



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

Management's Discussion and Analysis ("MD&A") is a review of the results of operations and liquidity and capital resources of CWC Energy Services Corp. (unless the context indicates otherwise, a reference in this MD&A to "CWC", the "Company", "we", "us", or "our" means CWC Energy Services Corp.). The following discussion and analysis provided by CWC is dated November 6, 2020 and should be read in conjunction with unaudited condensed interim consolidated financial statements ("Financial Statements") for the three and nine months ended September 30, 2020, the audited annual consolidated financial statements for the year ended December 31, 2019 ("Annual Financial Statements"), and the annual management's discussion and analysis for the year ended December 31, 2019 ("Annual MD&A"). Additional information regarding CWC can be found in the Company's latest Annual Information Form ("AIF"). The condensed interim consolidated financial statements are prepared in accordance with IFRS and IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements. All amounts are expressed in Canadian dollars unless otherwise noted. Additional information relating to CWC, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Financial Highlights

| \$ thousands, except shares, per share amounts, and margins       | Three months ended<br>September 30, |             |                    | Nine months ended<br>September 30, |             |                    |
|---|-------------------------------------|-------------|--------------------|------------------------------------|-------------|--------------------|
|   | 2020                                | 2019        | Change %           | 2020                               | 2019        | Change %           |
| <b>FINANCIAL RESULTS</b>  |                                     |             |                    |                                    |             |                    |
| Revenue   |                                     |             |                    |                                    |             |                    |
| Contract Drilling   | 543                                 | 8,284       | (93%)              | 14,532                             | 20,792      | (30%)              |
| Production Services   | 9,779                               | 19,491      | (50%)              | 33,296                             | 56,987      | (42%)              |
|   | 10,322                              | 27,775      | (63%)              | 47,828                             | 77,779      | (39%)              |
| Other income  | 2,635                               | -           | n/m <sup>(2)</sup> | 4,423                              | -           | n/m <sup>(2)</sup> |
| Adjusted EBITDA <sup>(1)</sup>                                    | 1,953                               | 3,868       | (50%)              | 6,064                              | 8,675       | (30%)              |
| Adjusted EBITDA margin (%) <sup>(1)</sup>                         | 19%                                 | 14%         |                    | 13%                                | 11%         |                    |
| Impairment of assets  | -                                   | -           | n/m <sup>(2)</sup> | (25,451)                           | -           | n/m <sup>(2)</sup> |
| Net loss  | (810)                               | (234)       | n/m <sup>(2)</sup> | (23,721)                           | (846)       | n/m <sup>(2)</sup> |
| Net loss margin (%) <sup>(1)</sup>                                | (8%)                                | (1%)        | (7%)               | (50%)                              | (1%)        | (49%)              |
| Capital expenditures  | 1,022                               | 968         | 6%                 | 4,547                              | 4,164       | 9%                 |
| <b>Per share information:</b>                                     |                                     |             |                    |                                    |             |                    |
| Weighted average number of shares outstanding - basic and diluted | 507,543,333                         | 510,358,460 |                    | 509,239,883                        | 511,329,933 |                    |
| Adjusted EBITDA <sup>(1)</sup> per share - basic and diluted      | \$ 0.00                             | \$ 0.01     |                    | \$ 0.01                            | \$ 0.02     |                    |
| Net loss per share - basic and diluted                            | \$ (0.00)                           | \$ (0.00)   |                    | \$ (0.05)                          | \$ (0.00)   |                    |

| \$ thousands, except ratios                           | September 30, 2020 | December 31, 2019 |
|---|--------------------|-------------------|
| <b>FINANCIAL POSITION AND LIQUIDITY</b>               |                    |                   |
| Working capital (excluding debt) <sup>(1)</sup>       | 5,920              | 18,534            |
| Working capital (excluding debt) ratio <sup>(1)</sup> | 1.9:1              | 3.3:1             |
| Total assets  | 199,421            | 243,398           |
| Total long-term debt (including current portion)      | 27,960             | 40,552            |
| Shareholders' equity                                  | 158,959            | 182,032           |

<sup>(1)</sup> Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

<sup>(2)</sup> Not meaningful.

Working capital (excluding debt) for September 30, 2020 has decreased \$12.6 million (68%) since December 31, 2019 driven by decreases in accounts receivable (\$13.1 million (55%)), prepaid expenses and deposits (\$0.7 million (25%)) offset by decrease in account payable (\$1.2 million (15%)). Long-term debt (including current portion) has decreased \$12.6 million (31%) from December 31, 2019 driven primarily by the collection of accounts receivable. Both working capital and long-term debt are lower in Q3 2020 compared to Q4 2019 due to the significantly reduced operating activity as a result of the COVID-19 global health pandemic. Shareholders' equity has decreased \$23.1 million (13%) since December 31, 2019 primarily due to the net loss for the nine months ended September 30, 2020 which included a charge for impairment of assets of \$25.5 million partially offset by an unrealized gain on translation of foreign operations of \$1.2 million.

## **Highlights for the Three Months Ended September 30, 2020**

- During Q3 2020, the Company received 300 application approvals under the Alberta Site Rehabilitation Program ("SRP") worth approximately \$4.8 million in future work with a further \$14.5 million under review or awaiting future government application rounds to open. The \$1.0 billion Alberta SRP, the \$400 million Saskatchewan Accelerated Site Closure Program ("ASCP") and the \$100 million B.C. Dormant Sites Reclamation Program ("DSRP") provides grants to eligible oilfield service contractors to perform well, pipeline, and oil and gas site closure and reclamation work, creating jobs and supporting the environment. CWC's Production Services segment is well positioned to provide well decommissioning work on these inactive wells.
- Average Q3 2020 crude oil price, as measured by West Texas Intermediate ("WTI"), of US\$40.90/bbl was 46% higher than the Q2 2020 average price of US\$27.95/bbl (Q3 2019: US\$56.40/bbl) and the price differential between Canadian heavy crude oil, as represented by Western Canadian Select ("WCS"), and WTI maintained a differential in the range of US\$7.85/bbl to US\$11.18/bbl during the third quarter of 2020. Natural gas prices, as measured by AECO, increased 13% from an average of \$1.90/GJ in Q2 2020 to \$2.14/GJ in Q3 2020 (Q3 2019 \$0.97/GJ).
- CWC's Canadian drilling rig utilization in Q3 2020 of 4% (Q3 2019: 19%) was lower than the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 9%. Canadian activity levels in Q3 2020 of 28 drilling rig operating days (Q3 2019: 130 drilling rig operating days) from seven Canadian drilling rigs were lower as a result of the decline in demand for crude oil driven by the global health solutions to slow the spread of the COVID-19 virus. Average revenue per operating day of \$19,214 resulted in revenue of \$0.5 million (Q3 2019: \$2.7 million) from the Canadian drilling operations. As a result of the COVID-19 health pandemic and the travel restrictions implemented between Canada and the U.S., CWC's two U.S. drilling rigs, which operate with Canadian rig crews, did not see any operating days in Q3 2020 (Q3 2019: 155 drilling rig operating days) and, therefore, did not generate any revenue in the quarter (Q3 2019: \$5.6 million). Service rig utilization in Q3 2020 of 29% (Q3 2019: 52%) was driven by 15,859 operating hours which were 46% lower than the 29,528 operating hours in Q3 2019; a result of the significant drop off in activity levels due to COVID-19 and the corresponding steep drop in oil prices.
- Revenue of \$10.3 million, a decrease of \$17.5 million (63%) compared to \$27.8 million in Q3 2019.
- Other income of \$2.6 million in Q3 2020 consists of Government of Canada grants, which the Company received under the Canada Emergency Wage Subsidy ("CEWS").
- Adjusted EBITDA<sup>(1)</sup> of \$2.0 million, a decrease of \$1.9 million compared to \$3.9 million in Q3 2019.
- Net loss of \$0.8 million, an increase of \$0.6 million compared to \$0.2 million in Q3 2019.
- During Q3 2020, 2,405,000 (Q3 2019: 405,000) common shares were purchased under the Normal Course Issuer Bid ("NCIB") and 2,349,000 (Q3 2019: 524,500) common shares were cancelled and returned to treasury.

