# 2016 Annual Report

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CWC ENERGY SERVICES

## Corporate Profile – April 2017

### TSX-V: CWC

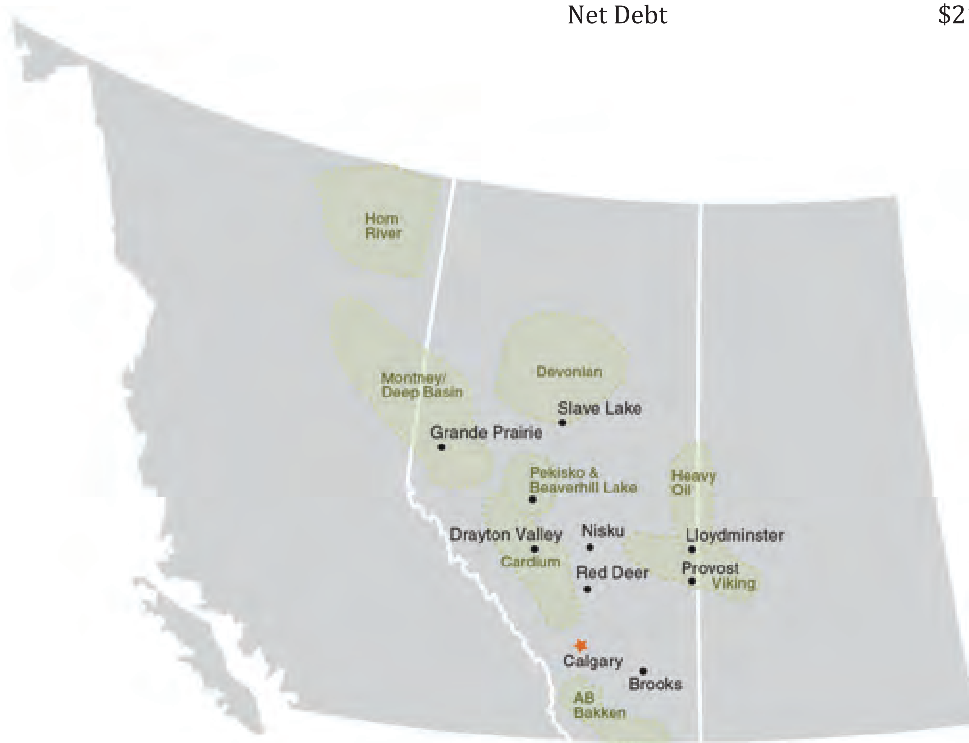
CWC Energy Services Corp. is a premier contract drilling and well servicing company operating in the WCSB with a complementary suite of oilfield services including drilling rigs, service rigs and coil tubing units. These oilfield service activities are necessary to drill wells, to complete newly drilled wells, to maintain ongoing servicing of producing wells and to abandon wells. CWC's services are provided through two divisions: Contract Drilling and Production Services.

### Market Profile

| | December 31, 2016 |
|---|---|
| Shares outstanding | 391.9 million |
| Price | $0.195 |
| Market | $76.4 million |

### Financial Information

| ($ millions) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Revenue | $73.1 | $81.3 | $143.7 |
| EBITDAS | $8.2 | $12.0 | $34.1 |
| Total Assets | $210.8 | $222.4 | $275.4 |
| Long-Term Debt | $33.1 | $52.2 | $65.7 |
| Net Debt | $21.8 | $40.4 | $45.1 |

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**Board of Directors**
Jim Reid, Chairman
Duncan Au
Daryl Austin
Gary Bentham
Wade McGowan
Dean Schultz

**Management**
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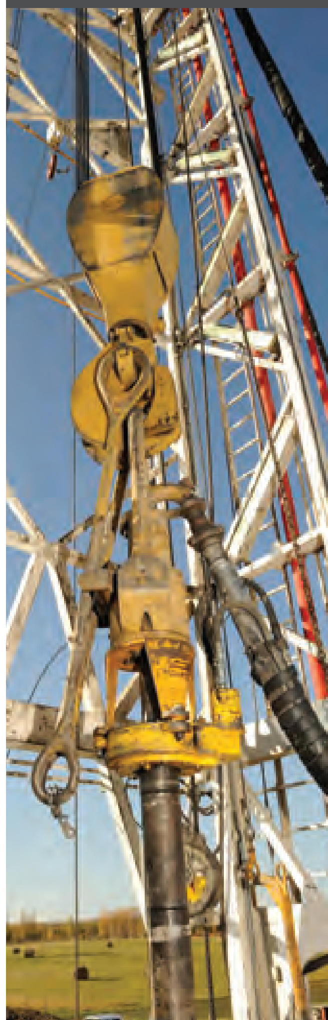
*President & CEO*
Craig Flint, CPA, CA
*Chief Financial Officer*
Paul Donohue
*VP Operations (Drilling)*
Darwin McIntyre
*VP Operations (Well Services)*
Bob Apps
*VP Sales and Marketing (Drilling)*
Mike Dubois
*VP Sales and Marketing (Well Services)*



## Divisions

### Contract Drilling

The Contract Drilling division operates under the trade name CWC Ironhand Drilling which has a fleet of nine telescopic drilling rigs with depth ratings from 3,200 to 5,000 metres, eight of nine rigs have top drives, two have pad rig walking systems. The drilling rig fleet has an average age of seven years. All of the drilling rigs are well suited for the most active depths for horizontal drilling in the WCSB, including the Montney, Cardium, Duvernay and other deep basin horizons.

### Production Services

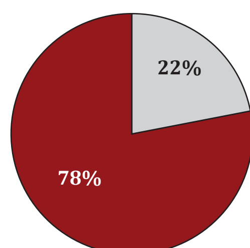
The Production Services division operates under the trade name CWC Well Services and is the second largest service rig provider in the WCSB, based on our total modern fleet of 74 service rigs as at December 31, 2016. Rig services include completions, maintenance, workovers and abandonments with depth ratings from 1,500 to 5,000 metres and are well positioned throughout the WCSB with operating locations in Slave Lake, Grande Prairie, Drayton Valley, Red Deer, Lloydminster, Provost and Brooks, Alberta. CWC also operates 10 coil tubing units with depth rating from 1,500 to 4,000 metres. CWC's coil tubing units are ideally suited for the steam adjusted gravity drainage (SAGD) wells in the oilsands as well as other parts of the WCSB. CWC's Well Services division is well positioned for the changing demands of our oil and gas customers for horizontal drilling and deeper depth capabilities.

## Equipment

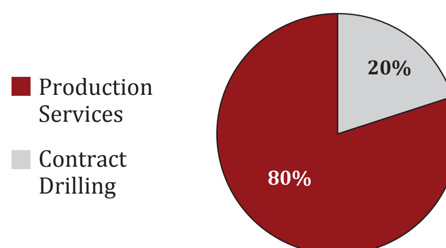
| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Contract Drilling | 9 | 9 | 9 |
| Service Rigs | 74 | 74 | 72 |
| Coil Tubing | 10 | 9 | 9 |

**2016**

**REVENUE BY DIVISION**




**EBITDAS BY DIVISION ***




** Divisional contribution, corporate costs excluded*

## President's Message

### Dear Fellow Shareholders,

I wish to share with you CWC Energy Services Corp.'s ("CWC" or the "Company") 2016 Annual Report. 2016 can best be described as the most challenging year for Canadian oilfield service companies in over four decades as the Canadian drilling rig utilization of 17% dropped to its lowest level since 1977 when the Canadian Association of Oilwell Drilling Contractors ("CAODC") first started recording this statistic. The oversupply of oil globally, which started in late 2014 and continued throughout 2016, had a negative effect on the price of crude oil, falling to a low of approximately $27 per bbl in February 2016 before gradually increasing for the remainder of the year. These historically low crude oil prices resulted in reduced demand for oilfield service activity by our exploration and production ("E&P") customers. However, as with any bad situation there is a light at the end of the tunnel. On November 30, 2016, OPEC decided to reduce the supply of crude oil in the market by setting lower production limits for participating members. In addition, some non-OPEC crude oil nations, such as Russia, also agreed to lower its production which set the stage for a bounce in crude oil prices to the $50 to $55 per bbl range by the end of 2016.

### Highlights of 2016

CWC's Board of Directors and management recognized the severity of this downturn early in 2015 and proactively implemented cash saving initiatives aimed at preserving our cash resources and maintaining our balance sheet strength as well as retaining our most valuable asset – our key employees. The cash saving initiatives initiated in 2015 carried through into 2016 resulting in a further annualized cash savings of $10.2 million in 2016 compared to 2015 on top of the $33.0 million saved in 2015 compared to 2014.

CWC's Contract Drilling division was particularly hit hard from the lack of activity by E&P customers as the need for new wells to be drilled when crude oil prices were below $50 per bbl was not in high demand. While CWC's Contract Drilling utilization of 26% (2015: 31%) was low, it still outperformed the CAODC industry average of 17% (2015: 23%) suggesting that even in a low commodity price cycle, CWC has the right type of drilling rigs with experienced and efficient crews that will go to work before many of its industry peers. To accomplish this success, CWC made changes to its Contract Drilling management team by hiring a Vice President, Sales & Marketing, a Vice President, Operations and an Operations Superintendent who understand cost cutting and control management would be the key to being able to compete with our industry peers as lower day rates and pricing became more prevalent throughout the year.

While the Contract Drilling division had a tough year, CWC's Production Services division was the bright light that kept the entire Company from facing an even worse fate. CWC's strategy of focusing on maintenance, workovers and abandonment work on existing wells (approximately 95%) as opposed to completion work on newly drilled wells (approximately 5%) paid off in a low commodity price environment. CWC's service rigs achieved a utilization of 40% (2015: 29%) compared to the CAODC industry average of 20% (2015: 30%). In fact, CWC achieved more operating hours in 2016 with 95,208 hours (2015: 68,315 hours) than any other CAODC service rig contractor in 2016 having increased its market share by total operating hours from 7% to 10% despite having only 7% of the total CAODC service rig fleet; an amazing accomplishment in arguably the worse year the industry has ever faced. CWC's coil tubing units also held their own with a utilization of 30% (2015: 31%). The slightly reduced coil tubing utilization was affected by lost operating hours in Q2 2016 as a result of E&P customers having to shut down operations due to the Fort McMurray wildfires in May 2016.

This temporary shutdown resulted in pent up demand in Q3 and Q4 2016 resulting in increased operating hours compared to Q3 and Q4 2015.

On April 25, 2016, our banking syndicate agreed to an extension of a $65 million credit facility to July 31, 2018 with revised financial covenants and an equity cure provision. Such support and increased financial flexibility from our debtholders allowed CWC to focus on its business operations and strategic initiatives through a prolonged industry downturn and demonstrates the continued strong support from our banking syndicate at a time when few credit facilities were being extended.

On June 2, 2016 CWC announced the closing of its oversubscribed $14.6 million equity rights offering by issuing an additional 97.5 million shares to its existing shareholders. $7.0 million of these proceeds were used to reduce long-term debt in July 2016 with the remainder of the $7.6 million, held in a segregated bank account, to be use at a later date to reduce long-term debt and apply the equity cure provisions to the Company's financial covenants. The credit facility renewal by the banking syndicate and the equity injection from CWC's existing shareholders will ensure CWC is well positioned to weather this industry downturn through to 2018.

