CWC ENERGY SERVICES CORP.

Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

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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. (the "Company") which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment reversal recorded pertaining to Contract Drilling cash generating unit. As of December 31, 2022, management assessed that indicators of impairment reversal existed with respect to the Company's Contract Drilling cash generating unit ("CGU"). Refer to Note 3 Significant Accounting Policies of the consolidated financial statements for a description of the Company's accounting policy with respect to impairment of non-financial assets. The Company's balance sheet includes \$237.6 million in property, plant and equipment. Management recorded an impairment reversal on the Contract Drilling CGU of \$22.9 million as of and for the year ended December 31, 2022, based on the recoverable amount of the CGU exceeding it carrying amount. The recoverable amount of a CGU is the greater of its value-in-use and its fair value less costs of disposal. The Company discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in Notes 2 and 5 to the consolidated financial statements. Auditing the Company's estimated recoverable amount was complex due to the subjective nature of the various management inputs and assumptions and the significant effect changes in these would have on the recoverable amount. Additionally, the evaluation of this estimate required specialized skills and knowledge. The primary inputs noted in value in use were the discount rate and estimated cash flows arising from the Company's future drilling activities.	To test the estimated recoverable amount of the Contract Drilling CGU, we performed the following procedures, among others: • With the assistance of our valuation specialists, we evaluated the Company's model, valuation methodology, and discount rate. We assessed the selection and application of the discount rate by evaluating the inputs and mathematical accuracy of the calculation. • We assessed the accuracy of management's forecasting by comparing management's past projections to actual performance. • We assessed the cash flow projections through comparison to historical results, assessed reasonability of the cashflows (Revenue, EBITDA, corporate expenses, capital expenditure, working capital), comparing to third-party sources. • We performed sensitivity analysis on EBITDA to evaluate any resulting changes to the recoverable amount. • We assessed the adequacy of the Company's disclosure around impairment and impairment reversal as included in Note 5 to the consolidated financial statements.

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.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Calgary, Canada
March 1, 2023

CWC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2022 and December 31, 2021

Stated in thousands of Canadian dollars	Note	**December 31, 2022**	December 31, 2021
ASSETS			
Current			
Cash		**$ 104**	$ 90
Accounts receivable	6, 15	**45,946**	26,227
Prepaid expenses and deposits		**3,875**	1,594
		49,925	27,911
Property and equipment	5, 6	**237,627**	198,734
		$ 287,552	$ 226,645
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**13,983**	8,945
Current portion of long-term debt	6	**865**	764
		14,848	9,709
Long term			
Deferred tax liability	7	**20,184**	8,584
Long-term debt	6	**42,139**	45,083
		77,171	63,376
SHAREHOLDERS' EQUITY			
Share capital	8	**256,950**	255,066
Contributed surplus		**20,286**	20,262
Accumulated other comprehensive income		**3,614**	70
Deficit		**(70,469)**	(112,129)
		210,381	163,269
		$ 287,552	$ 226,645

Commitments 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

For the years ended December 31, 2022 and 2021

Stated in thousands of Canadian dollars except per share	Note	2022	2021
Revenue and other income			
Revenue	10	$ **205,332**	$ 102,635
Other income	10	**-**	3,835
		205,332	106,470
Expenses	10		
Direct operating expenses	11	**136,947**	72,288
Selling and administrative expenses	11	**22,454**	15,310
Stock based compensation	8(c)(d)	**1,049**	782
Finance costs	6, 12	**2,558**	1,086
Depreciation	5	**12,162**	10,563
Loss (gain) on disposal of equipment		**50**	(251)
Impairment (reversal) of assets	5	**(23,261)**	1,296
		151,959	101,074
Income before income taxes		**53,373**	5,396
Income taxes	7		
Current tax expense		**114**	-
Deferred tax expense		**11,599**	823
Income tax expense		**11,713**	823
Net income		$ **41,660**	$ 4,573
Other comprehensive income			
Item that may be reclassified to profit or loss in subsequent periods:			
Unrealized gain on translation of foreign operations		**3,544**	264
Comprehensive income		$ **45,204**	$ 4,837
Net income per share			
Basic and diluted	8	$ **0.08**	$ 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, 2022 and 2021