<sup>(1)</sup> Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

## **Highlights for the Nine months Ended September 30, 2020**

- The oil and gas sector was hit particularly hard amid the global economic downturn as a result of the COVID-19 health pandemic and the measures put in place to slow the spread of the virus. Demand for crude oil collapsed at a time when global supply was ramping up, fueled by rising shale oil output in the U.S. As a result, global oil prices collapsed. The Company's exploration and production ("E&P") customers, struggling with declining demand and business stability, cut their capital expenditure programs leading to reduced demand for the Company's services. The duration of the negative impact from the COVID-19 health pandemic on the Company's operations is unknown and will depend on future economic developments, which cannot be predicted with confidence at this time. Therefore, the Company continues to pursue cash saving initiatives to preserve cash resources and maintain balance sheet strength as well as to retain its most valuable asset – its key employees. The Company has also enacted new safety protocols to protect the health and safety

of its employees so that the Company can operate with confidence that its employees and customers are taking the necessary precautions.

- CWC's Canadian drilling rig utilization for the first nine months of 2020 of 23% (2019: 23%) exceeded the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 16%. Canadian activity levels for the first nine months of 2020 decreased 25% to 440 drilling rig operating days (2019: 583 drilling rig operating days) from seven Canadian drilling rigs. Average revenue per operating day of \$22,073 resulted in revenue of \$9.7 million from the Canadian drilling operations. U.S. drilling rig activity levels for the first nine months of 2020 were 144 drilling rig operating days (2019: 180 drilling rig operating days) from two U.S. drilling rigs for a utilization of 26% (2019: 33%). U.S. Contract Drilling revenue of \$4.8 million represented 33% of CWC's total Contract Drilling revenue in the first nine months of 2020 with the average revenue per operating day of US\$25,139 from U.S. operations. CWC's service rig utilization for the first nine months of 2020 of 31% (2019: 48%) was driven by 50,338 operating hours which were 40% lower than the 83,531 operating hours in 2019; a result of the significant drop off in activity levels due to COVID-19 and the corresponding steep drop in oil prices.
- Revenue of \$47.8 million, a decrease of \$30.0 million (39%) compared to \$77.8 million in the first nine months of 2019.
- Adjusted EBITDA<sup>(1)</sup> of \$6.1 million, a decrease of \$2.6 million (30%) compared to \$8.7 million in the first nine months of 2019.
- Net loss of \$23.7 million, an increase of \$22.9 million compared to \$0.8 million in the first nine months of 2019. The increase in net loss is primarily due to a charge for impairment of assets of \$25.5 million taken in Q1 2020.
- For the nine months ended September 30, 2020, the Company purchased 7,787,500 (2019: 3,078,500) common shares under the Normal Course Issuer Bid ("NCIB") and 7,831,000 (2019: 3,060,500) common shares were cancelled and returned to treasury.

<sup>(1)</sup> Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

## **Corporate Overview**

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CWC Energy Services Corp. is a premier contract drilling and well servicing company operating in Canada and the United States with a complementary suite of oilfield services including drilling rigs, service rigs, and swabbing rigs. The Company's corporate office is located in Calgary, Alberta, with a U.S. office in Denver, Colorado and operational locations in Nisku, Grande Prairie, Slave Lake, Sylvan Lake, Drayton Valley, Lloydminster, Provost and Brooks, Alberta. The Company's shares trade on the TSX Venture Exchange under the symbol "CWC".

## **Operational Overview**

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### **Contract Drilling**

CWC Ironhand Drilling, the Company's Contract Drilling segment, has a fleet of nine telescopic double drilling rigs with depth ratings from 3,200 to 5,000 metres. Eight of nine rigs have top drives and three have pad rig walking systems. All of the drilling rigs are well suited for the most active depths for horizontal drilling in the Western Canadian Sedimentary Basin ("WCSB"), including the Montney, Cardium, Duvernay and other deep basin horizons. The Company also operates in select United States basins including the Eagle Ford, Denver-Julesburg ("DJ") and Bakken. One of the Company's strategic initiatives is to continue to increase the capabilities of its existing fleet to meet the growing demands of E&P customers for deeper depths at a cost effective price while providing a sufficient internal rate of return for CWC's shareholders.

| OPERATING HIGHLIGHTS                            | Three months ended |               |               |                         |               |                         |               |               |
|---|--------------------|---------------|---------------|-------------------------|---------------|-------------------------|---------------|---------------|
|   | Sep. 30, 2020      | Jun. 30, 2020 | Mar. 31, 2020 | Dec. 31, 2019           | Sep. 30, 2019 | Jun. 30, 2019           | Mar. 31, 2019 | Dec. 31, 2018 |
| <b>Drilling Rigs – Canada</b>                   |                    |               |               |                         |               |                         |               |               |
| Total drilling rigs, end of period              | 7                  | 7             | 7             | 7                       | 7             | 7                       | 9             | 9             |
| Revenue per operating day <sup>(1)</sup>        | \$19,214           | \$19,382      | \$22,849      | \$22,161                | \$20,685      | \$22,750                | \$23,895      | \$26,642      |
| Drilling rig operating days                     | 28                 | 68            | 344           | 232                     | 130           | 72                      | 382           | 491           |
| Drilling rig utilization % <sup>(2)</sup>       | 4%                 | 11%           | 54%           | 36%                     | 19%           | 11%                     | 47%           | 59%           |
| CAODC industry average utilization %            | 9%                 | 4%            | 35%           | 23%                     | 23%           | 18%                     | 29%           | 28%           |
| Wells drilled                                   | 4                  | 4             | 26            | 18                      | 12            | 10                      | 39            | 34            |
| Average days per well                           | 7.1                | 17.1          | 13.2          | 12.9                    | 10.9          | 8.0                     | 9.8           | 14.4          |
| Meters drilled (thousands)                      | 13.7               | 20.2          | 99.6          | 75.6                    | 39.6          | 26.7                    | 119.8         | 127.8         |
| Meters drilled per day                          | 483                | 295           | 290           | 326                     | 304           | 373                     | 314           | 261           |
| Average meters per well                         | 3,412              | 5,053         | 3,831         | 4,199                   | 3,300         | 2,966                   | 3,070         | 3,708         |
| <b>Drilling Rigs – United States</b>            |                    |               |               |                         |               |                         |               |               |
| Total drilling rigs, end of period              | 2                  | 2             | 2             | 2                       | 2             | 2                       | -             | -             |
| Revenue per operating day (US\$) <sup>(1)</sup> | -                  | -             | \$25,139      | \$34,448 <sup>(3)</sup> | \$27,159      | \$54,188 <sup>(3)</sup> | -             | -             |
| Drilling rig operating days                     | -                  | -             | 144           | 56                      | 155           | 25                      | -             | -             |
| Drilling rig utilization % <sup>(2)</sup>       | -                  | -             | 79%           | 31%                     | 84%           | 69%                     | -             | -             |
| Wells drilled                                   | -                  | -             | 10            | 5                       | 16            | 1                       | -             | -             |
| Average days per well                           | -                  | -             | 14.4          | 11.3                    | 9.7           | 16.6                    | -             | -             |
| Meters drilled (thousands)                      | -                  | -             | 40.5          | 14.5                    | 50.7          | 2.9                     | -             | -             |
| Meters drilled per day                          | -                  | -             | 282           | 258                     | 327           | 177                     | -             | -             |
| Average meters per well                         | -                  | -             | 4,053         | 2,942                   | 978           | 2,939                   | -             | -             |

<sup>(1)</sup> Revenue per operating day is calculated based on operating days (i.e. spud to rig release basis). New or inactive drilling rigs are added based on the first day of field service.

<sup>(2)</sup> Drilling rig utilization is calculated based on operating days (i.e. spud to rig release basis).