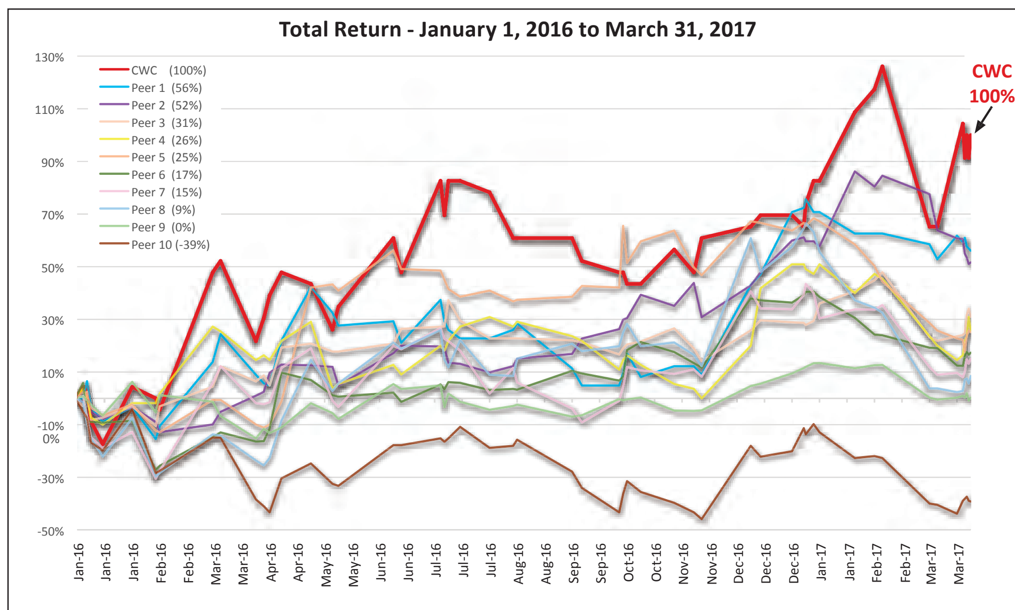
## Outlook For 2017

Cautious optimism is returning to the Canadian oilpatch. On January 30, 2017, the Petroleum Services Association of Canada ("PSAC") revised its forecast for number of wells drilled in 2017 to 5,150 wells, up 975 wells from its original November 2, 2016 forecast of 4,175 well; a 45% increase to the 3,562 wells drilled in 2016.

CWC continues to perform extremely well relative to its industry peer group. Q1 2017 activity levels have been very strong with 9 of 9 drilling rigs (100%), 54 of 67 service rigs (81%) and 8 of 9 coil tubing units (89%) experiencing operating days and hours. To put this into context, CWC has not experienced this level of activity since Q1 2014 before OPEC's November 2014 decision not to set production quotas. Despite the increase in activity, day and hourly rate pricing charged to E&P customers has not returned to pre-downturn levels, but CWC has experienced a modest improvement to pricing in Q1 2017 compared to Q4 2016 across all of our service lines, which should translate into higher EBITDA margins in 2017.

## Shareholder Returns

From a shareholder return perspective, CWC leads all other public Canadian contract drilling and well servicing companies on a total return (share price appreciation plus dividends) basis since December 31, 2015 as the following graph indicates:



CWC's outperformance, compared to the industry peer group, is attributable to your management team successfully navigating 2015 and 2016 with positive EBITDA in every single quarter over the last 9 quarters; a claim that most Canadian oilfield service companies cannot make. In fact, CWC's 2016 EBITDA of $8.2 million was higher than six other public Canadian contract drilling and well servicing companies that have three to seven times more drilling rig assets than CWC, suggesting CWC's management has done everything we possibly could to bring value to our shareholders during this industry downturn.

## Conclusion

In closing, I would like to express my sincere thanks to CWC's employees for their truly hard work and dedication to making CWC the best performing contract drilling and well servicing company in Canada. To our customers, we cherish your ongoing business and relationship, especially during this past year, and together we will come out stronger on the other end. To my Board of Directors, thank you for your support, guidance and wisdom through these choppy waters. And to all of my fellow shareholders who continue to believe and support us I have only two words, THANK YOU!

Sincerely and submitted on behalf of the Board of Directors,

Duncan T. Au

President & Chief Executive Officer

March 31, 2017

# 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 February 28, 2017 and should be read in conjunction with audited annual financial statements for the year ended December 31, 2016. Additional information regarding CWC can be found in the Company's latest Annual Information Form ("AIF"). The audited annual financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars unless otherwise noted. Additional information relating to CWC, including the AIF, is available on SEDAR at www.sedar.com.

## Highlights for the Three Months Ended December 31, 2016

- In Q4 2016 the Company experienced increased demand for drilling and well services largely attributable to higher commodity prices. The Q4 2016 average crude price, as measured by WTI, of US$49.04/bbl was a 9% increase over Q3 2016 average price of US$44.85/bbl and 17% higher than US$41.94/bbl in Q4 2015. Natural gas prices, as measured by AECO, increased 33% from an average of $2.22/GJ in Q3 2016 to $2.95/GJ in Q4 2016 (Q4 2015: $2.35/GJ).

- CWC's drilling rig utilization of 31% in Q4 2016 (Q4 2015: 23%) exceeded the Canadian Association of Oilwell Drilling Contractors ("CAODC") industry average of 24%. Q4 2016 drilling rig operating days were affected by unusually warm weather and wet operating conditions in October and November 2016, which negatively impacted our ability to access well sites and move drilling rig equipment to customer locations. CWC achieved 257 drilling rig operating days in Q4 2016 and estimates an additional 134 drilling rig operating days were lost due to the warm and wet weather conditions. Nevertheless, increased activity levels in Q4 2016 compared to Q4 2015 reflects the increasing optimism of our E&P customers as a result of the OPEC agreement on production cuts and the resultant increase in global crude oil prices subsequent to their November 30, 2016 meeting.

- CWC's service rig utilization of 45% in Q4 2016 (Q4 2015: 36%) with 27,091 operating hours was 29% higher than the 21,008 operating hours in Q4 2015. Q4 2016 service rig operating hours were also affected by the unusually warm weather and wet operating conditions in October and November 2016, which limited the ability to move service rig equipment to customer locations. CWC estimates an additional 4,200 service rig operating hours were lost due to the wet operating conditions. Despite the unfavourable weather, CWC's Q4 2016 service rig operating hours and utilization was its highest since Q4 2014 (28,644 hours and 45% respectively) suggesting that CWC's activity with its E&P customers have returned to pre-downturn activity levels.

- CWC's coil tubing utilization of 32% in Q4 2016 (Q4 2015: 23%) from 2,349 operating hours was 41% higher than the 1,665 operating hours in Q4 2015. The increased activity level is a direct result of a greater demand by our E&P customers to service their steam assisted gravity drainage ("SAGD") wells.

- Revenue of $21.0 million, an increase of $2.2 million (12%) compared to $18.8 million in Q4 2015. The increase from Q4 2015 is a result of increased year-over-year activity levels offset by lower year-over-year pricing consistent with prior 2016 quarters.

- EBITDAS (1) of $2.9 million, an increase of $0.6 million (26%) compared to $2.3 million in Q4 2015. Increased EBITDAS is a direct result of increased year-over-year activity levels and lower variable and fixed costs from the Company's 2015 and 2016 cash savings initiatives offset by lower year-over-year pricing in both the Contract Drilling and Production Services business segments.

- Net loss of $1.7 million, a decrease of $5.0 million (-75%) compared to a net loss of $6.7 million in Q4 2015. The year-over-year reduction in net loss is primarily due to an impairment of goodwill and assets of $6.9 million in Q4 2015 with no similar impairment in Q4 2016, an increase in Q4 2016 EBITDAS, decreases in finance costs and deferred income tax recovery, all partially offset by an increase in non-cash stock based compensation.

## Highlights for the Year Ended December 31, 2016

- CWC's drilling rig utilization of 26% in 2016 (2015: 31%) exceeded the CAODC industry average of 17%. The lower activity level in 2016 (814 drilling rig operating days) compared to 2015 (1,028 drilling rig operating days) is a result of persistent uncertainty throughout most of 2016 on our E&P customers as to when crude oil prices would recover from their low levels due to the ongoing oversupply of crude oil production globally. This uncertainty resulted in lower demand by our E&P customers in 2016 compared to 2015 for our Contract Drilling services.

- CWC's service rig utilization was 40% in 2016 (2015: 29%). The Company's continuing increase in market share since Q4 2015 can be attributed to its modern fleet of 74 service rigs, exceptional sales and operational management, and experienced rig crews performing work safely and efficiently. Customer appreciation and acceptance of our outstanding service and safety performance and high quality and well maintained equipment are strong and has been a key differentiating factor for CWC.

- CWC's coil tubing utilization was 30% in 2016 (2015: 31%). The Company's slightly lower year-over-year utilization was affected by lost operating hours in Q2 2016 as a result of our E&P customers having to shut down operations due to the Fort McMurray wildfires in May 2016. This temporary shutdown resulted in pent up demand for our coil tubing services in Q3 and Q4 2016 resulting in increased operating hours for those quarters compared to Q3 and Q4 2015.

- Revenue of $73.1 million, a decrease of $8.2 million (-10%) compared to $81.3 million in 2015. The decline from the previous year is predominately due to lower drilling rig activity and pricing combined with lower service rig and coil tubing pricing charged to our E&P customers, which was partially offset by a significant increase in service rig activity.

- EBITDAS[(1)] of $8.2 million, a decrease of $3.8 million (-32%) compared to $12.0 million in 2015. Decreased EBITDAS is a direct result of lower drilling rig activity and lower drilling rig, service rig and coil tubing pricing charged to E&P customers, which was partially offset by a significant increase in service rig activity and lower variable and fixed costs from the Company's cash savings initiatives which began in 2015 for which the benefits continued to be realized in 2016.

- Net loss of $7.5 million, a decrease of $21.6 million (-74%) compared to a net loss of $29.1 million in 2015. The year-over-year reduction in net loss is due to an impairment of goodwill and assets of $24.2 million in 2015 with no similar impairment in 2016, an increase in deferred income tax recovery, a decrease in depreciation and amortization expense and non-cash stock based compensation partially offset by lower 2016 EBITDAS and an increase in finance costs.

- On April 25, 2016, the Company extended its credit agreement with its banking syndicate to include, among other things, the following terms:

  - the maturity date of the credit facilities were extended to July 31, 2018;
  - the credit facilities were voluntarily reduced from $75.0 million to $65.0 million with the ability to increase the credit facilities by an additional $60.0 million through an accordion feature, subject to approval by the banking syndicate;
  - amendments to the quarterly financial covenants for Consolidated Debt to Consolidated EBITDA ratio; and
  - the inclusion of an equity cure provision which allows the Company to apply the proceeds of equity offerings in the calculation of Consolidated EBITDA towards the Consolidated Debt to Consolidated EBITDA ratio until March 31, 2018, subject to certain conditions as follows:

    - an equity cure may be utilized in no more than two quarters during such period;
    - an equity cure may not be utilized in consecutive quarters; and
    - an equity cure utilized in any quarter is not to exceed the greater of 50% of total Consolidated EBITDA over the prior twelve month period or $15.0 million.