Stated in thousands of Canadian dollars except share amounts	Note	**Number of Shares**	**Share Capital**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Deficit**	**Total Equity**
Balance – January 1, 2021		505,620,916	$ 255,478	$ 19,395	$ (194)	$ (116,702)	$ 157,977
Net income		-	-	-	-	4,573	4,573
Stock based compensation expense	8(c)(d)	-	-	782	-	-	782
Settlement of restricted share units	8(d)	5,700,675	725	(725)	-	-	-
Cancellation of common shares purchased under normal course issuer bid		(2,249,500)	(1,137)	810	-	-	(327)
Other comprehensive income		-	-	-	264	-	264
Balance – December 31, 2021		509,072,091	$ 255,066	$ 20,262	$ 70	$ (112,129)	$ 163,269
Balance – January 1, 2022		**509,072,091**	**$ 255,066**	**$ 20,262**	**$ 70**	**$ (112,129)**	**$ 163,269**
Net income		**-**	**-**	**-**	**-**	**41,660**	**41,660**
Stock based compensation expense	8(c)(d)	**-**	**-**	**1,049**	**-**	**-**	**1,049**
Settlement of stock options	8(c)	**4,615,000**	**1,424**	**(519)**	**-**	**-**	**905**
Settlement of restricted share units	8(d)	**4,607,636**	**565**	**(565)**	**-**	**-**	**-**
Cancellation of common shares purchased under normal course issuer bid	8(b)	**(210,000)**	**(105)**	**59**	**-**	**-**	**(46)**
Other comprehensive income		**-**	**-**	**-**	**3,544**	**-**	**3,544**
Balance – December 31, 2022		**518,084,727**	**$ 256,950**	**$ 20,286**	**$ 3,614**	**$ (70,469)**	**$ 210,381**

See accompanying notes to the consolidated financial statements.

CWC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

Stated in thousands of Canadian dollars except per share amounts	Note	2022	2021
Operating activities:			
Net income		$ **41,660**	$ 4,573
Adjustments for:			
Stock based compensation	8	**1,049**	782
Finance costs	12	**2,558**	1,086
Unrealized gain on interest rate swap agreement	6	**362**	362
Depreciation	5	**12,162**	10,563
Impairment (reversal) of assets	5	**(23,261)**	1,296
Loss (gain) on disposal of equipment	5	**50**	(251)
Foreign exchange		**585**	515
Deferred income tax expense		**11,599**	823
Funds from operations		**46,764**	19,749
Changes in non-cash working capital balances	9	**(16,962)**	(6,973)
Operating cash flow		**29,802**	12,776
Investing activities:			
Purchase of equipment	5	**(25,358)**	(28,836)
Proceeds on disposal of equipment		**1,154**	2,571
Investing cash flow		**(24,204)**	(26,265)
Financing activities:			
(Repayment) increase of long-term debt		**(3,314)**	15,523
Interest paid	12	**(2,663)**	(1,212)
Finance costs paid		**(260)**	(334)
Lease payments		**(206)**	(237)
Cash settlement on exercise of options	8(c)	**905**	-
Common shares purchased under NCIB	8(b)	**(46)**	(327)
Financing cash flow		**(5,584)**	13,413
Decrease in cash during the period		**14**	(76)
Cash, beginning of period		**90**	166
Cash, end of period		$ **104**	$ 90

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 2910, 605 – 5th Avenue SW, Calgary, Alberta, Canada. The Company is an oilfield services company providing drilling and well servicing to oil and gas exploration and development companies throughout the Western Canadian Sedimentary Basin ("WCSB") and select United States basins including the Permian, Eagle Ford, Niobrara, Denver-Julesburg ("DJ"), Powder River and Bakken. 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 at 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"). The accounting policies that follow have been consistently applied to all years presented.

These consolidated financial statements were approved by the Board of Directors on March 1, 2023.

(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>Determination of cash-generating units</u>

For the purpose of assessing the 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 "CGUs"). The grouping of assets into CGUs requires management to exercise significant judgment.

<u>Impairment of tangible assets</u>

Property, plant and equipment 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. The 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.

<u>Depreciation</u>

Depreciation of property and equipment 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, plant and equipment 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.

<u>Income taxes</u>

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 consolidated statements of comprehensive income (loss).

3. Significant accounting policies

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

(a) Property and equipment and depreciation

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment. 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. The 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.

The following is a summary of depreciation estimates for the Company's property and equipment:

Assets	Method	Rate
Drilling rigs and related equipment	Straight-line with residual values of up to 10%	25 years
Buildings	Straight-line with residual values of up to 20%	25 years
Production equipment – service rigs	Straight-line with residual values of up to 10%	25 years
Production equipment - Level IV recertifications	Units of production	24,000 operating hours
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

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.

(b) Impairment of non-financial assets

Non-financial 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.