<sup>(3)</sup> Revenue is enhanced by one-time recovery of mobilization costs.

Canadian Contract Drilling revenue of \$0.5 million for Q3 2020 (Q3 2019: \$2.7 million) was achieved with a utilization rate of 4% (Q3 2019: 19%), compared to the CAODC industry average of 9%. CWC completed 28 Canadian drilling rig operating days in Q3 2020, 78% lower than 130 Canadian drilling rig operating days in Q3 2019.

As a result of the COVID-19 health pandemic and the travel restrictions implemented between Canada and the U.S., CWC's two U.S. drilling rigs, which operate with Canadian rig crews, did not see any operating days in Q3 2020 (Q3 2019: 155 drilling rig operating days) and, therefore, did not generate any revenue in the quarter (Q3 2019: \$5.6 million).

### Production Services

With a fleet of 145 service rigs, CWC is the largest well servicing company in Canada as measured by active fleet and operating hours. CWC's service rig fleet consists of 75 single, 56 double, and 14 slant rigs providing services which include completions, maintenance, workovers and well decommissioning with depth ratings from 1,500 to 5,000 metres. CWC has chosen to park 63 of its service rigs and focus its sales and operational efforts on the remaining 82 active service rigs due to the reduction in the number of service rigs currently required to service the WCSB.

CWC's fleet of 12 swabbing rigs operate under the trade name CWC Swabtech. The swabbing rigs are used to remove liquids from the wellbore and allow reservoir pressures to push the commodity up the tubing. The Company has chosen to park seven of its swabbing rigs and focus its sales and operational efforts on the remaining five active swabbing rigs.

CWC's fleet of nine coil tubing units consist of six Class I and three Class II coil tubing units having depth ratings from 1,500 to 3,200 metres. On March 17, 2020, the Company discontinued operations of its coil tubing division and wrote down the value of the assets to their estimated disposal value. The Company will look at monetizing the coil tubing assets when market conditions in the oil and gas industry stabilize.

| OPERATING HIGHLIGHTS                            | Three months ended |                  |                  |                  |                  |                  |                  |                  |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|   | Sep. 30,<br>2020   | Jun. 30,<br>2020 | Mar. 31,<br>2020 | Dec. 31,<br>2019 | Sep. 30,<br>2019 | Jun. 30,<br>2019 | Mar. 31,<br>2019 | Dec. 31,<br>2018 |
| <b>Service Rigs</b>                             |                    |                  |                  |                  |                  |                  |                  |                  |
| Active service rigs, end of period              | 82                 | 82               | 83               | 84               | 84               | 92               | 93               | 92               |
| Inactive service rigs, end of period            | 63                 | 63               | 62               | 62               | 64               | 56               | 55               | 56               |
| Total service rigs, end of period               | 145                | 145              | 145              | 146              | 148              | 148              | 148              | 148              |
| Operating hours                                 | 15,859             | 4,037            | 30,442           | 33,656           | 29,528           | 23,129           | 30,875           | 31,232           |
| Revenue per hour                                | \$605              | \$619            | \$666            | \$664            | \$644            | \$646            | \$671            | \$663            |
| Revenue per hour excluding top volume customers | \$623              | \$653            | \$673            | \$682            | \$660            | \$687            | \$690            | \$696            |
| Service rig utilization % <sup>(1)</sup>        | 29%                | 8%               | 56%              | 62%              | 52%              | 39%              | 53%              | 51%              |
| <b>Swabbing Rigs</b>                            |                    |                  |                  |                  |                  |                  |                  |                  |
| Active swabbing rigs, end of period             | 5                  | 5                | 5                | 5                | 5                | 8                | 8                | 8                |
| Inactive swabbing rigs, end of period           | 7                  | 7                | 7                | 8                | 8                | 5                | 5                | 5                |
| Total swabbing rigs, end of period              | 12                 | 12               | 12               | 13               | 13               | 13               | 13               | 13               |
| Operating hours                                 | 686                | 513              | 1,088            | 1,141            | 865              | 661              | 1,655            | 2,313            |
| Revenue per hour                                | \$271              | \$288            | \$300            | \$282            | \$284            | \$262            | \$288            | \$283            |
| Swabbing rig utilization % <sup>(1)</sup>       | 21%                | 16%              | 33%              | 35%              | 28%              | 13%              | 47%              | 41%              |

<sup>(1)</sup> Effective September 1, 2019, the CAODC changed its methodology on how it calculates service rig utilization. Service rig and swabbing rig utilization is now calculated based on 10 operating hours a day x number of days per quarter x 5 days a week divided by 7 days in a week to reflect maximum utilization available due to hours of service restrictions on rig crews. Utilization percentages have been retroactively updated to reflect this new CAODC methodology. Service and swabbing rigs requiring their 24,000 hour recertification, refurbishment or have been otherwise removed from service for greater than 90 days are excluded from the utilization calculation until their first day back in field service.

Production Services revenue of \$9.8 million in Q3 2020, down \$9.7 million (50%) compared to \$19.5 million in Q3 2019. The revenue decrease in Q3 2020 was a direct result of the rapid decrease in crude oil prices, which started in March 2020, as the global health solutions to slow the spread of the COVID-19 virus resulted in a significant drop in demand for crude oil.

CWC's service rig utilization in Q3 2020 of 29% (Q3 2019: 52%) was driven by 15,859 operating hours being 46% lower than the 29,528 operating hours in Q3 2019. In addition, the Q3 2020 average revenue per hour of \$605 was \$39 per hour (5%) lower than the \$644 per hour in Q3 2019 as a result of customer requested discounts during the quarter. Q3 2020 average revenue per hour of \$623 excluding the Company's top volume customers was \$37 per hour (6%) lower than Q3 2019 average revenue per hour of \$660.

CWC swabbing rig utilization in Q3 2020 of 21% (Q3 2019: 28%) with 686 operating hours was 21% lower than the 865 operating hours in Q3 2019. Average revenue per hour for swabbing rigs of \$271 in Q3 2020 was 5% lower compared to \$284 in Q3 2019.

As a result of the lower customer demand, the Company discontinued operations of its coil tubing division on March 17, 2020 and wrote down the value of these assets to their estimated disposal value. The coil tubing division contributed year-to-date 2020 revenue of \$0.3 million and negative Adjusted EBITDA of (\$0.1 million). The Company will look at monetizing the coil tubing assets when market conditions in the oil and gas industry stabilize.

## Outlook

In March 2020, the World Health Organization declared a global health pandemic due to COVID-19. In response to the COVID-19 outbreak, governments around the world implemented measures to control the spread of the virus during Q2 2020 including closure of non-essential businesses, restricting travel and encouraging its citizens to stay-at-home. These government-t actions contributed to a significant deterioration in the global economy including a material decline in the demand for crude oil, which resulted in a significant decrease in oil prices. The decline in oil prices negatively affected current and forecasted drilling and production service activities in Canada and the United States. In response to the decline in oil prices, OPEC+ and G20 oil producing nations agreed to cut crude oil production by 12.6 million bbls/day for a targeted global average crude oil supply of 87.4 million bbls/day. As such crude oil prices rebounded from the low US\$20/bbl in April 2020 to the low US\$40/bbl in October 2020 as governments around the world loosened their economic restrictions related to COVID-19 and gradually re-opened businesses. The International Energy Agency ("IEA") reports that global average crude oil supply was 91.3 million bbls/day in Q3 2020 and forecasts it to rise to 92 million bbls/day in Q4 2020 with a 2021 forecast of 97.2 million bbls/day. In addition, the IEA reports that Canadian oil supply was 4.9 million bbls/day in August 2020 and

expected to gradually recover to pre COVID-19 levels of 5.8 million bbls/day by the end of 2021. As consumer demand and business confidence increases for the remainder of 2020 and 2021, so too will be the demand for crude oil and a return to increased oilfield service activity in Canada and the U.S.