- On June 2, 2016, CWC announced the closing of its equity rights offering and the issuance of an additional 97.5 million common shares. The equity rights offering was oversubscribed and generated $14.6 million in gross proceeds. $7.0 million of these proceeds was used to reduce long-term debt in July 2016 and the remainder of the $7.6 million is held in a segregated bank account and has been deducted from long-term debt at December 31, 2016.

- The Company renewed its Normal Course Issuer Bid ("NCIB") effective June 8, 2016 to purchase from time to time, as it considers advisable, up to 19,512,200 of issued and outstanding common shares through the facilities of the TSX Venture Exchange ("TSXV") or other recognized marketplaces. The price that the Company will pay for any common share under the NCIB will be the prevailing market price on the TSXV at the time of such purchase. To December 31, 2016, no common shares were purchased under the NCIB. The NCIB expires on June 7, 2017 unless renewed.

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

# Corporate Overview

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

# Financial and Operational Highlights

| $ thousands, except shares, per share amounts, margins and ratios | Three months ended December 31, 2016 | Three months ended December 31, 2015 | % Change | Year ended December 31, 2016 | Year ended December 31, 2015 | Year ended December 31, 2014[1] |
|---|---|---|---|---|---|---|
| **FINANCIAL RESULTS** | | | | | | |
| Revenue | | | | | | |
| Contract Drilling[1] | 5,299 | 4,769 | 11% | 15,903 | 27,758 | 38,819 |
| Production Services | 15,693 | 14,018 | 12% | 57,219 | 53,502 | 104,847 |
| | 20,992 | 18,787 | 12% | 73,122 | 81,260 | 143,666 |
| EBITDAS [2] | 2,923 | 2,327 | 26% | 8,220 | 12,037 | 34,058 |
| EBITDAS margin (%) [2] | 14% | 12% | n/a[3] | 11% | 15% | 24% |
| Funds from operations [2] | 2,923 | 2,327 | 26% | 8,220 | 12,037 | 33,217 |
| Net loss and comprehensive loss | (1,717) | (6,747) | (75%) | (7,468) | (29,106) | (13,451) |
| Net loss and comprehensive loss margin (%) | (8%) | (36%) | 28% | (10%) | (36%) | (9%) |
| Dividends declared | - | - | - | - | 3,579 | 17,171 |
| Per share information | | | | | | |
| Weighted average number of shares outstanding – basic | 390,655,440 | 291,693,064 | | 349,836,144 | 285,524,891 | 227,675,260 |
| Weighted average number of shares outstanding – diluted | 390,655,440 | 291,693,064 | | 349,836,144 | 285,524,891 | 227,675,260 |
| EBITDAS [2] per share – basic and diluted | $0.01 | $0.01 | | $0.02 | $0.04 | $0.15 |
| Net loss per share - basic and diluted | ($0.00) | ($0.02) | | ($0.02) | ($0.10) | ($0.06) |
| Dividends declared per share | $0.00 | $0.00 | | $0.00 | $0.0125 | $0.06875 |

| $ thousands, except ratios | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **FINANCIAL POSITION AND LIQUIDITY** | | | |
| Working capital (excluding debt) [2] | 11,333 | 11,822 | 20,603 |
| Working capital (excluding debt) ratio [2] | 2.5:1 | 3.1:1 | 2.2:1 |
| Total assets | 210,750 | 222,428 | 275,353 |
| Total long-term debt (including current portion) | 33,142 | 52,241 | 65,666 |
| Shareholders' equity | 155,482 | 147,462 | 172,70 |

(1) CWC entered into the contract drilling business on May 15, 2014, through the acquisition of Ironhand Drilling Inc. and results are included May 16, 2014 onward.

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

(3) Not meaningful.

Working capital (excluding debt) has decreased 4% since December 31, 2015 due to increased accounts payable and other liabilities offset by increased accounts receivable from higher revenue. Long-term debt (including current portion) has decreased due to the repayment of $7.0 million in debt from the proceeds of the $14.6 million rights offering in June 2016 and from positive operating cash flows. The remaining proceeds of $7.6 million from the rights offering is held in a segregated bank account and has been deducted from long-term debt at December 31, 2016. Shareholders' equity has increased since December 31, 2015 as equity issued under the $14.6 million rights offering more than offset the net loss for 2016.

# Operational Overview

## Contract Drilling

CWC Ironhand Drilling, the Company's Contract Drilling segment, has a fleet of nine telescopic double drilling rigs with depth ratings from 3,200 to 5,000 metres, eight of nine rigs have top drives, two have pad rig walking systems. The drilling rig fleet has an average age of seven years. All of the drilling rigs are well suited for the most active depths for horizontal drilling in the WCSB, including the Montney, Cardium, Duvernay and other deep basin horizons. Given the downturn in the industry CWC chose to park one of its drilling rigs at the beginning of 2016 and focus its sales and operational efforts on the remaining eight drilling rigs. CWC found a customer for its one inactive drilling rig in Q3 2016 and as such all nine drilling rigs are now active.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **OPERATING HIGHLIGHTS** | **Dec. 31, 2016** | **Sep. 30, 2016** | **Jun. 30, 2016** | **Mar. 31, 2016** | **Dec. 31, 2015** | **Sep. 30, 2015** | **Jun. 30, 2015** | **Mar. 31, 2015** |
| **Drilling Rigs** | | | | | | | | |
| Active drilling rigs, end of period | 9 | 9 | 8 | 8 | 9 | 9 | 9 | 9 |
| Inactive drilling rigs, end of period | - | - | 1 | 1 | - | - | - | - |
| Total drilling rigs, end of period | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Revenue per operating day [(1)] | $20,623 | $16,835 | $21,754 | $21,565 | $24,996 | $24,740 | $26,661 | $30,553 |
| Drilling rig operating days | 257 | 301 | 65 | 191 | 191 | 379 | 99 | 359 |
| Drilling rig utilization % [(2)] | 31% | 37% | 9% | 26% | 23% | 46% | 12% | 44% |
| CAODC industry average utilization % | 24% | 17% | 7% | 20% | 20% | 24% | 13% | 34% |

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

[(2)] Drilling rig utilization is calculated based on operating days (i.e. spud to rig release basis) in accordance with the methodology prescribed by the CAODC.

Contract Drilling revenue of $5.3 million for Q4 2016 (Q4 2015: $4.8 million) was achieved with a utilization rate of 31% (Q4 2015: 23%), compared to the CAODC industry average of 24%. Q4 2016 drilling rig operating days were affected by unusually warm weather and wet operating conditions in October and November 2016, which negatively impacted our ability to access well sites and move drilling rig equipment to customer locations. CWC achieved 257 drilling rig operating days in Q4 2016 and estimates an additional 134 drilling rig operating days were lost due to the warm and wet weather conditions. Q4 2016 revenue was 11% higher compared to Q4 2015 as increased activity more than offset the impact of reduced pricing.

Contract Drilling revenue of $15.9 million for the year ended December 31, 2016 (2015: $27.8 million) was achieved with a utilization rate of 26%, compared to the CAODC industry average of 17%. 2016 revenue was 43% lower than 2015 as persistent uncertainty throughout most of 2016 on our E&P customers as to when crude oil and natural gas prices would recover from their low prices kept drilling activity at historically low levels. According to the CAODC, the total Canadian drilling industry operating days was 42,307 in 2016, a 35% reduction from 2015 operating days of 64,580. In comparison, CWC's 21% reduction from 1,028 operating days in 2015 to 814 operating days in 2016 outperformed the CAODC industry average and is attributable to the Company having the most modern, relevant and well maintained drilling rigs as well as a reputation for safe and efficient operations, exceptional management and experienced drilling rig crews.

## Production Services

CWC is the second largest service rig provider in the WCSB, based on our modern fleet of 74 service rigs as at December 31, 2016 which consists of 41 single, 27 double, and 6 slant rigs. CWC's fleet is amongst the newest in the WCSB and provides services which include completions, maintenance, workovers and abandonments with depth ratings from 1,500 to 5,000 metres. Given the current downturn in the industry, CWC chose to park nine of its service rigs at the beginning of 2016 and focus its sales and operational efforts on the remaining 65 service rigs. In Q3 and Q4 2016, the Company found customers for two of its inactive service rigs and as such have reactivated these two service rigs for a total active fleet of 67 service rigs at December 31, 2016.

CWC's Class I, II and III coil tubing units have depth ratings from 1,500 to 4,000 metres. As at December 31, 2016, the Company's fleet of nine coil tubing units consists of five Class I, three Class II and one Class III coil tubing units. In light of competitive challenges for CWC's Class III coil tubing unit, the Company has chosen to focus its sales and operational efforts on its eight Class I and II coil tubing units which are better suited at servicing SAGD wells, which are shallower in depth and more appropriate for these coil tubing operations. In Q4 2016 the company acquired an additional Class I coil tubing unit which is expected to be put into service in Q1 2017.

| OPERATING HIGHLIGHTS | Three months ended Dec. 31, 2016 | Sep. 30, 2016 | Jun. 30, 2016 | Mar. 31, 2016 | Dec. 31, 2015 | Sep. 30, 2015 | Jun. 30, 2015 | Mar. 31, 2015 |
|---|---|---|---|---|---|---|---|---|
| **Service Rigs** | | | | | | | | |
| Active service rigs, end of period | 67 | 66 | 65 | 65 | 64 | 65 | 66 | 66 |
| Inactive service rigs, end of period | 7 | 8 | 9 | 9 | 10 | 9 | 8 | 7 |
| Total service rigs, end of period | 74 | 74 | 74 | 74 | 74 | 74 | 74 | 73 |
| Operating hours | 27,091 | 22,927 | 21,724 | 23,466 | 21,008 | 16,676 | 14,051 | 16,580 |
| Revenue per hour | $536 | $543 | $548 | $580 | $615 | $657 | $668 | $769 |
| Service rig utilization % (1) | 45% | 38% | 37% | 40% | 36% | 27% | 23% | 29% |
| **Coil Tubing Units** | | | | | | | | |
| Active coil tubing units, end of period | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Inactive coil tubing units, end of period | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Total coil tubing units, end of period | 10 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Operating hours | 2,349 | 2,160 | 1,147 | 3,034 | 1,665 | 1,048 | 2,111 | 4,351 |
| Revenue per hour | $507 | $458 | $508 | $662 | $657 | $771 | $724 | $885 |
| Coil tubing units utilization % (2) | 32% | 29% | 16% | 42% | 23% | 14% | 29% | 60% |

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

(2) Coil tubing unit utilization is calculated based on 10 hours a day, 365 days a year. New coil tubing units are added based on the first day of field service.

Production Services revenue was $15.7 million in Q4 2016, up $1.7 million (12%) compared to $14.0 million in Q4 2015, as the impact of increased activity for the Company's service rigs and coil tubing units were partially offset by lower revenue per hour. Revenue per hour has continued to decline since Q4 2014 as reduced industry activity resulted in intense competition and aggressive pricing of services. The increase in operating hours for both service rigs and coil tubing units in Q4 2016 from Q3 2016 coincides with seasonal increased demand from our customers combined with an improved commodity price environment.