If an impairment loss has been recognized in a prior period, an assessment is performed at each reporting date to determine if there are indicators that the circumstances which led to the impairment loss have reversed. If the change in circumstances results in the recoverable amount being higher than the carrying value after the impairment loss, then the impairment loss (net of depreciation that would otherwise have been recorded) is reversed.

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 CGUs.

Impairment losses or reversals 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 CGUs on a reasonable basis for impairment testing purposes.

(c) Financial instruments

Financial assets include cash and accounts receivable. The Company determines the classification of its financial assets at initial recognition and records the assets at their fair value. Cash and accounts receivable are carried at amortized cost.

All financial liabilities are initially recognized at fair value net of transaction costs and subsequently carried at amortized cost.

Derivative financial instruments are classified at fair value through profit or loss. The Company's derivatives are interest rate swaps with changes in fair value recorded in the consolidated statements of comprehensive income.

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 is 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.

(d) 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.

(e) 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.

(f) 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. As at December 31, 2022 and 2021, there were no provisions recognized in the consolidated financial statements.

(g) Leases

A contract is, or contains, a lease if the contract conveys the right of control of the use of an identified asset for a period of time in exchange for considerations. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding right of use ("ROU") asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Depreciation is recognized on the ROU asset over the lease term.

(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 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 servicing to oil and gas exploration and production companies through the use of service rigs. 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.

The Company has both short-term contracts with a term less than one year and long-term contracts with a term greater than one year. The Company satisfies its performance obligations related to both short and long-term contracts on a per day or hourly basis. For both its Contract Drilling and 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 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 is not disclosed.

(i) 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.

(j) Foreign currency translation

Functional currency is the currency of the primary economic environment in which the Company and its subsidiaries operate and is normally the currency in which the entity primarily generates and expends cash. The financial statements of the Company's subsidiaries are translated into Canadian dollars, which is the presentation currency of the Company. The assets and liabilities of subsidiaries whose functional currencies are other than Canadian dollars are translated into Canadian dollars at the foreign exchange rate at the balance sheet date, while revenues and expenses of such subsidiaries are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions. Foreign exchange differences arising on translation are included in other comprehensive income.

The Company's transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate at the balance sheet date and differences arising on translation are recognized in net income. Non-monetary assets that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the dates of the transactions.

(k) 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.

(l) 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 8(c), 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 issuance of shares from treasury.

Under the Company's restricted share unit plan described in note 8(d), 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 issuance 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.

(m) 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.

(n) Segmented information

The operating divisions are grouped into two distinct reporting segments: Contract Drilling and Production Services and are supported by the Corporate 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.

(o) Government grants

A government grant is recognized where there is reasonable assurance that the grant will be received and that the Company will comply with any conditions attached to the grant. When the grant relates to an expense item, it is recognized as other income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset and is recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge.

(p) IAS 16 - Property, Plant and Equipment

On May 14, 2020, the IASB issued an amendment to IAS 16 Property, Plant and Equipment to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied.

Management has adopted the amendment to IAS 16 in these consolidated financial statements and it did not have a material impact on the Company.

(q) IAS 37 - Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB issued an amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Company has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted.

Management has adopted the amendment to IAS 37 in these consolidated financial statements and it did not have a material impact on the Company.

(r) IFRS 9 - Financial Instruments

On May 14, 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022 with early adoption permitted.

Management has adopted the amendment to IFRS 9 in these consolidated financial statements and it did not have a material impact on the Company.

(s) Future standard amendments

The following amendments to accounting standards, as issued by the IASB, are effective for annual periods beginning on or after January 1, 2023.

The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the consolidated financial statements.

IAS 1 - Presentation of Financial Statements

In February 2021, the IASB issued an amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in which it provides clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. Materially the amendment will have little impact to an entity's financial statements however will provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

The amendment is effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the impact of the amendment on its consolidated financial statements.

In January 2020 and October 2022, the IASB issued amendments to IAS 1 Presentation of Financial Statements providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.

The amendments are effective for annual periods beginning on or after January 1, 2024 and are to be applied retrospectively, with early adoption permitted. The Company is assessing the financial impact of the amendment on its consolidated financial statements.

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued an amendment to IAS 1 Presentation of Financial Statements in which it provides guidance to help entities apply materiality judgements to accounting policy disclosures. When assessing materiality, entities need to consider the size of the transactions along with other events or conditions and the nature of them. Standardized accounting policy information should also be included in circumstances where users may need it to understand material information in the financial statements.

The amendment is effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the impact of the amendment on its consolidated financial statements.

IAS 12 - Income Taxes

On May 7, 2021, the IASB issued an amendment to IAS 12 Income taxes to clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. The scope of the recognition exemption in IAS 12 no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company is assessing the financial impact of the amendment on its consolidated financial statements.