Since March 2020, CWC has made significant changes to its cost structure including laying off employees, reducing compensation, eliminating discretionary expenses and reducing capital expenditures, to better match our cost structure to current operating activity levels resulting in approximately \$11.5 million in annualized cash savings. The Company's head count bottomed at 286 employees in May 2020 and has steadily increased to 395 employees in October 2020, but is still 36% below the pre COVID-19 levels of 617 employees in February 2020. In addition, CWC has applied for and received \$4.4 million in grants from the Government of Canada CEWS program to date. With the recent Government of Canada announcement that the CEWS program will be extended to June 2021, the Company believes that the CEWS program will further enhance our ability to manage through the current slowdown in oilfield services activity with an estimated \$3.5 million in additional grants.

On April 17, 2020, the Government of Canada announced a \$1.7 billion funding package to the Government of Alberta, Saskatchewan, British Columbia and the Alberta Orphan Well Association for well decommissioning and reclamation of abandoned and inactive wells. To date CWC has received 300 Alberta SRP application approvals amounting to \$4.8 million with a further \$1.3 million of applications currently under review. Additionally, CWC has secured contracts and expects to apply for a further \$13.2 million in additional grants in future rounds of the various provincial programs. This work started in Q3 2020 and will be completed through the remainder of 2020 and 2021 with all work under these grant programs to be completed by December 31, 2022. The Company currently has over 30 service rigs and four drilling rigs working in Q4 2020 and expects to see the rig count increase into Q1 2021.

The Company continues to be in regular contact with its four member banking syndicate and has received positive indications that they will continue to support CWC through these turbulent times.

Looking out to a medium and longer term, CWC is optimistic about the future of the oil and gas industry in Canada. On March 31, 2020, the Government of Alberta announced they will be investing \$1.5 billion into the Keystone XL pipeline and provide a \$6.0 billion loan guarantee to TC Energy to start construction of the pipeline immediately, which is expected to be operational by 2023. This pipeline will carry 830,000 bbls/day of crude oil to Gulf Coast refineries. Along with the anticipated completion of Enbridge's Line 3 pipeline in late 2021, which will carry 760,000 bbls/day to Minnesota and eastern refineries and the Trans Mountain expansion project carrying 890,000 bbls/day by late 2022 to the west coast for overseas markets, Canada should have sufficient capacity to resume growth in crude oil production. With the current reduction in Canadian crude oil production of approximately 0.9 million bbls/day as a result of lower global demand from the COVID-19 economic restrictions and the announcement on October 23, 2020 by the Government of Alberta to remove the 125,000 bbls/day mandated production curtailments as of December 2020, Canada may have inadvertently solved its issues of insufficient capacity on its existing pipeline infrastructure until the three additional pipelines are completed and operational. As such, CWC will remain focused on its operational and financial performance in the short-term, but recognizes the need to pursue opportunities that have inevitably been created in this heavily discounted market to create medium and longer-term value for CWC's shareholders. With the support of the Board of Directors, management continues to actively pursue consolidation opportunities in North America. CWC cautions that there can be no guarantees that strategic opportunities will result in a transaction, or if a transaction is undertaken, as to its terms or timing.

## Discussion of Financial Results

### Revenue, Direct Operating Expenses and Gross Margin

| \$ thousands                                  | Three months ended |        |              |             | Nine months ended |        |              |             |
|---|--------------------|--------|--------------|-------------|-------------------|--------|--------------|-------------|
|   | September 30,      |        | Change<br>\$ | Change<br>% | September 30,     |        | Change<br>\$ | Change<br>% |
| 2020  | 2019               | 2020   |              |             | 2019              |        |              |             |
| <b>Revenue</b>                                |                    |        |              |             |                   |        |              |             |
| Contract Drilling                             | 543                | 8,284  | (7,741)      | (93%)       | 14,532            | 20,792 | (6,260)      | (30%)       |
| Production Services                           | 9,779              | 19,491 | (9,712)      | (50%)       | 33,296            | 56,987 | (23,691)     | (42%)       |
|   | 10,322             | 27,775 | (17,453)     | (63%)       | 47,828            | 77,779 | (29,951)     | (39%)       |
| <b>Direct operating expenses</b>              |                    |        |              |             |                   |        |              |             |
| Contract Drilling                             | 510                | 5,528  | (5,018)      | (91%)       | 9,736             | 15,271 | (5,535)      | (36%)       |
| Production Services                           | 6,947              | 14,017 | (7,070)      | (50%)       | 25,335            | 41,535 | (16,200)     | (39%)       |
|   | 7,457              | 19,545 | (12,088)     | (62%)       | 35,071            | 56,806 | (21,735)     | (38%)       |
| <b>Gross margin <sup>(1)</sup></b>            |                    |        |              |             |                   |        |              |             |
| Contract Drilling                             | 33                 | 2,756  | (2,723)      | (99%)       | 4,796             | 5,521  | (725)        | (13%)       |
| Production Services                           | 2,832              | 5,474  | (2,642)      | (48%)       | 7,961             | 15,452 | (7,491)      | (48%)       |
|   | 2,865              | 8,230  | (5,365)      | (65%)       | 12,757            | 20,973 | (8,216)      | (39%)       |
| <b>Gross margin percentage <sup>(1)</sup></b> |                    |        |              |             |                   |        |              |             |
| Contract Drilling                             | 6%                 | 33%    | n/a          | (27%)       | 33%               | 27%    | n/a          | 6%          |
| Production Services                           | 29%                | 28%    | n/a          | 1%          | 24%               | 27%    | n/a          | (3%)        |
|   | 28%                | 30%    | n/a          | (2%)        | 27%               | 27%    | n/a          | (0%)        |

<sup>(1)</sup> Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

Q3 2020 revenue of \$10.3 million, a decrease of \$17.5 million (63%) compared to \$27.8 million in Q3 2019. Revenue decreased \$7.7 million (93%) in the Contract Drilling segment and \$9.7 million (50%) in the Production Services segment in Q3 2020 compared to Q3 2019. The decreases in revenue were a direct result of the rapid decrease in crude oil prices as the global health solutions to slow the spread of the COVID-19 virus resulted in a significant drop in demand for crude oil, which negatively affected the demand from our E&P customers.

For the nine months ended September 30, 2020, revenue of \$47.8 million, a decrease of \$30.0 million (39%) compared to \$77.8 million in the first nine months of 2019. Revenue decreased \$6.3 million (30%) in the Contract Drilling segment and \$23.7 million (42%) in the Production Services segment for the first nine months of 2020 compared to the same period in 2019.

Revenue contribution from the Company's top ten customers increased from 58% for the first nine months of 2019 to 64% in the first nine months of 2020. CWC's top customer's revenue contribution increased from 12% in the first nine months of 2019 to 14% in the first nine months of 2020.

For the nine months ended September 30, 2020, approximately 81% of revenue (2019: 88%) was from work on crude oil wells while 19% (2019: 12%) was from natural gas wells. Further, approximately 36% of revenue (2019: 38%) was related to drilling and completions work, 49% of revenue (2019: 50%) from maintenance and workovers on producing wells and 15% of revenue (2019: 12%) from well decommissioning.

Many direct operating expenses, including labour costs related to field operating employees, are variable in nature and increase or decrease with activity levels such that changes in operating costs generally correspond to changes in revenue or activity levels. Contract Drilling's gross margin percentage of 6% in Q3 2020 is lower than the 33% gross margin percentage in Q3 2019 due to significantly lower activity levels. For the first nine months of 2020, Contract Drilling's gross margin percentage of 33% is higher than the 27% for the first nine months of 2019 as discretionary repairs and maintenance plans were put on hold until activity levels increase. For Production Services, gross margin percentage of 29% in Q3 2020 is higher than the 28% in Q3 2019 as a result of cost reduction measures implemented in April 2020. For the first nine months of 2020, Production Services' gross margin of 24% is lower than the 27% in the first nine months of 2019 due to significantly lower activity levels and utilization rates.