CWC's service rig utilization of 45% in Q4 2016 (Q4 2015: 36%) with 27,091 operating hours was 29% higher than the 21,008 operating hours in Q4 2015. Q4 2016 service rig operating hours were also affected by the unusual warm weather and wet operating conditions in October and November 2016, which limited the ability to move service rig equipment to customer locations. CWC estimates an additional 4,200 service rig operating hours were lost due to the wet operating conditions. Despite the unfavourable weather, CWC's Q4 2016 service rig operating hours and utilization was its highest since Q4 2014 (28,644 hours and 45% respectively) suggesting that CWC's activity with its E&P customers have returned to pre-downturn activity levels.

CWC's coil tubing utilization of 32% in Q4 2016 (Q4 2015: 23%) from 2,349 operating hours was 41% higher than the 1,665 operating hours in Q4 2015. The increased activity level is a direct result of a greater demand by our E&P customers to service their SAGD wells. Coil tubing's average hourly rate of $507 per hour in Q4 2016, a 23% decline from $657 per hour in Q4 2015 is due to a higher activity mix from its lower priced Class I units working on SAGD wells compared to the deeper Class II units and overall pricing pressure from our E&P customers compared to a year ago.

For the year ended December 31, 2016 Production Services revenue of $57.2 million was 7% higher than the $53.5 million achieved in 2015 as CWC outperformed the CAODC service rig industry and incrementally increased its operating hours in each quarter by increasing market share, which was partially offset by lower average revenue per hour. CWC's 95,208 service rig operating hours in 2016, a 39% increase to the 68,315 operating hours in 2015 is in sharp contrast to the total reported CAODC service rig industry decline of 7% in operating hours from 2015 to 2016. The Company's Q4 2016 estimated market share of 10% was earned with 7% of the CAODC active industry rig fleet and is 3% higher than the 7% market share in Q4 2015. The Company's operating hours were higher than any other CAODC registered service rig contractor in 2016. CWC's strong market share is a result of: (i) a focus on production work; (ii) an increase in market share with a select number of senior E&P customers; (iii) an aggressive pricing strategy initiated in Q4 2015; and (iv) a service rig fleet, amongst the newest in the WCSB, which stands out in an industry characterized by ageing equipment and infrastructure.

CWC's coil tubing utilization was 30% for the year ended December 31, 2016 (2015: 31%). The Company's slightly lower year-over-year utilization was affected by lost operating hours in Q2 2016 as a result of our E&P customers having to shut down operations due to the Fort McMurray wildfires in May 2016. This temporary shutdown resulted in pent up demand for our coil tubing services in Q3 and Q4 2016 resulting in increased operating hours for those quarters compared to Q3 and Q4 2015.

## Outlook

Crude oil, as represented by WTI, averaged US$49.04/bbl in Q4 2016, and increase of 9% over Q3 2016 average price of US$44.85/bbl and 17% higher than US$41.94/bbl in Q4 2015. Natural gas prices, as represented by AECO, averaged $2.95/GJ, 33% higher than the Q3 2016 average of $2.22/GJ. For the year ended December 31, 2016, approximately 73% of revenue is from work on crude oil wells, 25% was from natural gas wells, and 2% was other. Further, approximately 26% was related to drilling and completions work, 63% from maintenance and workovers on producing wells and 11% from abandonments. Higher crude oil prices in the US$50/bbl to US$55/bbl range as a result of the OPEC agreement on November 30, 2016 to reduce oil production supply has resulted in increased activity levels in the WCSB to start 2017. Indeed on January 30, 2017 the Petroleum Services Association of Canada ("PSAC") increased its 2017 Canadian Drilling Activity Forecast by 975 wells or 23% to 5,150 wells from the original November 2016 forecast. CWC continues to experience strong utilizations in 2017 with all of our business lines, and currently has nine of nine drilling rigs (100%) contracted, 54 of 67 service rigs (81%) and eight of nine coil tubing units (89%) working. These Q1 2017 activity levels have returned to pre-downturn levels last achieved in October 2014. As demand for services increase across the industry, it has become apparent that the deterioration in the skilled labour force due to the lack of work and layoffs that have occurred over the last two years has become a limiting factor as to how quickly oilfield service companies will be able to service their E&P customers. As one of the most active drilling and service rig contractors in the WCSB, CWC has been able to retain experienced, high quality rig crews. However, we are finding it increasingly difficult to find and hire qualified field employees to staff the next incremental drilling rig, service rig or coil tubing unit to meet increasing customer demand. The Company anticipates that if this tight labour market stays in the industry for several quarters, it should lead to increased pricing for our services and improved operating and cash flow margins in future quarters.

CWC's 2015 and 2016 proactive focus on targeted reductions to variable and fixed costs, headcount and wages, suspension of dividends and strategic and prudent capital expenditures has contributed to the Company being able to achieve positive EBITDAS and cash flow throughout 2016 despite competitive pricing pressures. CWC's financial stability was significantly enhanced in Q2 2016 with its rights offering and extension of its credit facilities with its banking syndicate. These operational and financial measures will result in significant and sustainable benefits to the Company in 2017 as we strive to improve EBITDAS and cash flow margins and strive to return to profitability.

While CWC continues to maintain focus on its operational and financial performance, it is also mindful of taking advantage of opportunities as they arise. Management continues to actively evaluate strategic opportunities and pursue those it believes will fundamentally position CWC well for the future with the overriding criteria of being able to create long-term shareholder value.

## Discussion of Financial Results

### Revenue, Direct Operating Expenses and Gross Margin

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Contract Drilling | 5,299 | 4,769 | 530 | 11% | 15,903 | 27,758 | (11,855) | (43%) |
| Production Services | 15,693 | 14,018 | 1,675 | 12% | 57,219 | 53,502 | 3,717 | 7% |
| | 20,992 | 18,787 | 2,205 | 12% | 73,122 | 81,260 | (8,138) | (10%) |
| Direct operating expenses | | | | | | | | |
| Contract Drilling | 3,938 | 3,264 | 674 | 21% | 12,356 | 17,743 | (5,387) | (30%) |
| Production Services | 11,310 | 9,739 | 1,571 | 16% | 40,853 | 37,381 | 3,472 | 9% |
| | 15,248 | 13,003 | 2,245 | 17% | 53,209 | 55,124 | (1,915) | (3%) |
| Gross margin [(1)] | | | | | | | | |
| Contract Drilling | 1,361 | 1,505 | (144) | (10%) | 3,547 | 10,015 | (6,468) | (65%) |
| Production Services | 4,383 | 4,279 | 104 | 2% | 16,366 | 16,121 | 245 | 2% |
| | 5,744 | 5,784 | (40) | (1%) | 19,913 | 26,136 | (6,223) | (24%) |
| Gross margin percentage[(1)] | | | | | | | | |
| Contract Drilling | 26% | 32% | n/a | n/a | 22% | 36% | n/a | n/a |
| Production Services | 28% | 31% | n/a | n/a | 29% | 30% | n/a | n/a |
| | 27% | 31% | n/a | n/a | 27% | 32% | n/a | n/a |

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

Q4 2016 revenue of $21.0 million, an increase of $2.2 million (12%) compared to $18.8 million in Q4 2015. Revenue increased $0.5 million (11%) in the Contract Drilling segment and $1.7 million (12%) in the Production Services segment in Q4 2016 compared to Q4 2015.

For 2016, revenue of $73.1 million, a decrease of $8.1 million (-10%) compared to $81.3 million in 2015. The decrease in revenue is due to a lower Contract Drilling revenue of $11.9 million (-43%) offset by an increase of $3.7 million (7%) in the Production Services segment for 2016 compared to 2015. The low commodity price environment since Q4 2014 has lowered customer demand and Q1 to Q3 2016 activity levels (drilling rig operating days) and day rates throughout the year. Of the $11.9 million decrease in Contract Drilling revenue, approximately 35% is due to lower activity, while 65% is due to pricing as average revenue per day in 2016 of $19,536 is 28% lower than the 2015 average revenue per day of $26,976. Production Services revenue increase of $3.7 million was due to an increase in service rig activity (operating hours) offset by the impact of lower hourly rig rates and slightly lower coil tubing activity (operating hours) along with a decrease in coil tubing hourly rig rates. Revenue from the Company's top ten customers in 2016 comprised 74% of revenue (2015: 60%) and one customer comprised 32% of revenue (2015: 14%).

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. Both Contract Drilling and Production Services segments experienced reductions in field labour costs during 2016 compared to 2015, which partially offset the impact of price reductions on revenue. CWC's management has focused on reducing direct costs in line with reduced pricing and where possible, minimizing the fixed cost component. The result has been an ability to maintain gross margin percentage despite significant pricing pressures. Contract Drilling gross margin percentage of 22% in 2016 is lower than the 36% in 2015 due primarily to intense competition and its negative impact on pricing, particularly in Q3-Q4 2016. In addition, fixed costs were incurred to reactivate two drilling rigs after significant down time. Production Services 2016 gross margin percentage of 29% is consistent with the 2015 gross margin percentage of 30%.

**Selling and Administrative Expenses**

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Selling and administrative expenses | 2,821 | 3,457 | (636) | (18%) | 11,693 | 14,099 | (2,406) | (17%) |

Selling and administrative expenses of $2.8 million in Q4 2016, a decrease of $0.6 million (-18%) compared $3.5 million in Q4 2015. Selling and administrative expenses are predominately fixed in nature, but continue to decline due to cash savings initiatives undertaken throughout 2015 and 2016, including layoffs, salary reductions, suspension of cash bonuses and reduced rent on leased facilities. Most selling and administrative expenses, such as building and office rent and administrative salaries are fixed and are not subject to significant fluctuation on a quarterly basis. Other costs such as professional and legal fees can fluctuate depending on specific services received in the period. In 2016, CWC successfully negotiated lower lease costs for its facilities in Lloydminster, Nisku and Red Deer, which will result in fixed cost savings of approximately $0.3 million per annum.

**EBITDAS**

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| EBITDAS [1] | | | | | | | | |
| Contract Drilling | 996 | 1,131 | (135) | (12%) | 2,422 | 8,698 | (6,276) | (72%) |
| Production Services | 2,577 | 2,153 | 424 | 20% | 9,491 | 7,920 | 1,571 | 20% |
| Corporate | (650) | (957) | 307 | (32%) | (3,693) | (4,581) | 888 | (19%) |
| | 2,923 | 2,327 | 596 | 26% | 8,220 | 12,037 | (3,817) | (32%) |
| EBITDAS margin (%) [1] | 14% | 12% | n/a | n/a | 11% | 15% | n/a | n/a |

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

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

EBITDAS of $2.9 million in Q4 2016, an increase of $0.6 million (26%) compared to $2.3 million in Q4 2015. The increase in EBITDAS is due to a $0.4 million increase in the Production Services segment and a $0.3 million decrease in corporate expenses offset by a $0.1 million decrease from Contract Drilling. For the year ended December 31, 2016, EBITDAS of $8.2 million, a decrease of $3.8 million (-32%) compared to $12.0 million in 2015. Decreased EBITDAS is a direct result of lower drilling rig activity and lower day rates charged to E&P customers partially offset by a significant increase in service rig activity at lower hourly rig rates combined with lower variable and fixed costs from the Company's cash savings initiatives which began in 2015 for which the benefits continue to be realized in 2016.