4. Determination of fair values

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

The 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.

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

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 quoted 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.

5. Property and equipment

	Contract Drilling equipment	Production Services property and equipment	Right-of-use assets	Other equipment	Total
Costs					
Balance, January 1, 2022	$ 148,692	$ 243,251	$ 827	$ 2,113	$ 394,883
Additions	21,493	3,737	683	128	26,041
Disposals	(1,750)	(2,991)	(126)	(109)	(4,976)
Effect of foreign currency exchange differences	3,554	-	(3)	-	3,551
Balance, December 31, 2022	171,989	243,997	1,381	2,132	419,499
Accumulated depreciation and impairment losses					
Balance, January 1, 2022	60,845	132,833	457	2,014	196,149
Depreciation	5,613	6,208	245	96	12,162
Disposals	(1,269)	(2,287)	(126)	(90)	(3,772)
Impairment reversals	(22,952)	(309)	-	-	(23,261)
Effect of foreign currency exchange differences	594	-	-	-	594
Balance, December 31, 2022	42,831	136,445	576	2,020	181,872
Net book value					
Balance, December 31, 2022	$ 129,158	$ 107,552	$ 805	$ 112	$ 237,627

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

	Contract Drilling equipment	Production Services property and equipment	Right-of-use assets	Other equipment	Total
Costs					
Balance, January 1, 2021	$ 121,530	$ 256,123	$ 946	$ 2,098	$ 380,697
Additions	27,793	1,028	442	15	29,278
Disposals	(362)	(13,900)	(561)	-	(14,823)
Reclassed to held for sale (note 5)	-	-	-	-	-
Effect of foreign currency exchange differences	(269)	-	-	-	(269)
Balance, December 31, 2021	148,692	243,251	827	2,113	394,883
Accumulated depreciation and impairment losses					
Balance, January 1, 2021	57,357	136,726	753	1,961	196,797
Depreciation	3,560	6,703	247	53	10,563
Disposals	(54)	(11,892)	(543)	-	(12,489)
Impairments	-	1,296	-	-	1,296
Reclassed to held for sale (note 5)	-	-	-	-	-
Effect of foreign currency exchange differences	(18)	-	-	-	(18)
Balance, December 31, 2021	60,845	132,833	457	2,014	196,149
Net book value					
Balance, December 31, 2021	$ 87,847	$ 110,418	$ 370	$ 99	$ 198,734

The removal of economic restrictions due to the COVID-19 health pandemic created an increased demand for crude oil and natural gas without a sufficient corresponding increase in global supply. This positively affected current and forecasted drilling and production levels in Canada and the United States resulting in increased demand for the Company's services. As such, the Company concluded that there were indicators of impairment reversal and performed an impairment test for the Company's cash generating units ("CGUs") at December 31, 2022.

The recoverable amount of the CGU was based on the value in use method, estimated using discounted cash flows incorporating the Company's most recent 2023 internal 5-year forecasts at December 31, 2022. The calculation of estimated future cash flows were discounted to their present value using an after-tax discount rate of 20% which reflects current market assessments of the time value of money and the risks specific to the assets. The fair value of measurement was categorized as Level 3 fair value based on the inputs in the valuation technique used.

The impairment reversal test concluded that the recoverable amounts of the Company's CGUs exceeded their carrying amounts. At December 31, 2022, the Company recorded a reversal of historical impairment charges of $22,952 related to the Contract Drilling CGU and $309 related to the Production Services CGU in the consolidated statements of comprehensive income. No historical impairments remain for either of the Company's CGUs.

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

6. 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:

	December 31, 2022	December 31, 2021
Current liabilities		
Current portion of lease liabilities	**$ 283**	$ 182
Current portion of Mortgage Loan	**582**	582
	$ 865	$ 764
Non-current liabilities		
Credit Facility	**$ 32,356**	$ 35,088
Mortgage Loan	**9,600**	10,182
Lease liabilities	**589**	215
Financing fees	**(406)**	(402)
	$ 42,139	45,083
Total loans and borrowings	**$ 43,004**	$ 45,847