## Other Income

| \$ thousands | Three months ended |    |        |                    | Nine months ended |      |        |                    |
|--------------|--------------------|----|--------|--------------------|-------------------|------|--------|--------------------|
|              | September 30,      |    | Change | Change             | September 30,     |      | Change | Change             |
| 2020         | 2019               | \$ |        |                    | %                 | 2020 |        |                    |
| Other income | 2,635              | -  | 2,635  | n/m <sup>(1)</sup> | 4,423             | -    | 4,423  | n/m <sup>(1)</sup> |

<sup>(1)</sup> Not meaningful.

Other income in Q3 2020 of \$2.6 million (Q3 2019: \$nil) consists of Government of Canada grants, received under the CEWS program. CEWS is 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 and the provincial governments' closure of businesses.

## Selling and Administrative Expenses

| \$ thousands                        | Three months ended |       |        |        | Nine months ended |        |         |        |
|-------------------------------------|--------------------|-------|--------|--------|-------------------|--------|---------|--------|
|                                     | September 30,      |       | Change | Change | September 30,     |        | Change  | Change |
| 2020                                | 2019               | \$    |        |        | %                 | 2020   |         |        |
| Selling and administrative expenses | 3,547              | 4,362 | (815)  | (19%)  | 11,116            | 12,298 | (1,182) | (10%)  |

Selling and administrative expenses were \$3.5 million in Q3 2020, a decrease of \$0.8 million (19%) compared to \$4.4 million in Q3 2019. The decrease is a result of the cash saving initiatives undertaken in the first quarter of 2020, including reduced head counts through departures and layoffs; compensation reductions to Board of Directors, management, administrative and field employees; discontinuing operations of the Coil Tubing division; reductions and deferrals of rent and property taxes offset by \$0.4 million in increased bad debt expense.

## Adjusted EBITDA<sup>(1)</sup>

| \$ thousands                              | Three months ended |         |         |        | Nine months ended |         |         |        |
|---|--------------------|---------|---------|--------|-------------------|---------|---------|--------|
|   | September 30,      |         | Change  | Change | September 30,     |         | Change  | Change |
| 2020                                      | 2019               | \$      |         |        | %                 | 2020    |         |        |
| <b>Adjusted EBITDA<sup>(1)</sup></b>      |                    |         |         |        |                   |         |         |        |
| Contract Drilling                         | (170)              | 2,291   | (2,461) | (107%) | 3,991             | 4,380   | (389)   | (9%)   |
| Production Services                       | 3,355              | 3,011   | 344     | 11%    | 5,665             | 8,070   | (2,405) | (30%)  |
| Corporate                                 | (1,232)            | (1,434) | 202     | (14%)  | (3,592)           | (3,775) | 183     | (5%)   |
|   | 1,953              | 3,868   | (1,915) | (50%)  | 6,064             | 8,675   | (2,611) | (30%)  |
| Adjusted EBITDA margin (%) <sup>(1)</sup> | 19%                | 14%     | n/a     | 5%     | 13%               | 11%     | n/a     | 2%     |

<sup>(1)</sup> Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

Management uses Adjusted EBITDA<sup>(1)</sup> as a measure of the cash flow generated by the Company. Positive Adjusted EBITDA<sup>(1)</sup> provides the cash flow needed to grow the business through purchase of equipment or business acquisitions, fund working capital, service and reduce outstanding long-term debt, pay a dividend or repurchase outstanding common shares under the NCIB.

Adjusted EBITDA<sup>(1)</sup> was \$2.0 million for Q3 2020, a decrease of \$1.9 million compared to \$3.9 million in Q3 2019.

For the nine months ended September 30, 2020, Adjusted EBITDA<sup>(1)</sup> was \$6.1 million, a decrease of \$2.6 million (30%) compared to \$8.7 million for the first nine months of 2019. The decrease in Adjusted EBITDA<sup>(1)</sup> is a result of the global economic downturn due to the COVID-19 health pandemic.

## Stock Based Compensation

| \$ thousands             | Three months ended |     |        |        | Nine months ended |      |        |        |
|--------------------------|--------------------|-----|--------|--------|-------------------|------|--------|--------|
|                          | September 30,      |     | Change | Change | September 30,     |      | Change | Change |
| 2020                     | 2019               | \$  |        |        | %                 | 2020 |        |        |
| Stock based compensation | 137                | 166 | (29)   | (17%)  | 409               | 592  | (183)  | (31%)  |

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

Stock based compensation was \$0.1 million in Q3 2020, a decrease of \$0.1 million (17%) compared to \$0.2 million in Q3 2019.

For the nine months ended September 30, 2020, stock based compensation was \$0.4 million, a decrease of \$0.2 million (31%) compared to \$0.6 million for the same period in 2019.

## Finance Costs

| \$ thousands  | Three months ended |      |              |             | Nine months ended |       |              |             |
|---------------|--------------------|------|--------------|-------------|-------------------|-------|--------------|-------------|
|               | September 30,      |      | Change<br>\$ | Change<br>% | September 30,     |       | Change<br>\$ | Change<br>% |
| 2020          | 2019               | 2020 |              |             | 2019              |       |              |             |
| Finance costs | 362                | 525  | (163)        | (31%)       | 1,826             | 1,915 | (89)         | (5%)        |

Finance costs were \$0.4 million in Q3 2020, a decrease of \$0.1 million (31%) compared to \$0.5 million in Q3 2019 due to the decreased mark-to-market value of the interest rate swap agreement.

For the nine months ended September 30, 2020, finance costs were \$1.8 million, a decrease of \$0.1 million (5%) from \$1.9 million for the same period in 2019.

## Depreciation and Amortization

| \$ thousands                         | Three months ended |       |              |             | Nine months ended |       |              |             |
|--------------------------------------|--------------------|-------|--------------|-------------|-------------------|-------|--------------|-------------|
|                                      | September 30,      |       | Change<br>\$ | Change<br>% | September 30,     |       | Change<br>\$ | Change<br>% |
| 2020                                 | 2019               | 2020  |              |             | 2019              |       |              |             |
| <b>Depreciation and amortization</b> |                    |       |              |             |                   |       |              |             |
| Contract Drilling                    | 762                | 1,115 | (353)        | (32%)       | 2,677             | 3,462 | (785)        | (23%)       |
| Production Services                  | 1,686              | 1,869 | (183)        | (10%)       | 5,084             | 5,739 | (655)        | (11%)       |
| Corporate                            | 134                | 266   | (132)        | (50%)       | 588               | 784   | (196)        | (25%)       |
|                                      | 2,582              | 3,250 | (668)        | (21%)       | 8,349             | 9,985 | (1,636)      | (16%)       |

Depreciation and amortization was \$8.4 million in the first nine months of 2020, a decrease of \$1.6 million (16%) compared to \$10.0 million in 2019. The decrease in depreciation and amortization expense for the first nine months of 2020 compared to 2019 was primarily due to the lower depreciable asset base as a result of the charge taken for impairment of assets in Q1 2020.

## Impairment of Assets

| \$ thousands                | Three months ended |      |              |                    | Nine months ended |   |              |                    |
|-----------------------------|--------------------|------|--------------|--------------------|-------------------|---|--------------|--------------------|
|                             | September 30,      |      | Change<br>\$ | Change<br>%        | September 30,     |   | Change<br>\$ | Change<br>%        |
| 2020                        | 2019               | 2020 |              |                    | 2019              |   |              |                    |
| <b>Impairment of assets</b> |                    |      |              |                    |                   |   |              |                    |
| Contract Drilling           | -                  | -    | -            | n/m <sup>(1)</sup> | 24,000            | - | 24,000       | n/m <sup>(1)</sup> |
| Production Services         | -                  | -    | -            | n/m <sup>(1)</sup> | 1,451             | - | 1,451        | n/m <sup>(1)</sup> |
| Corporate                   | -                  | -    | -            | -                  | -                 | - | -            | -                  |
|                             | -                  | -    | -            | n/m <sup>(1)</sup> | 25,451            | - | 25,451       | n/m <sup>(1)</sup> |

<sup>(1)</sup> Not meaningful.

