,052**	**$ 1,102**	**$ -**	**$ -**	**$ -**	**$ 83,605**
Third party charges	**16,410**	**-**	**-**	**-**	**-**	**-**	**16,410**
Repairs and maintenance	**20,123**	**-**	**-**	**-**	**-**	**-**	**20,123**
Other selling and administrative expenses	**-**	**4,221**	**-**	**-**	**-**	**-**	**4,221**
Bad debt expense	**-**	**694**	**-**	**-**	**-**	**-**	**694**
Facility expenses	**-**	**2,322**	**-**	**-**	**-**	**-**	**2,322**
Depreciation expense	**-**	**-**	**-**	**-**	**16,441**	**-**	**16,441**
Finance costs	**-**	**-**	**-**	**2,756**	**-**	**-**	**2,756**
Loss on disposal of equipment	**-**	**-**	**-**	**-**	**-**	**42**	**42**
Total	**$ 107,984**	**$ 18,289**	**$ 1,102**	**$ 2,756**	**$ 16,441**	**$ 42**	**$146,614**

For the year ended December 31, 2017	Direct operating expenses	Selling and administrative expenses & transaction costs	Stock based compensation	Finance costs	Depreciation expense	Loss on disposal of equipment	Total
Personnel expenses	$ 56,477	$ 8,187	$ 869	$ -	$ -	$ -	$ 65,533
Third party charges	14,196	-	-	-	-	-	14,196
Repairs and maintenance	11,688	-	-	-	-	-	11,688
Other selling and administrative expenses	-	3,621	-	-	-	-	3,621
Transaction costs	-	1,549	-	-	-	-	1,549
Bad debt expense	-	9	-	-	-	-	9
Facility expenses	-	1,974	-	-	-	-	1,974
Depreciation expense	-	-	-	-	17,103	-	17,103
Finance costs	-	-	-	2,054	-	-	2,054
Loss on disposal of equipment	-	-	-	-	-	40	40
Total	$ 82,361	$ 15,340	$ 869	$ 2,054	$ 17,103	$ 40	$ 117,767

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

13. Commitments and contingencies:

As at December 31, 2018, the Company has lease commitments and other contractual obligations as follows:

	Payments due by period				
	Next 12 months	**Between 1 and 3 years**	**Between 4 and 5 years**	**Greater than 5 years**	**Total**
Contractual obligations:					
Bank Loan	**$ -**	**$ 32,087**	**$ -**	**$ -**	**$ 32,087**
Mortgage Loan	**582**	**1,746**	**10,181**	**-**	**12,509**
Finance lease liabilities	**346**	**381**	**-**	**-**	**727**
Operating lease payments	**698**	**149**	**-**	**-**	**847**
Total contractual obligations	**$ 1,626**	**$ 34,363**	**$ 10,181**	**$ -**	**$ 46,170**

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

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

14. Related parties

Of the total outstanding shares of the Company, 79.3% are directly or indirectly owned by Brookfield Capital Partners Ltd and Brookfield Business Partners LP (together "Brookfield"). The Company is related to Brookfield by virtue of control, and is therefore also related to Brookfield's affiliates. During 2018, the Company had revenue totaling $1,587 (2017: $1,101) $231 in accounts receivable as at December 31, 2018 (December 31, 2017: $14) in the normal course of business with companies under common control. The terms and conditions of these transactions were no more favorable than those available, or which might reasonably be expected to be available, in similar transactions with non-related companies on an arm's length basis.

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

	December 31, 2018	December 31, 2017
Short term employee benefits (including directors' fees)	**$ 1,837**	$ 1,268
Share based payments (stock options and RSUs)	**201**	718
Termination benefits	**-**	200
Total compensation to key management including directors and officers	**$ 2,038**	$ 2,186

Certain executive officers are subject to a mutual term of notice of three months. On resignation at the Company's request, they are entitled to termination benefits of 18 to 24 months gross salary, bonus and benefits.

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

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

15. Financial risk management

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

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

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

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The carrying amount of accounts receivable and cash, prior to the amount offset against long-term debt, represents the maximum exposure to credit risk as at December 31, 2018 and 2017.