### Stock Based Compensation

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Stock based compensation | 594 | 200 | 394 | 197% | 945 | 1,008 | (63) | (6%) |

Stock based compensation is primarily a function of outstanding stock options and restricted share units ("RSU's") being expensed over their vesting term. Stock based compensation of $0.6 million in Q4 2016 is 197% higher than Q4 2015 primarily due to a Q4 2016 grant of immediately vested RSU's. Stock based compensation of $0.9 million in 2016, a decrease of $0.1 million (6%) from $1.0 million in 2015. The decrease is due primarily to the forfeiture of stock options and RSU's on employee departures in 2016 offset by a Q4 2016 grant of immediately vested RSU's. As a generalization, a higher stock based compensation expense will result from a higher trading price of CWC's common shares at the time the stock options and RSU's are granted.

### Finance Costs

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Finance costs | 502 | 559 | (57) | (10%) | 2,515 | 2,203 | 312 | 14% |

Finance costs of $0.5 million in Q4 2016, a decrease of $0.1 million (10%) compared to $0.6 million in Q4 2015. The decrease in finance costs was due to higher average interest rates and amortization of capitalized finance costs, offset by a reduction in the average outstanding borrowing in Q4 2016 when compared to Q4 2015. In Q3 2016, $7.0 million of the proceeds from the $14.6 million rights offering were used to repay long-term debt and included in the Consolidated Debt to Consolidated EBITDA ratio calculation as an equity cure. The remaining $7.6 million in proceeds from the $14.6 million rights offering is held in a segregated bank account, which for accounting purposes, offsets the long-term debt. Finance costs continue to be calculated on the long-term debt excluding the monies held in the segregated bank account.

### Depreciation and Amortization

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| **Depreciation and Amortization** | | | | | | | | |
| Contract Drilling | 984 | 844 | 140 | 17% | 3,284 | 4,123 | (839) | (20%) |
| Production Services | 2,708 | 2,790 | (82) | (3%) | 10,799 | 11,185 | (386) | (3%) |
| Corporate | 41 | 96 | (55) | (57%) | 165 | 161 | 4 | 2% |
| | 3,733 | 3,730 | 3 | 0% | 14,248 | 15,469 | (1,221) | (8%) |

Depreciation and amortization for drilling rigs and service rigs are based on operating days and hours. Coil tubing units, capitalized recertifications and other production equipment are depreciated on a straight line basis resulting in consistent depreciation and amortization expense regardless of activity. As such, the reduction in 2016 Contract Drilling depreciation reflects the lower drilling days in 2016 compared to 2015, while the decrease in Production Services reflects increased operating hours in 2016 compared to 2015 offset by lower total depreciable equipment.

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

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31,, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Loss (gain) on disposal of equipment | 231 | (36) | 267 | (742%) | 394 | 215 | 179 | 83% |

Management continually monitors the asset mix and equipment needs and invests and divests assets as needed to optimize operations. During 2016, the loss on disposal of equipment was the result of the sale of equipment with proceeds on sale of $1.1 million (2015: $1.1 million).

**Deferred Income Taxes**

| $ thousands | Three months ended December 31, 2016 | 2015 | Year ended December 31, 2016 | 2015 |
|---|---|---|---|---|
| Net loss before income taxes | (2,137) | (9,018) | (9,882) | (31,072) |
| Deferred income tax recovery | (420) | (2,271) | (2,414) | (1,966) |
| Deferred income tax recovery as a % of net loss before income taxes | 20% | 25% | 24% | 6% |
| Expected statutory income tax rate | 27% | 26% | 27% | 26% |

Income taxes are a function of taxable income and are calculated differently than accounting net income. Differences between accounting net income and taxable income include such things as gains or losses on disposal of fixed assets, stock based compensation, differences between income tax estimates and actual tax filings, goodwill impairment, and other differences. The deferred income tax recovery for 2016 of $2.4 million is a direct result of the net loss before income taxes. The deferred income tax recovery in 2015 was lower due to the non-deductible goodwill impairment and a one-time revaluation of the deferred tax liability resulting from the June 2015 implementation of an Alberta corporate statutory income tax rate increase.

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

**Net Loss and Comprehensive Loss**

| $ thousands | Three months ended December 31, 2016 | 2015 | Change $ | Change % | Year ended December 31, 2016 | 2015 | Change $ | Change % |
|---|---|---|---|---|---|---|---|---|
| Net loss and comprehensive loss | (1,717) | (6,747) | 5,030 | (75%) | (7,468) | (29,106) | 21,638 | (74%) |

Q4 2016 net loss and comprehensive loss of $1.7 million, a decrease of $5.0 million (-75%) from $6.7 million in Q4 2015. For the year ended December 31, 2016, net loss and comprehensive loss of $7.5 million, a decrease of $21.6 million (-74%) compared to $29.1 million for 2015. The year-over-year reduction in net loss is due primarily to an impairment of goodwill and assets of $24.2 million in 2015 with no similar impairment in 2016, an increase in deferred income tax recovery, a decrease in depreciation and amortization expense and non-cash stock based compensation partially offset by lower 2016 EBITDAS and increase in finance costs. At December 31, 2016, CWC considered indicators of impairment or impairment reversal for each of its cash generating units and based on that review no impairment tests were required to be performed.

## Liquidity and Capital Resources

**Source of Funds:**

The Company's liquidity needs in the short-term and long-term can be sourced in several ways including: funds from operations, borrowing against existing credit facilities, new debt instruments, equity issuances and proceeds from the sale of assets. Cash inflows are used to repay outstanding amounts on the Company's credit facilities, fund capital requirements and pay dividends. In 2016, the Company had operating cash flows of $8.7 million, of which $1.5 million was used to fund capital expenditures, net of proceeds on disposition, and $7.2 million was used to pay financing costs and reduce outstanding debt. In Q3 2016, $7.0 million of the proceeds from the $14.6 million rights offering were used to repay long-term debt and included in the Consolidated Debt to Consolidated EBITDA ratio calculation as an equity cure. The remaining $7.6 million from the rights offering is held in a

segregated bank account, which, for accounting purposes, offsets the long-term debt. Finance costs continue to be calculated on the long-term debt excluding the monies held in the segregated account.

At December 31, 2016 the Company had working capital (excluding debt) of $11.3 million compared to $11.8 million at December 31, 2015. (Please refer to the "Reconciliation of Non-IFRS Measures" section for further information). The decrease in working capital (excluding debt) from December 31, 2015 is due to increased accounts payable and other liabilities offset by increased accounts receivable from higher revenue. Typically, as activity levels increase or decrease working capital will also increase or decrease.

The industry slowdown in activity combined with the pressure to reduce day and hourly rig rates from E&P customers reduced the Company's operating cash flows in 2015 and 2016. As a result, the Company continues to monitor ongoing costs in addition to realizing the continued benefit of the cash saving initiatives. The Company continually evaluates activity, pricing, operations and expenses to ensure the Company has sufficient liquidity to cover future financial obligations.

On April 25, 2016, CWC and its syndicated lenders amended its credit facilities to provide increased financial flexibility to July 31, 2018. The amendments included, among other things, the following terms:

- the maturity date of the credit facilities were extended to July 31, 2018;
- the credit facilities were voluntarily reduced from $75.0 million to $65.0 million with the ability to increase the credit facilities by an additional $60.0 million through an accordion feature, subject to approval by the banking syndicate;
- a reduction in the minimum liquidity required from $12.5 million to $10.0 million;
- the quarterly financial covenant for Consolidated Debt to Consolidated EBITDA ratio are as follows:

| For the Quarter Ended | Covenant |
|---|---|
| December 31, 2016 and March 31, 2017 | 5.25 : 1 |
| June 30, 2017 | 4.75 : 1 |
| September 30, 2017 | 4.50 : 1 |
| December 31, 2017 | 4.00 : 1 |
| Thereafter | 3.50 : 1 |

- the inclusion of an equity cure provision which allows the Company to apply the proceeds of equity offerings in the calculation of Consolidated EBITDA towards the Consolidated Debt to Consolidated EBITDA ratio until March 31, 2018, subject to certain conditions as follows:

  - an equity cure may be utilized in no more than two quarters during such period;
  - an equity cure may not be utilized in consecutive quarters; and
  - an equity cure utilized in any quarter is not to exceed the greater of 50% of total Consolidated EBITDA over the prior twelve month period or $15.0 million.

The credit facilities are secured by a general security agreement and a first charge security interest covering all of the assets of the Company. Under the terms of the credit facilities, the Company is required to comply with certain financial covenants. As of December 31, 2016, the Company is in compliance with each of the financial covenants. No principal payments are required under the credit facilities until its maturity on July 31, 2018, at which time any amounts outstanding are due and payable. The Company expects to be able to renew the credit facilities prior to maturity. As at December 31, 2016, total outstanding borrowings under the credit facilities were $41.0 million ($33.2 million net of funds held in a segregated bank account) and the maximum amount available to be borrowed is $62.7 million.

On June 2, 2016, CWC announced the closing of a rights offering of its common shares. The rights offering was oversubscribed and generated $14.6 million in gross proceeds for 97,546,002 common shares issued. In July 2016, the Company elected to repay $7.0 million of the Company’s outstanding indebtedness from the partial use of proceeds from the rights offering and to include this amount in the Consolidated Debt to Consolidated EBITDA ratio calculation as an equity cure. At December 31, 2016, the remaining $7.6 million of proceeds from the rights offering were held in a segregated bank account so that it may be utilized as an equity cure in future quarters. At December 31, 2016, the applicable rates under the credit facilities are: bank prime rate plus 2.25%, bankers' acceptance rate plus a stamping fee of 3.25%, and standby fee rate of 0.73%.

**Capital Requirements:**

Prior to 2015, the Company had been increasing its asset base of drilling rigs, service rigs and coil tubing units. Given the Company's relatively modern fleet of equipment, many capital expenditures are discretionary in nature and are incurred with a view to increase the size and revenue generating capacity of the business as opposed to being required in order to maintain the current business operations. In 2014, the Company initiated a plan that would result in spending up to $3.0 million annually over the next several years to recertify the oldest of its service rigs due for their Level IV recertification. With the significant downturn in 2015 and 2016 activity, the Company has delayed the program to preserve cash flows. Due to the Company's high activity levels in 2016 several service rigs are expected to require a Level IV recertification in 2017 which is considered in the 2017 Capital Expenditures Budget of $5.9 million previously announced.

In 2016, the Company's actual capital spending is as noted in the section titled "Capital Expenditures". Additional discretionary capital expenditures will be required in order to continue to grow the Company's assets and revenue in the future. It is anticipated future cash requirements for capital expenditures will be met through a combination of funds generated from operations and indebtedness from the Company's existing credit facilities as required. However, additional funds may be raised by bank debt, other forms of debt, and the sale of assets or the issue of equity.

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:

| | February 28, 2017 | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Common shares | 392,202,342 | 391,920,676 | 292,628,007 |
| Stock options | 21,257,667 | 21,791,000 | 14,400,000 |
| Restricted share units | 4,198,000 | 4,473,000 | 2,290,001 |

During the year ended December 31, 2016, no stock options were exercised, 11,291,000 were issued and 3,900,000 stock options were forfeited. In addition, 1,746,667 RSU's were exercised, 4,301,333 were issued and 371,667 RSU's were forfeited. Furthermore, 97,546,002 common shares were issued on the closing of the rights offering.