The Company has credit facilities with a syndicate of four Canadian financial institutions (the "Credit Facility"). On July 29, 2022, the Company exercised the accordion feature to expand the Credit Facility comprised of a $50,710 Canadian syndicated facility, a US$12,000 U.S. syndicated facility, a $7,500 Canadian operating facility and a US$5,000 U.S. operating facility. The Company further amended the Credit Facility to extend the maturity to July 31, 2025 ("Maturity Date"). No principal payments are required under the Credit Facility 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 Credit Facility 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 1.25% to a maximum of the bank's prime rate plus 4.25% or from a minimum of the bankers' acceptances rate plus a stamping fee of 2.25% to a maximum of the bankers' acceptances rate plus a stamping fee of 5.25%. Standby fees under the Credit Facility range between 0.56% and 1.31%. Interest and fees under the Credit Facility 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 Credit Facility 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. When translated at December 31, 2022, the total Credit Facility was $81,235, of which $48,879 was available for immediate borrowing and $32,356 was outstanding (December 31, 2021: $35,088). The Credit Facility has an accordion feature which provides the Company with the ability to increase the maximum borrowings up to $125,000, subject to the approval of the lenders. The Credit Facility is secured by a security agreement covering all 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, 2022, the applicable rates under the Credit Facility are bank prime rate plus 1.25%, bankers' acceptances rate plus a stamping fee of 2.25%, and standby fee rate of 0.56%.

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

	Covenant limits	**December 31, 2022**
Consolidated Debt(2) to Consolidated EBITDA(1)	3.50:1.00 or less	**0.74:1.00**
Consolidated Debt(2) to Capitalization(3)	0.50:1.00 or less	**0.14:1.00**
Consolidated Adjusted Cash Flow(4) to Consolidated Adjusted Finance Obligations(5)	1.15:1.00 or more	**16.38:1.00**

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

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

Mortgage Loan is a loan maturing on June 30, 2028 that is amortized over 22 years with blended monthly principal and interest payments of $86. At maturity, approximately $7,030 of principal will become payable assuming only regular monthly payments are made. On May 2, 2022, 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 Mortgage Loan.

Under the interest rate swap agreement, the Company pays a fixed rate of 3.38% per annum plus the applicable credit spread of 1.35%, for an effective fixed rate of 4.73%. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate and are classified as Level 2 on the fair value hierarchy. As at December 31, 2022, the mark-to-market value of the interest rate swap of $152 is included within accounts receivable on the consolidated statements of financial position (December 31, 2021: $210 included within accounts payable and accrued liabilities).

Lease liabilities consist of office space and motor vehicles which mature in 1 to 6 years. The incremental borrowing rates applied to the individual lease liabilities vary from 5.0% to 8.5% per annum.

The following table summarizes changes in the carrying amounts of right-of-use assets recognized and the movements during the period:

	Office space	Motor vehicles	Total
Balance at January 1, 2021	$ 67	$ 126	$ 193
Additions	-	442	442
Disposals	-	(18)	(18)
Depreciation expense	(50)	(197)	(247)
Balance at December 31, 2021	**$ 17**	**$ 353**	**$ 370**
Additions	**262**	**421**	**683**
Depreciation expense	**(46)**	**(199)**	**(245)**
Effect of foreign currency exchange differences	**-**	**(3)**	**(3)**
Balance at December 31, 2022	**$ 233**	**$ 572**	**$ 805**

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

The following table summarizes the carrying amounts of lease liabilities and the movements during the period:

	2022	2021
Balance as at January 1	**$ 397**	$ 206
Additions	**683**	442
Accretion of interest	**34**	19
Payments	**(239)**	(256)
Disposals	**-**	(14)
Effect of foreign currency exchange differences	**(3)**	-
Balance as at December 31	**$ 872**	$ 397

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 $257 for the year ended December 31, 2022 were amortized and included in finance costs (year ended December 31, 2021: $235).

7. 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,	**2022**	2021
Income before income taxes	**$ 53,373**	$ 5,396
Combined federal and provincial income tax rate	**23.1%**	23.0%
Expected income taxes	**12,329**	1,241
Increase (decrease) resulting from:		
Non-deductible items	**44**	19
Tax rate changes	**145**	(42)
Stock based compensation	**244**	182
Recognition of deferred tax asset	**(1,750)**	(89)
Adjustments related to prior year	**74**	(459)
Other	**513**	(29)
	$ 11,599	$ 823

The deferred income tax liability is comprised of:

	December 31, 2021	Recognized in Earnings	**December 31, 2022**
Deferred tax assets			
Non capital losses[(1)]	$ 13,666	$ (2,488)	**$ 11,178**
Finance lease liabilities	92	66	**158**
Unrecognized deferred tax asset	(1,538)	1,538	**-**
Other	258	(93)	**165**
	12,478	(977)	**11,501**
Deferred tax liabilities:			
Property and equipment	(21,062)	(10,623)	**(31,685)**
Net deferred income tax liability	$ (8,584)	$ (11,600)	**$ (20,184)**

(1) The Company has $30,622 (2021: $47,906) of non-capital loss carry forwards in Canada and $13,305 (2021: $8,424) of net operating losses in the United States for income tax purposes which are available for application against future taxable income. These loss carry forwards expire between 2029 and 2043.