The combined effects of the reduction in global demand for crude oil due to the COVID-19 health pandemic and the increase in global supply of crude oil has resulted in a rapid decline in oil prices. This has negatively affected current and forecasted drilling and production levels in Canada and the United States resulting in decreased demand for drilling services by our exploration and production customers. As such, the Company concluded that indicators of impairment existed and performed an impairment test for the Contract Drilling cash generating unit ("CGU") at March 31, 2020.

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 2020 internal forecasts and changes in long-term commodity price forecasts at March 31, 2020. The fair value of measurement was categorized as Level 3 fair value based on the inputs in the valuation technique used.

The results of the impairment test for the Contract Drilling CGU resulted in the carrying amount of the CGU exceeding its recoverable amount by \$24,000 at March 31, 2020 and therefore the Company recorded an impairment expense of \$24,000 in the Consolidated Statements of Comprehensive Loss.

As the Company discontinued operations of its Coil Tubing division on March 17, 2020, the Coil Tubing assets included in the Production Services segment were written down by \$1,451 to their estimated disposal value of \$1,000.

The Company reviewed the carrying amounts of its assets at September 30, 2020 and determined there were no further indicators of impairment.

### (Gain) Loss on Disposal of Equipment

| \$ thousands                         | Three months ended |      |              |                    | Nine months ended |      |              |                    |
|--------------------------------------|--------------------|------|--------------|--------------------|-------------------|------|--------------|--------------------|
|                                      | September 30,      |      | Change<br>\$ | Change<br>%        | September 30,     |      | Change<br>\$ | Change<br>%        |
| 2020                                 | 2019               | 2020 |              |                    | 2019              |      |              |                    |
| (Gain) loss on disposal of equipment | (114)              | -    | (114)        | n/m <sup>(1)</sup> | 860               | (78) | 938          | n/m <sup>(1)</sup> |

<sup>(1)</sup> Not meaningful.

Management continually monitors the asset mix and equipment needs of the Company and divests assets as needed to optimize operations. For the nine months ended September 30, 2020, the loss on disposal of equipment was primarily the result of the disposal of one inactive service rig and one inactive swabbing rig as well as disposals of ancillary equipment and vehicles with proceeds on sale of \$0.9 million (2019: \$0.3 million).

### Deferred Income Tax (Recovery) Expense

| \$ thousands  | Three months ended |                    | Nine months ended |         |
|---|--------------------|--------------------|-------------------|---------|
|   | September 30,      |                    | September 30,     |         |
| 2020  | 2019               | 2020               | 2019              |         |
| Net loss before income taxes  | (1,014)            | (73)               | (30,831)          | (3,739) |
| Deferred income tax (recovery) expense  | (204)              | 161                | (7,110)           | (2,893) |
| Deferred income tax (recovery) expense as a % of net loss before income taxes | 20%                | n/m <sup>(1)</sup> | 23%               | 77%     |
| Expected statutory income tax rate  | 26.5%              | 27%                | 26.5%             | 27%     |

<sup>(1)</sup> Not meaningful.

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

The deferred income tax recovery in Q3 2020 and the first nine months of 2020 of \$0.2 million (Q3 2019: deferred income tax expense of \$0.2 million) and \$7.1 million (2019: \$2.9 million) respectively, is a result of the loss before income taxes in each period.

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

### Net Loss and Comprehensive Loss

| \$ thousands  | Three months ended |       |              |                    | Nine months ended |       |              |                    |
|---|--------------------|-------|--------------|--------------------|-------------------|-------|--------------|--------------------|
|   | September 30,      |       | Change<br>\$ | Change<br>%        | September 30,     |       | Change<br>\$ | Change<br>%        |
| 2020  | 2019               | 2020  |              |                    | 2019              |       |              |                    |
| Net loss  | (810)              | (234) | 576          | n/m <sup>(1)</sup> | (23,721)          | (846) | 22,875       | n/m <sup>(1)</sup> |
| Unrealized (loss) gain on translation of foreign operations | (319)              | 222   | 541          | n/m <sup>(1)</sup> | 1,201             | 185   | (1,016)      | n/m <sup>(1)</sup> |
| Comprehensive loss  | (1,129)            | (12)  | 1,117        | n/m <sup>(1)</sup> | (22,520)          | (661) | 21,859       | n/m <sup>(1)</sup> |

<sup>(1)</sup> Not meaningful.

Net loss of \$0.8 million in Q3 2020, an increase of \$0.6 million compared to a net loss of \$0.2 million in Q3 2019. Comprehensive loss of \$1.1 million in Q3 2020, an increase of \$1.1 million compared to comprehensive loss of \$nil in Q3 2019.

For the first nine months ended September 30, 2020, net loss of \$23.7 million, an increase of \$22.9 million compared to \$0.8 million for the same period in 2019. Comprehensive loss of \$22.5 million in the first nine months of 2020, an increase of \$21.8 million compared to comprehensive loss of \$0.7 million for the same period in 2019. The increase in comprehensive loss was due to the impairment of assets partially offset by an unrealized gain on translation of foreign currency from the Company's U.S. operations.

## Liquidity and Capital Resources

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### Source of Funds

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

During the first nine months of 2020, the Company's operating cash flow of \$18.7 million and proceeds on disposal of equipment of \$0.9 million were used to fund a \$12.2 million reduction in long-term debt, \$4.5 million of capital expenditures, \$2.2 million of interest on long-term debt, finance costs and finance lease payments, and \$1.0 million in acquisitions of common shares under the NCIB.

At September 30, 2020 the Company had working capital (excluding debt) of \$5.9 million, a decrease of \$12.6 million (68%) from \$18.5 million at December 31, 2019. (Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.) The decrease in working capital (excluding debt) is due to lower accounts receivable from lower revenue in Q3 2020 versus Q4 2019 and a decrease in prepaid expenses offset by a decrease in accounts payable. Typically, as activity levels increase or decrease working capital will also increase or decrease.

The Company's \$60.2 million credit facilities (the "Bank Loan") provides financial security and flexibility to July 31, 2022. The Bank Loan is secured by a general security agreement and a first charge security interest covering all of the assets of the Company (other than real estate assets related to the Mortgage Loan). Under the terms of the Bank Loan, the Company is required to comply with certain financial covenants. The Company is in compliance with each of the financial covenants at September 30, 2020. As of September 30, 2020, the applicable rates under the Bank Loan are: bank prime rate plus 1%, bankers' acceptances rate plus a stamping fee of 2%, and standby fee rate of 0.45%.

The Company's Mortgage Loan is a loan maturing on September 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 September 30, 2020, the mark-to-market value of the interest rate swap of \$625 is included within accounts payable and accrued liabilities on the Consolidated Statements of Financial Position (December 31, 2019: \$246).

### Capital Requirements

On December 12, 2019, the Company announced its capital expenditure budget for 2020 of \$6.7 million, an increase of \$1.4 million compared to the 2019 capital expenditure of \$5.3 million. Given the current economic environment as a result of the COVID-19 health pandemic, the Company has reduced its 2020 capital expenditure budget by \$1.6 million (24%) to \$5.3 million.

The Company's capital expenditure is detailed in the section below titled "Capital Expenditure". In the future, additional discretionary capital expenditures will be required in order to continue to grow the Company's assets and revenue. It is anticipated future cash requirements for capital expenditures will be met through a combination of funds from operations and borrowing against existing credit facilities as required. However, additional funds may be raised by new debt instruments, equity issuances and proceeds from the sale of assets.

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

## Common Shares and Dividends

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

|                        | November 4, 2020 | September 30, 2020 | December 31, 2019 |
|------------------------|------------------|--------------------|-------------------|
| Common shares          | 503,551,849      | 503,551,849        | 510,702,349       |
| Stock options          | 20,354,667       | 20,354,667         | 20,666,667        |
| Restricted share units | 6,673,154        | 6,673,154          | 7,224,154         |

During the nine months ended September 30, 2020, 286,000 stock options expired and 26,000 stock options were forfeited. In addition, 551,000 RSUs were exercised.