The declaration of dividends is determined on a quarter-by-quarter basis by the Board of Directors and is based on the sustainability of its cash flows and earnings in the future. Given the low EBITDAS and cash flow of the Company, on November 24, 2015, the Board of Directors suspended the Company's quarterly dividend and dividend reinvestment plan ("DRIP") and stock dividend program ("SDP"). The following table summarizes dividends declared since December 31, 2014:

| Declaration Date | Record Date | Payment Date | Dividend per Common Share |
|---|---|---|---|
| March 9, 2015 | March 31, 2015 | April 15, 2015 | $0.0050 |
| May 13, 2015 | June 30, 2015 | July 15, 2015 | $0.0050 |
| August 10, 2015 | September 30, 2015 | October 15, 2015 | $0.0025 |

The Company has an NCIB which allows it to purchase, from time to time as it considers advisable, up to 19,512,200 of issued and outstanding common shares through the facilities of the TSX Venture Exchange ("TSXV"). The price that the Company will pay for any common share under the NCIB will be the prevailing market price on the TSXV at the time of such purchase. During 2016, no common shares were purchased under the NCIB. The NCIB expires on June 7, 2017 unless renewed.

## Capital Expenditures

| $ thousands | Three months ended December 31, 2016 | 2015 | Year ended December 31, 2016 | 2015 |
|---|---|---|---|---|
| Contract Drilling | 1,303 | 123 | 1,662 | 4,330 |
| Production Services | 451 | 537 | 996 | 4,846 |
| Total capital expenditures | 1,754 | 660 | 2,658 | 9,176 |
| | | | | |
| Growth capital | 207 | 84 | 207 | 4,482 |
| Maintenance and infrastructure capital | 1,547 | 576 | 2,451 | 4,694 |
| Total capital expenditure | 1,754 | 660 | 2,658 | 9,176 |

Capital expenditures in 2016 of $2.7 million are $6.5 million (-71%) lower than $9.2 million in 2015 and primarily consist of recertification costs, leasehold improvements, new drill pipe, a new coil tubing unit and vehicles. This compares to 2015 capital expenditures related to costs associated with completion of slant service rigs #505 and #506, the purchase of new drill pipe, the addition of a pad rig walking system to drilling rig #3, and costs incurred prior to the decision to delay the upgrade of drilling rig #2 and build of new drilling rig #10.

A 2017 capital expenditure budget of $5.9 million was approved by the Board of Directors on December 6, 2016 comprised of $5.4 million of maintenance and infrastructure capital related to recertifications, additions and upgrades to field equipment for the drilling rigs, service rigs and coil tubing divisions as well as for information technology and $0.5 million of growth capital.

## Commitments and Contractual Obligations

Under the terms of the Company's amended credit facilities, the borrowing under the credit facilities are due in full on July 31, 2018. The Company is committed to monthly payments of interest and bank charges until July 31, 2018. There have been no significant changes in other commitments or contractual obligations since December 31, 2015. Management believes that, despite the lower activity levels in 2016 for its services combined with the benefit of the ongoing cash saving initiatives, there will be sufficient cash flows generated from operations to service the interest on the debt and finance the required maintenance capital of the Company in 2017.

## Summary and Analysis of Quarterly Data

| $ thousands, except per share amounts<br>Three months ended | 2016<br>Dec. 31 | Sept. 30 | June 30 | March 31 | 2015<br>Dec. 31 | Sept. 30 | June 30 | March 31 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 20,922 | 18,506 | 13,884 | 19,740 | 18,787 | 21,135 | 13,508 | 27,830 |
| EBITDAS | 2,923 | 1,741 | 999 | 2,557 | 2,327 | 3,679 | 777 | 5,254 |
| Net income (loss) | (1,717) | (2,042) | (2,279) | (1,430) | (6,747) | (18,103) | (4,294) | 38 |
| Net income (loss) per share: basic and diluted | 0.00 | (0.01) | (0.01) | 0.00 | (0.02) | (0.06) | (0.02) | 0.00 |
| Total assets | 210,750 | 212,634 | 212,440 | 218,906 | 222,428 | 236,246 | 249,544 | 258,835 |
| Total long-term debt | 33,142 | 34,013 | 32,235 | 50,538 | 52,241 | 57,519 | 51,618 | 55,096 |
| Shareholders' equity | 155,482 | 156,605 | 158,515 | 146,116 | 147,462 | 153,503 | 171,100 | 174,925 |

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

equipment. As a result, late March through May is traditionally the Company's slowest time, and as such the revenue, operating costs, and financial results of the Company will vary on a quarterly basis.

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

Other significant impacts have been a result of:

- Q4 2016 saw improved utilizations in both drilling and service rig activity as a result of increased global crude oil and natural gas prices after OPEC's agreement on crude oil production cuts;
- Q3 2016 activity and pricing continued to be negatively impacted by low global crude oil and natural gas prices. However, the Company continued to see leading market share and utilization of its service rigs;
- Q2 2016 service rig fleet worked a record 21,730 operating hours, the highest second quarter in the company's eleven year history despite a very challenging industry operating environment, which continued to reduce hourly rates. The prolonged downturn and pricing pressure had a significant impact on the utilization of the Company's Contract Drilling division as the need to drill new wells by E&P customers were at extremely low levels;
- Q1 2016 activity and pricing continued to be negatively impacted by low global crude oil and natural gas prices. However, the Company saw a significant increase in its market share and utilization of its service rigs during a period of declining industry activity;
- Q4 2015 activity and pricing continued to be negatively impacted by low global crude oil and natural gas prices. Q4 2015 Net loss includes an impairment of drilling rig, service rig and coil tubing property and equipment and intangible assets totaling $6.9 million;
- Q3 2015 saw improved utilizations in drilling and service rig activity compared to Q2 2015 due in part to improved crude oil pricing in Q2 2015. Q3 2015 net loss includes a $17.3 million impairment in goodwill and assets held for sale. The goodwill arose on the purchase of Ironhand Drilling Inc. in Q2 2014;
- Q2 2015 continued to be negatively impacted by global market conditions resulting in a 34% decline in both revenue and EBITDAS from Q2 2014. Net loss was further impacted by the 2% increase to the Alberta corporate income tax rate;
- Q1 2015 was impacted by the global oversupply of oil and the 2014 decision by OPEC not to curtail production which resulted in significant decreases in revenue in both Contract Drilling and Production Services. Decreases in rates were demanded by E&P customers, which further impacted revenue negatively.

## Critical Accounting Estimates and Judgments

This MD&A of the Company's financial condition and results of operations is based on the financial statements which are prepared in accordance with IFRS. The preparation of the financial statements in conformity with IFRS requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management's judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes. In many cases the use of judgment is required to make estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Further details of the nature of these estimates and assumptions may be found in the relevant notes to the 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 financial statements:

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

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

Impairment of tangible and intangible assets
Tangible and intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less

costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenue, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Depreciation and amortization

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

Stock based compensation

Compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model, to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility, expected dividends, expected forfeitures and share prices.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully transferable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Stock-based compensation expense is also provided for RSUs. The number of stock options and RSUs expected to vest is expensed on a graded vested basis over the vesting period of the stock options and RSUs. The number of stock options and RSUs that actually vest could differ from those estimates and any changes are recognized prospectively when they occur as an increase or decrease in compensation expense.

Allowance for impairment in respect of accounts receivable

The allowance for impairment of accounts is reviewed by management on a regular basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company's historical bad debt expense have not been significant and is usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice. The assessment of the credit worthiness of a customer requires management to use significant judgment. The estimation of the allowance for impairment of accounts is subject to measurement uncertainty.

Income taxes

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

## New Accounting Pronouncements

A number of new standards, amendments to standards and interpretations have been issued by the IASB and are not yet effective for the year ended December 31, 2016. The new standards, amendments to standards and interpretations are not expected to have a significant effect on the annual financial statements, except for:

IFRS 9, Financial Instruments Classification and Measurement, which introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

On May 28, 2015, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser in accordance with a five step model. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach.

The Company will adopt the new standard on the effective date of January 1, 2018. The Company is developing an implementation plan to identify all arrangements which will fall within the scope of IFRS 15. Management believes that it has sufficient resources allocated to the project to ensure timely implementation and has commenced its assessment of key arrangements.

As the Company continues its analysis, it will also quantify the impact, if any, on prior period revenues. The Company will address any system and process changes necessary to compile the information to meet the disclosure requirements of the new standard. As the Company is currently evaluating the impact of this standard, it has not yet determined the effect on its consolidated financial statements.

On January 13, 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16") replacing International Accounting Standard 17, "Leases" ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, Revenue from Contracts with Customers, has been adopted. The standard may be applied retrospectively or using a modified retrospective approach.

The Company will adopt the new standard on the effective date of January 1, 2019. The Company is developing an implementation plan to identify all arrangements which will fall within the scope of IFRS 16. Management believes that it has sufficient resources allocated to the project to ensure timely implementation and has commenced its assessment of key arrangements.

The Company will address any system and process changes necessary to compile the information to meet the disclosure requirements of the new standard. As the Company is currently evaluating the impact of this standard, it has not yet determined the effect on its consolidated financial statements.

## Related Party Transactions

Of the total outstanding shares of the Company, 72.4% are directly or indirectly owned by Brookfield Capital Partners Ltd and Brookfield Business Partners LP (together "Brookfield"). The Company is related to Brookfield by virtue of control, and is therefore also related to Brookfield's affiliates.

During 2016, the Company had revenue totaling $1,195 (2015: $1,178) ($271 in accounts receivable as at December 31, 2016 (2015: $248)) in the normal course of business with companies under common control. The terms and conditions of these transactions were no more favorable than those available, or which might reasonably be expected to be available, in similar transactions with non-related companies on an arm's length basis.

## CEO and CFO Certifications

The CEO and CFO of TSX Venture Exchange listed companies, such as CWC, are not required to certify they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Instead, an optional form of certification has been made available to TSX Venture Exchange listed companies and has been used by CWC's certifying officers for the December 31, 2016 annual filings. The certification reflects what the Company considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Company's operations. This certification requires that the certifying officer's state:

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

## Risks and Uncertainties

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

CWC's various businesses are generally tied in large part to the oil and gas exploration and production industry in Western Canada. CWC's businesses are sensitive to and will be affected by changing industry conditions in the oil and gas industry including changes in the level of demand, changes in pricing levels, changes in legislation or in regulation relating to exploration, development, production, refining, transportation, or marketing in the oil and gas industry. The following is a summary of certain risk factors relevant to CWC's business. All of these risk factors could negatively impact CWC's revenue, margins and cash flow.

**Price Competition and Cyclical Nature of the Oilfield Services Business**

The drilling rig, service rig and coil tubing businesses are highly competitive with numerous industry participants. Management believes pricing and rig availability are the primary factors considered by CWC's potential customers in determining which drilling rig, service rig or coil tubing contractor to select. Management believes other factors are also important, including:

- the capabilities and condition of drilling rigs, service rigs or coil tubing units;
- the quality of service and experience of crews;
- the safety record of the contractor and the particular drilling rig, service rig, or coil tubing unit;
- the offering of ancillary services;
- the ability to provide equipment adaptable to, and personnel familiar with, new technologies;
- the mobility and efficiency of the drilling rigs, service rigs, or coil tubing units; and
- marketing relationships.