All changes in deferred income tax temporary differences were recognized in income in the years ended December 31, 2022 and 2021.

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

8. Share capital

a. Authorized

Unlimited number of Common voting shares without par value.

Unlimited number of Preferred shares without par value.

b. Normal course issuer bid

On November 16, 2022, the Company commenced a normal course issuer bid ("NCIB") which will expire on November 15, 2023 or such earlier date as the NCIB is completed. Under this NCIB the Company is entitled to purchase, from time to time as it considers advisable, up to 25,620,671 issued and outstanding common shares through the facilities of the TSXV or other recognized marketplaces.

CWC makes its NCIB purchases through an automatic securities purchase plan (the "ASPP") (as defined under applicable securities laws) with Raymond James Ltd. ("Raymond James"). Such purchases are 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, 2022, 210,000 common shares for consideration of $46, including commissions, were purchased, cancelled, and returned to treasury under the NCIB (year ended December 31, 2021: 2,249,500 common shares for consideration of $327 were purchased, cancelled, and returned to treasury).

c. 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 Company 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.

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

	Number of options	Weighted average exercise price
Balance at January 1, 2021	16,038,000	0.19
Expired	(8,420,000)	0.18
Forfeited	(295,000)	0.19
Balance at December 31, 2021	**7,323,000**	**0.20**
Exercised	**(4,615,000)**	**0.20**
Expired	**(2,619,000)**	**0.20**
Balance at December 31, 2022	**89,000**	**0.10**

The following table summarizes information about stock options outstanding as at December 31, 2022:

Exercise price	Number of options outstanding	Weighted average remaining life (years) contractual	Weighted average exercise price	Number of options exercisable
$ 0.10	**89,000**	**1.93**	**$ 0.10**	**89,000**

For the year ended December 31, 2022, stock-based compensation expense relating to stock options totaled $4 (year ended December 31, 2021: $5).

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

d. Restricted share unit ("RSU") 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 Company has granted RSUs to directors, 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.

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, 2021	14,954,562	0.13
Granted	7,218,000	0.16
Redeemed for common shares	(5,700,675)	0.13
Forfeited - unvested	(386,000)	0.13
Balance at December 31, 2021	**16,085,887**	**0.14**
Granted	**6,024,000**	**0.25**
Redeemed for common shares	**(4,607,636)**	**0.12**
Expired - vested	**(53,340)**	**0.09**
Balance at December 31, 2022	**17,448,911**	**0.18**

The following table summarizes information about RSUs outstanding as at December 31, 2022:

Issue date fair value	Number of RSUs outstanding	Weighted average remaining life (years) contractual	Weighted average exercise price ($)	Number of RSUs exercisable
$ 0.14 - $ 0.25	**17,448,911**	**2.01**	**n/a**	**3,905,913**

For the year end December 31, 2022, stock-based compensation expense relating to RSUs totaled $1,045 (For the year end December 31, 2021: $777).

e. Weighted average common shares outstanding

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

	For the year ended December 31,	
	2022	**2021**
Weighted average common shares outstanding – basic	**511,284,083**	505,337,978
Effect of dilutive share-based compensation plans	**17,537,911**	7,865,809
Weighted average common shares outstanding – diluted	**528,821,994**	513,203,787

f. 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

9. Supplemental cash flow information

	2022	2021
Source (use) of cash related to working capital items:		
Accounts receivable	**$ (19,719)**	$ (9,995)
Prepaid expenses and deposits	**(2,281)**	331
Accounts payable and accrued liabilities	**5,038**	2,691
	$ (16,962)	$ (6,973)

10. Segmented information

The Company operates its Contract Drilling segment in both Canada and the United States while its Production Services segment operates in Canada. 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.