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer, however, management also considers the demographics of the Company's customer base. Currently, all of the Company's sales are concentrated within the Western Canadian Sedimentary Basin ("WCSB"). For the year ended December 31, 2018, ten customers comprised 57% of revenue (2017: 62%) and one customer comprised 18% of revenue (2017: 21%). At December 31, 2018, ten customers comprised 64% of trade accounts receivable (2017: 62%) and one customer comprised 14% of trade accounts receivable (2017: 23%).

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

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

As at December 31,	**2018**	2017
Trade accounts receivable:		
1 to 30 days outstanding – not past due	**$ 20,739**	$ 16,081
31 to 90 days outstanding	**2,216**	13,723
>90 days overdue	**1,396**	441
Allowance for impairment of accounts	**(772)**	(126)
	$ 23,579	$ 30,119

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

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

	2018		2017	
Balance as at January 1	$	126	$	76
Additional allowance		671		89
Amounts recovered		(25)		(13)
Amounts used		-		(26)
Balance as at December 31	$	772	$	126

For accounts receivable, the Company applies a simplified approach and recognizes lifetime expected credit losses upon initial recognition of the receivables. Historical customer default rates, age of balances outstanding, and forward-looking information are used to determine the expected credit losses. When an expected credit loss is required to be recognized, the carrying amount of the asset is reduced by the amount with an offsetting entry to net income.

b) Liquidity risk

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

At December 31, 2018, the Company has available committed amounts under its Credit Facility in the amount of $42,913 (2017: $37,321), segregated cash of nil (2017: $10,000), plus trade and other receivables of $23,579 (2017: $30,119) for a total of $65,772 (2017: $77,440) available to fund the cash outflows related to its financial liabilities.

The Company anticipates that its existing capital resources including its Credit Facility and cash flows from operations will be adequate to satisfy its liquidity requirements through fiscal 2019. This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's Credit Facility, which, if not amended or waived, could limit the Company's access to the credit facility. If available liquidity is not sufficient to meet CWC's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, pursuing alternative financing arrangements, asset dispositions, or pursuing other corporate strategic alternatives.

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

Year ended December 31, 2018		**2019**		**2020**		**2021**		**2022**		**2023 and beyond**
Accounts payable and accrued liabilities	$	7,865	$	-	$	-	$	-	$	-
Long-term debt		928		32,541		664		582		10,181
	$	8,793	$	32,541	$	664	$	582	$	10,181

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

c) Market risk

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

Foreign currency risk

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

Interest rate risk

Interest rate risk is the risk that future cash flow will fluctuate as a result of change in market interest rates. The Company is exposed to interest rate fluctuations on its long-term debt which bears interest at floating market rates. For the year ended December 31, 2018, if the prime interest rate increased by 1.0%, with all other variables held constant, net loss would have been $470 higher (2017: $486).

Commodity price risk

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

16. Capital management

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

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

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

During the year ended December 31, 2018, the actual and forecasted Consolidated Debt to Consolidated Adjusted EBITDA of the Company has declined, primarily due to the Mortgage Loan, increased pricing and utilization and amendments to credit facility terms. The Consolidated Debt to Consolidated Adjusted EBITDA ratio at December 31, 2018 was 1.35:1.00 (at December 31, 2017: 1.75:1.00). The Company was in compliance with all externally imposed capital requirements as at December 31, 2018 and 2017.

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

17. Revenue

Revenue consists of amounts earned from sale of Contract Drilling and Production Services. Production Services includes revenue from service rigs, swabbing rigs and coil tubing units.

The following table presents the Company's revenue disaggregated by type:

For the years ended December 31,		**2018**		2017
Contract Drilling	**$**	**38,223**	$	35,222
Production Services				
Service Rigs		**99,904**		70,919
Swabbing Rigs		**1,848**		303
Coil Tubing		**4,787**		5,771
Total	**$**	**144,762**	$	112,215

Included in accounts receivable at December 31, 2018 was $1,789 (December 31, 2017: $2,322) of accrued revenue for services provided in the month then ended. There have been no significant adjustments for prior period accrued revenue in the current period.

As of December 31, 2018, the Company did not have any sales contracts beyond one year in term.