The drilling and service rig industry historically has been cyclical and has experienced periods of low demand, excess rig supply, and low day or hourly rates, followed by periods of high demand, short rig supply and increasing day or hourly rates. Periods of excess rig supply intensify the competition in the industry and result in rigs being idle. There are numerous drilling rig, service rig and coil tubing unit suppliers in each of the markets in which CWC operates. In all of those markets, an oversupply of equipment can cause greater price competition. Oilfield Services companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time.

CWC provides services primarily to the field operation locations of oil and natural gas exploration and production companies located in western Canada. The oil and natural gas services business in which CWC operates is highly competitive. To be successful, CWC must provide services that meet the specific needs of its clients at competitive prices. CWC will compete with several regional competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic regions in which CWC operates. As a result of competition, CWC may be unable to continue to provide its present services or to acquire additional business opportunities, which could have a material adverse effect on CWC's business, financial condition, results of operations and cash flows.

**Capital Overbuild in the Drilling Rig and Service Rig Industry**

Because of the long life nature of drilling rigs, service rigs and coil tubing units and the lag between the moment a decision to build a rig or unit is made and the moment the rig or unit is placed into service, the number of rigs or units in the industry does not always correlate to the level of demand for those rigs or units. Periods of high demand often spur increased capital expenditures on rigs or units, and those capital expenditures may exceed actual demand. This capital overbuild could cause CWC's competitors to lower their rates and could lead to a decrease in rates in the oilfield services industry generally, which would have a material adverse effect on the revenue, cash flows and earnings of CWC.

**Operational Risks**

Demand and prices for CWC's products and services depend upon the level of activity in the Canadian oil and gas exploration and production industry which in turn depends on the level of oil and gas prices, expectations about future oil and gas prices, the cost of exploring for, producing and delivering oil and gas, the discovery rate of new oil and gas reserves, available pipeline and other oil and gas transportation capacity, worldwide weather conditions, political, military, regulatory and economic conditions and the ability of oil and gas companies to raise capital. The level of activity in the Canadian oil and gas exploration and production industry is volatile. The marketability of any oil and natural gas acquired or discovered by CWC's customers will be affected by numerous factors beyond the control of such customers. These factors include market fluctuations, the price of crude oil, the price of natural gas, the supply and demand for oil and natural gas, the proximity and capacity of oil and natural gas pipelines and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, allowable production, the import and export of oil and natural gas, and environmental protection. The effect of these factors cannot be accurately predicted. No assurances can be given that current levels of oil and gas exploration and production activities will improve, deteriorate further, or continue or that demand for the Company's services will continue to reflect the level of activity in the industry generally. Industry conditions will continue to be influenced by numerous factors over which the Company will have no control. Prices for oil and gas are expected to continue to be volatile and to affect the demand for and pricing of the Company's products and services.

**Merger and Acquisition Activity**

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for CWC's services as customers focus on reorganizing their business prior to committing funds to exploration and development projects. Further, in any merger or acquisition transaction the resulting or acquired company may have preferred supplier relationships with oilfield service providers other than CWC.

**Oilfield Service Industry Risks**

There are many risks inherent in the oilfield services industry, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company's operations are subject to hazards inherent in the oilfield service industry, such as explosions, fires and spills that can cause personal injury or loss of life, damage to or destruction of property, equipment and the environment and suspension of operations. In addition, claims for loss of oil and gas production, damage to formations, damage to facilities and business interruptions can occur. While the Company maintains insurance coverage that it believes to be adequate and customary in the industry, there can be no assurances that insurance proceeds will be available or sufficient or that CWC will be able to maintain adequate insurance in the future at rates considered reasonable. The single occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Company could have a material adverse effect on the Company's business, results of operation and prospects.

Hazards such as unusual or unexpected geological formations, pressures, blow-outs, fires or other conditions may be encountered in drilling or servicing wells. CWC will have the benefit of insurance maintained by it, however, CWC may become liable for damages arising from pollution, blowouts or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons.

**Leverage and Restrictive Covenants**

The ability of CWC to make payments or advances will be subject to applicable laws and contractual restrictions in the instruments governing any indebtedness of those entities including the Credit Facilities. The degree to which CWC is leveraged could have important consequences for investors including: (i) CWC's ability to obtain additional financing for working capital, capital expenditures or future acquisitions; (ii) all or part of CWC's cash flow from operations may be dedicated to the payment of the principal of and interest on CWC's indebtedness, thereby reducing funds available for future operations and to pay dividends; (iii) certain of CWC's borrowings may be at variable rates of interest, which exposes CWC to the risk of increased interest rates; and (iv) CWC may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors could have a material adverse effect on CWC's business, financial condition, results of operations and cash flows.

The Credit Facilities contain numerous covenants that limit the discretion of management with respect to certain business matters. These covenants will place restrictions on, among other things, the ability of CWC to create liens or other encumbrances; to pay dividends or make other distributions, or make certain other investments, loans and guarantees; to sell or otherwise dispose of assets or repurchase stock, merge, amalgamate or consolidate with another entity. In addition, the credit facilities, contain a number of financial covenants that require CWC to meet certain financial ratios and financial condition tests. CWC's ability to meet such tests could be affected by events beyond its control, and it may not be able to meet such tests.

A failure to comply with the obligations in the credit facilities, including financial ratios and financial condition tests, could result in a default which, if not cured or waived, would permit acceleration of the repayment of the relevant indebtedness as the lenders could elect to declare all amounts outstanding under the credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If the lenders were to accelerate the repayment of borrowings, CWC may not have sufficient assets to repay balances owing on the credit facilities as well as its unsecured indebtedness as the acceleration of CWC's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. If CWC's indebtedness is accelerated and the Corporation was not able to repay its indebtedness or borrow sufficient funds to refinance it, the lenders under the credit facilities could proceed to realize upon the collateral granted to them to secure that indebtedness which could have a material adverse effect on CWC and its cash flows. Even if CWC is able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to CWC and may impose financial restrictions and other covenants on it that may be more restrictive than the credit facilities.

Notwithstanding an event of default, there is also no assurance that CWC will be able to refinance any or all of the credit facilities at their maturity dates on acceptable terms, or on any basis.

**Liquidity Risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's liquidity could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches of the credit facilities, which, if not amended or waived, could limit the Company's access to the credit facilities. If available liquidity is not sufficient to meet CWC's operating and debt obligations as they come due, CWC will need to significantly reduce expenditure, pursue alternative financing arrangements, dispose of significant assets, or pursue other corporate strategic alternatives, the ability of which to do so is uncertain.

**Government Regulation**

CWC operations are subject to a variety of federal, provincial and local laws, regulations and guidelines, including laws and regulations related to health and safety, the conduct of operations, the manufacture, management, transportation and disposal of certain materials used in the Company's operations. Changes in any such laws, regulations or guidelines could have a material adverse effect on the CWC operations.

In addition, the oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants or parties, such as CWC, that service the industry. Royalty rates, carbon taxes, other laws or government incentive programs relating to the oil and gas industry generally may in the future be changed or interpreted in a manner that adversely affects the Company and its shareholders.

**Climate Change Legislation**

In recent years, a number of initiatives relating to climate change have been proposed through domestic legislation and international agreements (such as the Alberta Climate Leadership Plan, the Paris Protocol and the United Nations Framework Convention on Climate Change). Many of these initiatives require nations to reduce their emissions of carbon dioxide and other greenhouse gases ("GHG"). Reductions in GHG from oil and gas producers may be required which could result in, among other things, increased operating and capital expenditures for those producers which may make certain production of crude oil or natural gas by those producers uneconomic, resulting in reductions in such production and resulting decrease in the demand for the Company's services. The Company is unable to predict the impact, if any, of any such climate change initiatives, both current and future.

**Alberta Climate Change Leadership Plan**

The Alberta Climate Leadership Plan introduced a new GHG emissions pricing regime. The Climate Leadership Act (the "CLA") received royal assent on June 13, 2016 and came into force on January 1, 2017. The Climate Leadership Regulation ("CL Regulation"), which provides further detail in respect of the carbon levy regime set out in the CLA, was released on November 3, 2016, and also came into force on January 1, 2017. The CLA establishes an Alberta carbon pricing regime in the form of a carbon levy on various types of fuel, based on rates of $20 per tonne of GHG emissions as of January 1, 2017 and $30 per tonne for 2018. The carbon levy revenue will be used to fund initiatives to reduce GHG emissions, to support Alberta's ability to adapt to climate change and for rebates or adjustments related to the carbon levy to consumers, businesses, and communities in addition to a household rebate program.

The CLA and the CL Regulation impose registration, payment, remittance, reporting and administrative obligations on applicable persons throughout the fuel supply chain. The application of the carbon levy depends on the type and quantity of fuel purchased or produced and how such fuel is used by the purchaser. Under the CLA and CL Regulations, activities integral to oil and gas production processes are exempt until 2023. The Company's Contract Drilling and Production Services appear to meet the definition of integral however the determination of what constitutes an activity that is "integral" to oil and gas production and method to avoid or recover a carbon levy is still being clarified with the Alberta government. We expect the Company and its customers operations to have minimal direct carbon levy exposure until 2023. It is not known what will occur in 2023 when the current exemptions are expected to end.

Additional changes to provincial climate change legislation may adversely affect the Corporation's business, financial condition, results of operations and cash flows which cannot be reliably or accurately estimated at this time.

**Federal Carbon Tax Strategy**

In October 2016, Canada ratified the Paris Agreement on climate change that was signed by Canada and over 160 other nations at the United Nations Framework Convention on Climate Change in December 2015. Though the specific details of how Canada will accomplish the goals set out in the Paris Agreement have not yet been announced, in October 2016 the federal government announced a new national carbon pricing regime (the "Carbon Strategy") that will support the objectives of the Paris Agreement.

Under the Carbon Strategy, all provinces will be required to adopt a carbon pricing scheme that includes, at a minimum, a price on carbon emissions of $10 per tonne in 2018, rising by $10 per tonne each year to $50 per tonne in 2022. If the provinces do not adopt such a scheme, a federal regime will be imposed upon them and the funds will be transferred back to the provincial government of the jurisdiction from where they were collected. Alternatively, provinces will be given the opportunity to implement a cap-and-trade system, but will need to demonstrate that the province's emissions are consistent with both Canada's national target and the results of the provinces who have implemented the carbon pricing scheme. Further legislation and regulation is expected from the provinces in order to comply with the Carbon Strategy's requirements. For those provinces, including Alberta, which have already established a carbon tax or a cap and trade regime, or both, the national price on carbon will likely have little additional impact in the short term. None of the provinces have yet announced how they intend to comply with the long-term carbon pricing requirements. It is unclear how the Carbon Strategy will be implemented in Saskatchewan and Manitoba.

Adverse impacts to CWC's business as a result of comprehensive GHG legislation or regulation, including the CLA and the Carbon Strategy applied to the Corporation's, may include, but are not limited to: increased compliance costs and reduced demand for E&P Company's products thereby reducing the demand for our services.