Management uses net income before depreciation and income taxes ("segment income (loss)") in management reports reviewed by key management personnel and the board of directors to measure performance at a segment basis. Segment income (loss) 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 to 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, 2022	Contract Drilling	Production Services	Corporate	Total
Revenue				
Canada	$ 47,279	$ 94,758	$ -	$ 142,037
United States	63,295	-	-	63,295
Total revenue	110,574	94,758	-	205,332
Direct operating expenses				
Canada	$ 32,445	$ 59,900	$ -	$ 92,345
United States	44,602	-	-	44,602
Total direct operating expenses	77,047	59,900	-	136,947
Selling and administrative expenses	6,113	9,243	7,098	22,454
Stock based compensation	-	-	1,049	1,049
Finance costs	-	-	2,558	2,558
Depreciation	5,664	6,405	93	12,162
Loss (gain) on disposal of equipment	476	(426)	-	50
Impairment reversal	(22,952)	(309)	-	(23,261)
Income (loss) before tax	44,226	19,945	(10,798)	53,373
Current income tax expense	-	-	114	114
Deferred income tax expense	-	-	11,599	11,599
Net income (loss)	$ 44,226	$ 19,945	$ (22,511)	$ 41,660
Capital expenditures	$ 21,493	$ 4,420	$ 128	$ 26,041
As at December 31, 2022				
Property and equipment				
Canada	$ 72,240	$ 107,552	$ 112	$ 179,904
United States	56,918	-	-	56,918
	129,158	107,552	112	236,822
Right-of-use assets	331	241	233	805
Total property and equipment	$ 129,489	$ 107,793	$ 345	$ 237,627

Included in accounts receivable at December 31, 2022 was $5,819 (December 31, 2021: $3,619) 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.

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For the year ended December 31, 2021	Contract Drilling	Production Services	Corporate	Total
Revenue				
Canada	$ 24,710	$ 70,923	$ -	$ 95,633
United States	7,002	-	-	7,002
Total revenue	31,712	70,923	-	102,635
Other income	475	4,074	(714)	3,835
Direct operating expenses				
Canada	18,833	48,161	-	66,994
United States	5,294	-	-	5,294
Total direct operating expenses	24,127	48,161	-	72,288
Selling and administrative expenses	1,747	8,147	5,416	15,310
Stock based compensation	-	-	782	782
Finance costs	-	-	1,086	1,086
Depreciation	3,612	6,447	504	10,563
Gain on disposal of equipment	(241)	(10)	-	(251)
Impairment of assets	-	1,296	-	1,296
Income (loss) before tax	2,942	10,956	(8,502)	5,396
Deferred income tax expense	-	-	823	823
Net income (loss)	$ 2,942	$ 10,956	$ (9,325)	$ 4,573
Capital expenditures	$ 27,793	$ 1,470	$ 15	$ 29,278
As at December 31, 2021				
Property and equipment				
Canada	$ 51,216	$ 110,418	$ 99	$ 161,733
United States	36,631	-	-	36,631
	87,847	110,418	99	198,364
Right-of-use assets	-	353	17	370
Total property and equipment	$ 87,847	$ 110,771	$ 116	$ 198,734

Other income recorded in 2021 consisted of Government of Canada grants received under the Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”) programs. CEWS was a program to assist employers facing financial hardship, as measured by certain monthly revenue declines compared to the prior year as a result of the COVID-19 health pandemic. CERS was a program to assist businesses who had seen a drop in revenue due to the COVID-19 health pandemic to cover part of their commercial rent and mortgage and property expenses.

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11. Expenses by nature

The following tables summarize the disaggregation of direct operating and selling and administrative expenses by nature:

For the year ended December 31, 2022	Direct operating expenses	Selling and administrative expenses	Total
Personnel expenses	$ 92,522	$ 13,263	$ 105,785
Third party charges	5,936	-	5,936
Repairs and maintenance	38,489	-	38,489
Other selling and administrative expenses	-	7,369	7,369
Bad debt expense	-	54	54
Facility expenses	-	1,768	1,768
Total	$ 136,947	$ 22,454	$ 159,401

For the year ended December 31, 2021	Direct operating expenses	Selling and administrative expenses	Total
Personnel expenses	$ 49,149	$ 9,172	$ 58,321
Third party charges	10,356	-	10,356
Repairs and maintenance	12,783	-	12,783
Other selling and administrative expenses	-	4,601	4,601
Bad debt expense	-	28	28
Facility expenses	-	1,509	1,509
Total	$ 72,288	$ 15,310	$ 87,598

12. Finance costs

	December 31, 2022	December 31, 2021
Interest on Credit Facility	$ 2,128	$ 749
Interest on lease liabilities	34	20
Interest on Mortgage Loan	475	444
Interest and penalties	26	-
Total interest expense	$ 2,663	$ 1,213
Amortization of finance fees	257	235
Mark-to-market gain on interest rate swap	(362)	(362)
Total finance costs	$ 2,558	$ 1,086

13. Commitments and contingencies

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.

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14. Related parties

Of the total outstanding shares of the Company, 55.8% are directly or indirectly owned by Brookfield Business Partners L.P. ("Brookfield"). The Company is related to Brookfield by virtue of control and is therefore also related to Brookfield's affiliates.