On April 15, 2020, the Company replaced its expired NCIB with a new NCIB which now expires on April 14, 2021. Under the new NCIB the Company may purchase, from time to time as it considers advisable, up to 25,340,742 of issued and outstanding common shares through the facilities of the TSXV or other recognized marketplaces. In addition, CWC renewed its ASPP with Raymond James for the purpose of making purchases under the ASPP.

For the nine months ended September 30, 2020, 7,787,500 common shares were purchased under the NCIB and 7,701,500 common shares were cancelled and returned to treasury.

## Capital Expenditures

| \$ thousands                           | Three months ended    |                       | Change<br>\$ | Change<br>%        | Nine months ended     |                       | Change<br>\$ | Change<br>%        |
|--|-----------------------|-----------------------|--------------|--------------------|-----------------------|-----------------------|--------------|--------------------|
|  | September 30,<br>2020 | September 30,<br>2019 |              |                    | September 30,<br>2020 | September 30,<br>2019 |              |                    |
| <b>Capital expenditures</b>            |                       |                       |              |                    |                       |                       |              |                    |
| Contract drilling                      | 620                   | 195                   | 425          | 218%               | 1,714                 | 1,453                 | 261          | 18%                |
| Production services                    | 402                   | 583                   | (181)        | (31%)              | 2,807                 | 2,460                 | 347          | 14%                |
| Other equipment                        | -                     | 190                   | (190)        | (100%)             | 26                    | 251                   | (225)        | (90%)              |
|  | 1,022                 | 968                   | 54           | 6%                 | 4,547                 | 4,164                 | 383          | 9%                 |
| Growth capital                         | 472                   | -                     | 472          | n/m <sup>(1)</sup> | 1,489                 | -                     | 1,489        | n/m <sup>(1)</sup> |
| Maintenance and infrastructure capital | 550                   | 968                   | (418)        | (43%)              | 3,058                 | 4,164                 | (1,106)      | (27%)              |
| Total capital expenditures             | 1,022                 | 968                   | 54           | 6%                 | 4,547                 | 4,164                 | 383          | 9%                 |

<sup>(1)</sup> Not meaningful.

Capital expenditures of \$1.0 million in Q3 2020, an increase of \$nil compared to \$1.0 million in Q3 2019.

Capital expenditures of \$4.6 million for the nine months ended September 30, 2020, an increase of \$0.4 million (9%) compared to \$4.2 million in the same period of 2019.

The 2020 capital expenditure budget of \$6.7 million was approved by the Board of Directors on December 12, 2019 comprised of maintenance and infrastructure capital related to recertifications, additions and upgrades to field equipment for the drilling rig and service rig divisions as well as information technology infrastructure and growth capital to upgrade one of the drilling rigs. Given the current economic environment as a result of the COVID-19 health pandemic, the Company has reduced its 2020 capital expenditure budget by \$1.6 million (24%) to \$5.3 million.

## Commitments and Contractual Obligations

Under the terms of the Company's amended Bank Loan, the borrowings under the Bank Loan are due in full on July 31, 2022. The Company is committed to monthly payments of interest and bank charges until July 31, 2022. The Company's Mortgage Loan is being amortized over 22 years with blended monthly principal and interest payments and matures on September 28, 2023. There have been no significant changes in other commitments or contractual obligations since December 31, 2019.

## Summary and Analysis of Quarterly Data

| \$ thousands, except per share amounts<br>Three months ended | 2020     |         |          | 2019    |          |         |         | 2018    |
|--|----------|---------|----------|---------|----------|---------|---------|---------|
|  | Sept. 30 | June 30 | Mar. 31  | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 |
| Revenue  | 10,322   | 3,966   | 33,540   | 30,667  | 27,775   | 18,745  | 31,259  | 35,478  |
| Adjusted EBITDA <sup>(1)</sup>                               | 1,953    | (1,397) | 5,508    | 3,491   | 3,868    | 113     | 4,694   | 4,978   |
| Net (loss) income  | (810)    | (3,734) | (19,177) | (854)   | (234)    | (565)   | (47)    | (157)   |
| Net (loss) income per share: basic and diluted               | (0.00)   | (0.00)  | (0.04)   | (0.00)  | (0.00)   | (0.00)  | (0.00)  | (0.00)  |
| Total assets   | 199,421  | 196,565 | 221,110  | 243,398 | 243,647  | 240,603 | 250,358 | 252,665 |
| Total long-term debt   | 27,960   | 25,788  | 43,337   | 40,552  | 41,549   | 36,618  | 43,296  | 44,896  |
| Shareholders' equity   | 158,959  | 160,281 | 164,802  | 182,032 | 183,621  | 183,526 | 184,041 | 184,231 |

<sup>(1)</sup> Please refer to the "Reconciliation of Non-IFRS Measures" section for further information.

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

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

Other significant impacts have been a result of:

- Q3 2020 saw a continuation of low economic activity in the oilfield services sector as a result of lower demand for crude oil amid the global economic downturn as a result of the COVID-19 health pandemic and the measures put in place to slow the spread of the virus. However, oil prices recovered in Q3 2020 from the lows experienced in Q2 2020 to an average of US\$40.90/bbl. This oil price recovery caused a gradual increase in the utilization of service rigs, but was not enough to increase drilling rig activity from its historical lows. During Q3 2020, 2,405,000 common shares were purchased under the NCIB and 2,349,000 common shares were cancelled and returned to treasury.
- Q2 2020 demand for crude oil declined amid the global economic downturn as a result of the COVID-19 health pandemic and the measures put in place to slow the spread of the virus. The impact this had on the Company resulted in a 79% decline in revenue compared to Q2 2019 and the Company posting its first negative Adjusted EBITDA<sup>(1)</sup> in 27 quarters. During Q2 2020, 1,708,000 common shares were purchased under the NCIB and 1,718,000 common shares were cancelled and returned to treasury.
- Q1 2020 saw the combined effects of the reduction in global demand for crude oil due to the COVID-19 health pandemic and the increase in global supply of crude oil resulting in a rapid and uneconomic decline in oil prices. This negatively affected current and future drilling and production levels in Canada and the U.S. resulting in decreased demand for drilling and production services by our E&P customers in mid-March 2020. The Company acted quickly to implement cash saving initiatives to preserve cash resources and maintain balance sheet strength as well as retaining our most valuable asset – our key employees. The Company reduced its head count by 43% through departures and layoffs of its employees and contractors and incurred \$0.1 million in severance costs related to these layoffs in Q1 2020. During Q1 2020, 3,674,500 common shares were purchased under the NCIB and 3,764,000 common shares were cancelled and returned to treasury;

- Q4 2019 saw the WTI-WCS differential widen to over US\$20.00/bbl, compared to a historical normal range of US\$10-\$15/bbl. Despite this widening differential, CWC saw increased activity in its service rig division with 33,656 hours compared to the 29,528 hours in Q3 2019. Drilling rig operating days were impacted by the movement of one drilling rig from Texas to Wyoming which resulted in approximately 21 days of lost revenue. During Q4 2019, 1,453,500 common shares were purchased under the NCIB and 1,342,000 common shares were cancelled and returned to treasury;
- Q3 2019 saw the first full quarter of drilling operations in the United States. In addition, the Company extended its credit facilities to July 31, 2022 and reduced the credit facilities from \$75 million to \$60 million, which now includes a separate U.S. operating facility. During Q3 2019, 405,000 common shares were purchased under the NCIB and 524,500 common shares were cancelled and returned to treasury;
- Q2 2019 saw CWC move two drilling rigs from Canada into the United States which commenced operations in mid-September 2019. Wet weather conditions during the quarter significantly impacted activity levels in both the Canadian Contract Drilling and Production Services segments. During Q2 2019, 623,000 common shares were purchased under the NCIB and a total of 744,000 common shares were cancelled and returned to treasury;
- Q1 2019 saw a continuation of reduced activity levels for both the drilling rigs and CWC's production-oriented service rigs as a direct result of lower WTI prices during the quarter and the Government of Alberta mandated 325,000 bbls/day production curtailments taking effect in January 2019. During Q1 2019, 2,050,500 common shares were purchased under the NCIB and a total of 1,792,000 common shares were cancelled and returned to treasury;
- Q4 2018 saw the price differential between Canadian heavy crude oil, as represented by WCS, and WTI widen at times to unprecedented levels of over US\$50/bbl compared to the historical normalized range of US\$10/bbl to US\$15/bbl. These significant WTI-WCS differential resulted in the Government of Alberta announcement on December 2, 2018 mandating a 325,000 bbls/day crude oil production curtailment on Alberta oil companies producing more than 10,000 bbls/day causing E&P customers to shorten or delay their workover and maintenance work on producing wells. During Q4 2018, 7,858,000 common shares were purchased, cancelled, and returned to treasury under the NCIB.