During 2022, the Company had revenue totaling $973 (2021: $1,208) and $nil in accounts receivable as at December 31, 2022 (December 31, 2021: $225) in the normal course of business with companies under common control. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-related companies on an arm's length basis.

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

For the years ended December 31,		2022		2021
Short-term employee benefits (including directors' fees)	$	**2,798**	$	1,648
Share-based payments (stock options and RSUs)		**807**		653
Total compensation to key management including directors and officers	$	**3,605**	$	2,301

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.

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 Audit 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, 2022 and 2021.

Cash balance are held with large reputable financial institutions; accordingly management concluded that credit risk associated with this balance is low.

Accounts receivable include balances from a large number of customers primarily operating in the oil and gas industry. The Company assesses the creditworthiness 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. For the year ended

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December 31, 2022, ten customers comprised 43% of revenue (2021: ten customers comprised 52% of revenue) with no customers comprising greater than 10% of revenue (2021: two customers comprised 12% and 13% of revenue respectively). As at December 31, 2022, ten customers comprised 56% of trade accounts receivable (2021: ten customers comprised 57% of trade receivables) and one customer comprised 13% of trade accounts receivable (2021: one customer comprised 11% of revenue).

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 a 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,	**2022**	2021
Trade accounts receivable:		
1 to 30 days outstanding – not past due	**$ 24,441**	$ 13,204
31 to 90 days outstanding	**18,550**	12,315
>90 days overdue	**3,676**	1,267
Allowance for impairment of accounts	**(721)**	(559)
	$ 45,946	$ **26,227**

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

	2022	2021
Balance as at January 1	**$ 559**	$ 934
Additional allowance	**270**	28
Amounts recovered	**(108)**	-
Amounts used	**-**	(403)
Balance as at December 31	**$ 721**	$ 559

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.

As at December 31, 2022, the Company has available committed amounts under its Credit Facility in the amount of $48,879 (2021: $34,889) plus account receivables of $45,946 (2021: $26,227) for a total of $94,825 (2021: $61,116) 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 2023 and beyond. 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.

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

Year ended December 31, 2022	**2023**	**2024**	**2025**	**2026**	**2027 and beyond**
Accounts payable and accrued liabilities	**$ 13,983**	**$ -**	**$ -**	**$ -**	**$ -**
Long-term debt	**865**	**811**	**33,098**	**690**	**7,945**
	$ 14,848	**$ 811**	**$ 33,098**	**$ 690**	**$ 7,945**

Year ended December 31, 2021	2022	2023	2024	2025	2026 and beyond
Accounts payable and accrued liabilities	$ 8,945	$ -	$ -	$ -	$ -
Long-term debt	764	10,334	35,151	-	-
	$ 9,709	$ 10,334	$ 35,151	$ -	$ -

c. Market risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates, and interest rates that 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 is exposed to foreign currency fluctuations on its operations in the United States. As at December 31, 2022, portions of the Company's accounts payable and accrued liabilities were denominated in United States dollars and subject to foreign currency exchange fluctuations which are recorded in net income. In addition, the Company's United States subsidiary is subject to foreign currency translation adjustments upon consolidation, which are recorded separately within other comprehensive income. For the year ended December 31, 2022, the increase or decrease in comprehensive income for each $0.01 change in the U.S. dollar to Canadian dollar is estimated to be $97 (December 31, 2021: $261).

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, 2022, if the prime interest rate increased by 1.0%, with all other variables held constant, net income would have been $366 lower (2021: $297 lower).

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 thereby maintaining investor, creditor and market confidence resulting in sustainable future development of the business. The Company strives to maintain a balance between debt and equity to ensure 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 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, issuing new shares, new debt, new debt replacing existing debt with different characteristics, paying a dividend to shareholders, or purchasing shares for cancellation pursuant to normal course issuer bids.

The Company monitors capital using a financial metric of Consolidated Debt to Consolidated EBITDA ratio as defined in the Credit Facility (see Note 6). Consolidated Debt to Consolidated EBITDA is not a recognized measure under IFRS and, therefore, is unlikely to be comparable to similar measures of other companies.

During the year ended December 31, 2022, Consolidated Debt to Consolidated EBITDA of the Company declined, primarily due to a higher Consolidated EBITDA compared to the prior year. The Consolidated Debt to Consolidated EBITDA ratio at December 31, 2022 was 0.74:1.00 (December 31, 2021: 1.99:1.00). The Company was in compliance with all externally imposed capital requirements as at December 31, 2022 and 2021.