## **Critical Accounting Estimates and Judgments**

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This MD&A of the Company's financial condition and results of operations is based on the condensed interim consolidated financial statements which are prepared in accordance with IFRS. The preparation of the condensed interim 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 condensed interim 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.

In March 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak and the measures implemented by governments across the world intended to limit the pandemic have adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions in the preparation of its financial results. These uncertainties increase the complexity of estimates and assumptions used to prepare the condensed interim consolidated financial statements, and changes to these assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

## CEO and CFO Certifications

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The CEO and CFO of TSX Venture Exchange listed companies, such as CWC, are not required to certify they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Instead, an optional form of certification has been made available to TSX Venture Exchange listed companies and has been used by CWC's certifying officers for the September 30, 2020 interim filings. The certification reflects what the Company considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Company's operations. This certification requires that the certifying officer's state:

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

## Risks and Uncertainties

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Certain activities of the Company are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of at the present time may also become important factors which affect the Company. Along with the risks discussed in this MD&A, other business risks faced by the Company may be found under "Risk Factors" in the Company's December 31, 2019 Management's Discussion and Analysis which is available under the Company's profile at [www.sedar.com](http://www.sedar.com).

### COVID-19 and Related Impacts

The outbreak of COVID-19 has resulted in material economic and social disruption, volatility in financial markets and disruptions to global supply chains. In addition, COVID-19 may negatively impact CWC's ability to staff the Company's day to day operations. The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and ability to generate income and cash flows in the future. The current volatility in commodity prices and uncertainty regarding the timing for recovery creates inherent challenges with the preparation of financial forecasts.

## Forward-Looking Information

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*This MD&A contains certain forward-looking information and statements within the meaning of applicable Canadian securities legislation. Certain statements contained in this MD&A, including most of those contained in the section titled "Outlook" and including statements which may contain such words as "anticipate", "could", "continue", "should", "seek", "may", "intend", "likely", "plan", "estimate", "believe", "expect", "will", "objective", "ongoing", "project" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including management's assessment of future plans and operations, planned levels of capital expenditures, expectations as to activity levels, expectations on the sustainability of future cash flow and earnings, expectations with respect to crude oil and natural gas prices, activity levels in various areas, expectations regarding the level and type of drilling and production and related drilling and well services activity in the WCSB and U.S. basins, expectations regarding entering into long term drilling contracts and expanding its customer base, and expectations regarding the business, operations, revenue and debt levels of the Company in addition to general economic conditions. Although the Company believes that the expectations and assumptions on which such forward-looking information and statements are based are reasonable, undue reliance should not be placed on the forward-looking information and statements because the Company can give no assurances that they will prove to be correct. Since forward-looking information and statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks including the implications of the COVID-19 health pandemic on the Company's business, operations and personnel. These factors and risks include, but are not limited to, the risks associated with the COVID-19 health pandemic and their implications on the demand and supply in the drilling and oilfield services sector (i.e. demand, pricing and terms for oilfield drilling and services; current and expected oil and gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety and environmental risks), significant expansion measures to*

*stop the spread of COVID-19 further restricting or prohibiting the operations of the Company's facilities and operations, actions to ensure social distancing due to COVID-19, the Company's cash saving initiatives, integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties and environmental regulations, stock market volatility and the inability to access sufficient capital from external and internal sources. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through SEDAR at [www.sedar.com](http://www.sedar.com). The forward-looking information and statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information or statements, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. Any forward-looking statements made previously may be inaccurate now.*

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## Reconciliation of Non-IFRS Measures

| \$ thousands, except shares, per share amounts and margins            | Three months ended<br>September 30, |                | Nine months ended<br>September 30, |                |
|---|-------------------------------------|----------------|------------------------------------|----------------|
|   | 2020                                | 2019           | 2020                               | 2019           |
| <b>NON-IFRS MEASURES</b>  |                                     |                |                                    |                |
| <u>Adjusted EBITDA:</u>   |                                     |                |                                    |                |
| Net loss  | (810)                               | (234)          | (23,721)                           | (846)          |
| Add:  |                                     |                |                                    |                |
| Stock based compensation  | 137                                 | 166            | 409                                | 592            |
| Finance costs   | 362                                 | 525            | 1,826                              | 1,915          |
| Depreciation and amortization   | 2,582                               | 3,250          | 8,349                              | 9,985          |
| Impairment of assets  | -                                   | -              | 25,451                             | -              |
| Loss (gain) on sale of equipment                                      | (114)                               | -              | 860                                | (78)           |
| Income tax expense  | (204)                               | 161            | (7,110)                            | (2,893)        |
| <b>Adjusted EBITDA<sup>(1)</sup></b>                                  | <b>1,953</b>                        | <b>3,868</b>   | <b>6,064</b>                       | <b>8,675</b>   |
| <b>Adjusted EBITDA per share - basic and diluted<sup>(1)</sup></b>    | <b>\$ 0.00</b>                      | <b>\$ 0.01</b> | <b>\$ 0.01</b>                     | <b>\$ 0.02</b> |
| <b>Adjusted EBITDA margin (Adjusted EBITDA/Revenue)<sup>(1)</sup></b> | <b>19%</b>                          | <b>14%</b>     | <b>13%</b>                         | <b>11%</b>     |
| Weighted average number of shares outstanding - basic and diluted     | 507,543,333                         | 510,358,460    | 509,239,883                        | 511,329,933    |
| <u>Gross margin:</u>  |                                     |                |                                    |                |
| Revenue   | 10,322                              | 27,775         | 47,828                             | 77,779         |
| Less: Direct operating expenses                                       | 7,457                               | 19,545         | 35,071                             | 56,806         |
| <b>Gross margin<sup>(2)</sup></b>                                     | <b>2,865</b>                        | <b>8,230</b>   | <b>12,757</b>                      | <b>20,973</b>  |
| <b>Gross margin percentage<sup>(2)</sup></b>                          | <b>28%</b>                          | <b>30%</b>     | <b>27%</b>                         | <b>27%</b>     |

| \$ thousands  | September 30, 2020 | December 31, 2019 |
|---|--------------------|-------------------|
| <u>Working capital (excluding debt):</u>              |                    |                   |
| Current assets  | 12,825             | 26,642            |
| Less: Current liabilities                             | (7,694)            | (9,249)           |
| Add: Current portion of long-term debt                | 789                | 1,141             |
| <b>Working capital (excluding debt)<sup>(3)</sup></b> | <b>5,920</b>       | <b>18,534</b>     |
| <u>Net debt:</u>                                      |                    |                   |
| Long-term debt  | 27,171             | 39,411            |
| Less: Current assets                                  | (12,825)           | (26,642)          |
| Add: Current liabilities                              | 9,161              | 9,249             |
| <b>Net debt<sup>(4)</sup></b>                         | <b>22,040</b>      | <b>22,018</b>     |

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

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

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

<sup>(4)</sup>Net debt is calculated based on long-term debt less current assets plus current liabilities. Net debt is not a recognized measure under IFRS and does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures provided by other companies. Management believes net debt is a useful indicator of a company's debt position.