Beyond existing legal requirements, the extent and magnitude of any adverse impacts of any additional programs or additional regulations cannot be reliably or accurately estimated at this time because specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to any additional measures being considered.

**Seasonal Nature of CWC's Business**

The Company's operations are carried on generally in Western Canada. The ability to move heavy equipment in the Western Canadian 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. The timing of freeze-up and spring breakup affects the ability to move equipment in and out of these areas. As a result, mid-March through June is traditionally the Company's slowest time, and as such, the operating results of the Company will vary on a quarterly basis.

**Equipment and Technology Risks**

Complex drilling programs for the exploration and development of remaining conventional and unconventional oil and natural gas reserves in North America places high demands on drilling rigs, service rigs, coil tubing units and related equipment. CWC's ability to deliver equipment and services that are more efficient than equipment and services offered by its competitors is critical to continued success. There is no assurance that competitors will not achieve technological improvements that are more advantageous, timely or cost effective than improvements developed by CWC.

The ability of CWC to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment and there can be no assurance that CWC will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by CWC to do so could have a material adverse effect on CWC's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over CWC.

In the future, the Company may seek patents or other similar protections in respect of particular tools, equipment and technology; however, the Company may not be successful in such efforts. Competitors may also develop similar tools, equipment and technology to those of the Company thereby adversely affecting the Company's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by the Company may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on the business, results of operations and financial condition of the Company.

**Significant Shareholder**

Brookfield Capital Partners Ltd. ("**Brookfield**"), through its ownership of 72.4% of CWC's outstanding voting shares is a significant shareholder. As such, Brookfield will have, subject to applicable law, the ability to determine the outcome of certain matters submitted to shareholders for approval in the future, including the election and removal of directors, amendments to the CWC's corporate governance documents and certain business combinations. CWC's interests and those of its controlling shareholder may at times conflict, and this conflict might be resolved against CWC's interests. The concentration of control in the hands of a significant shareholder may impact the potential for the initiation, or the success, of an unsolicited bid for CWC's securities.

**Drilling Rig, Service Rig and Coil Tubing Unit Construction Risks**

When CWC contracts for the construction of a drilling rig, service rig or coil tubing unit, the cost of construction of the rig or a coil tubing unit and the timeline for completing the construction are estimated at that time. Actual costs of construction may, however, vary significantly from those estimated as a result of numerous factors, including, without limitation, changes in input costs such as the price of steel; variations in labour rates; and, to the extent that component parts must be sourced from other countries, fluctuations in exchange rates. In addition, several factors could cause delays in the construction of a drilling rig, service rig or coil tubing unit, including, and without limitation, shortages in skilled labour and delays or shortages in the supply of component parts. Construction delays may lead to postponements of the anticipated date for deployment of the newly constructed rig or coil tubing unit into operation and any such postponement could have a negative effect on cash flows generated from operations, of which the effect may be material.

**Equipment and Parts Availability**

The Company's ability to expand its operations and provide reliable service is dependent upon timely delivery of new equipment and replacement parts from fabricators and suppliers. A lack of skilled labour to build equipment combined with new competitors entering the oilfield service sector has resulted in increased order times on new equipment and increased uncertainty surrounding final delivery dates. Significant delays in the arrival of new equipment from expected dates may impact future growth and the financial performance of the Company. CWC attempts to mitigate this risk by maintaining strong relations with key fabricators and suppliers.

**Dependence on Suppliers**

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to equipment, parts, components and consumables. Failure of suppliers to deliver such equipment, parts, components and consumables at a reasonable cost and in a timely manner would be detrimental to the Company's ability to maintain existing customers and expand its customer list. No assurances can be given that the Company will be successful in maintaining its required supply of equipment, parts, components and consumables.

The Company's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Company purchases from various suppliers, most of whom are located in Canada or the United States. Alternate suppliers exist for all raw materials. In periods of high industry activity periodic industry shortages of certain materials have been experienced and costs may be affected. In contrast, periods of low industry activity levels may cause financial distress on a supplier, thus limiting their ability to continue to operate and provide the Company with necessary services and supplies.

Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Company's customers could have a material adverse effect on CWC's business, financial condition, results of operations and cash flows.

**Dependence on Key Personnel**

CWC's future performance and development will depend, to a significant extent, on the efforts and abilities of its executive officers and key management personnel, and on the ability to attract and retain qualified field staff. The loss of the services of one or more of its management team could harm the Company. Also CWC's success largely depends on the Company's continuing ability to attract, develop and retain skilled employees in all areas of its business. The ability of the Company to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

**Risks of Interruption and Casualty Losses**

CWC's operations are, or will be, subject to many hazards inherent in the well drilling, workover and completion industry, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters and reservoir damage. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage, damage to the property of others and damage to producing or potentially productive oil and natural gas formations. Generally, drilling rig, service rig and coil tubing contracts provide for the division of responsibilities between a drilling rig, service rig, or coil tubing unit provider and its customer, and CWC will seek to obtain indemnification from its customers by contract for certain of these risks. CWC will also seek protection through insurance. However, CWC cannot ensure that such insurance or indemnification agreements will adequately protect it against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, insurance may not be available to cover any or all of these risks, or, even if available, may not be adequate. Insurance premiums or other costs may rise significantly in the future, so as to make such insurance prohibitively expensive or uneconomic.

**Future Capital Requirements and Future Sales of Common Shares by CWC**

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. CWC may issue additional common shares in the future, which may dilute a shareholder's holdings in CWC or negatively affect the market price of common shares. CWC's articles permit the issuance of an unlimited number of common shares. The directors of CWC have the discretion to determine the price and the terms of issue of further issuances of common shares, subject to applicable law. Also, additional common shares

will be issued by CWC on the exercise of stock options granted pursuant to CWC's stock option plan, or pursuant to its restricted share unit plan.

**Capital and Financial Markets**

As future capital expenditures and potential acquisitions will need to be financed out of cash generated from operations, through debt or, if available, equity offerings, the Company's ability to access new capital is dependent on, among other factors, the overall state of capital markets generally, and the appetite for investments in the energy industry and the Company's securities specifically. All of these factors could have a negative effect on CWC's ability to obtain new capital on acceptable terms, or at all, and this could have a material adverse effect on operations and share price.

**Environmental Protection**

CWC, is subject to various environmental laws and regulations enacted in most jurisdictions in which the Company operates, which primarily govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Company's operations. CWC believes that all CWC's business lines are currently in compliance with such laws and regulations. CWC's customers are subject to similar laws and regulations, as well as limits on emissions into the air and discharges into surface and sub-surface waters. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, CWC cannot predict the nature of the restrictions that may be imposed. CWC may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

Historically, environmental protection requirements have not had a significant financial operational effect on capital expenditures, earnings or competitive position of the Company. Environmental protection requirements are not presently anticipated to have a significant effect on such matters in the future.

The services provided by CWC, in some cases, involve flammable products being pumped under high pressure. To address these risks, CWC has developed and implemented safety and training programs. In addition, a comprehensive insurance and risk management program has been established to protect CWC's assets and operations. CWC also complies with current environmental requirements and maintains an ongoing participation in various industry-related committees and programs.

The Company has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Company may have the benefit of insurance maintained by it or the operator; however the Company may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

**Third Party Credit Risk**

CWC is exposed to third party credit risk through its contractual arrangements with other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company.

**Failure to Realize Anticipated Benefits of Acquisitions**

The Company makes acquisitions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions, retaining key employees and customer relationships and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources, may divert management's focus from other strategic opportunities and operational matters and ultimately the Company may fail to realize anticipated benefits of acquisitions.

**CWC May Make Dispositions of Businesses and Assets in the Ordinary Course of Business**

Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that CWC can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of CWC, if disposed of, could be expected to realize less than their carrying value on the financial statements of CWC.

**Tax Matters**

The taxation of companies is complex. In the ordinary course of business, CWC is subject to ongoing audits by tax authorities. While CWC believes that its tax filing positions are appropriate and supportable, it is possible that tax matters, including the calculation and determination of revenue, expenditures, deductions, credits and other tax attributes, taxable income and taxes payable, may be reviewed and challenged by the tax authorities. In addition, the tax filing positions of businesses acquired by CWC may be reviewed and challenged by the tax authorities. If such challenge were to succeed, it could have a material adverse effect on CWC's tax position. Further, the interpretation of, and changes in, tax laws, whether by legislative or judicial action or decision, and the administrative policies and assessing practices of taxation authorities, could materially adversely affect CWC's tax position. As a consequence, CWC is unable to predict with certainty the effect of the foregoing on CWC's effective tax rate and earnings.

CWC regularly reviews the adequacy of its tax provisions and believes that it has adequately provided for those matters. Should the ultimate outcomes materially differ from the provisions, CWC's effective tax rate and earnings may be affected positively or negatively in the period in which the matters are resolved. CWC intends to mitigate this risk through ensuring staff is well trained and supervised and that tax filing positions are carefully scrutinized by management and external consultants, as appropriate.

There can be no assurance that income tax laws or the interpretation thereof in any of the jurisdictions in which CWC operates will not be changed or interpreted or administered in a manner which adversely affects CWC and its shareholders. In addition, there is no assurance that the Canada Revenue Agency, or a provincial or foreign tax agency (collectively the "**Tax Agencies**") will agree with the manner in which CWC or its subsidiaries calculate their income or taxable income for tax purposes or that any of the Tax Agencies will not change their administrative practices to the detriment of CWC or its shareholders (or both).

**Vulnerability to Market Changes**

Fixed costs, including costs associated with leases, labour and depreciation will account for a significant portion of the Company's costs and expenses. As a result, reduced utilization of equipment and other fixed assets resulting from reduced demand, equipment failure, weather or other factors could significantly affect financial results.

**Alternatives to and Changing Demand for Petroleum Products**

Regulation, fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**Interest Rate Risk**

The Company is exposed to interest rate price risk as its bank loan has floating interest rate terms. However, the floating interest rate terms do give rise to interest rate cash flow risk as interest payments are recalculated as the market rates change. Management currently does not see this risk as significant due to Canada's history of reasonably stable interest rates and their expectations of future interest rates.

**Conflicts of Interest**

Certain of the directors and officers of the Company are also directors and officers of other oil and natural gas exploration and/or production entities and oil and natural gas services companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply, under the ABCA.

**Legal Proceedings**

The Company is involved in litigation from time to time in the ordinary course of business. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Company.

### Cyber-Security Threats and Reliance on Information Technology

CWC's operations are dependent on the functioning of several information technology systems. Exposure of CWC's information technology systems to external threats poses a risk to the security of these systems. Such cyber-security threats include unauthorized access to information technology systems due to hacking, viruses and other causes that can result in service disruptions, system failures and the disclosure, deliberate or inadvertent, of confidential business information. Significant interruption or failure of any or all of these systems could result in operational outages, delays, lost profits, lost data, increased costs, and other adverse outcomes. These factors could include a loss of communication links or reliable information, security breaches by computer hackers and cyber terrorists, and the inability to automatically process commercial transactions or engage in similar automated or computerized business activities.

### Forward-Looking Information may Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

### Forward-Looking Information

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

# Reconciliation of Non-IFRS Measures

| $ thousands except share and per share amounts | Three months ended December 31, 2016 | 2015 | Year ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **NON-IFRS MEASURES** | | | | | |
| EBITDAS: | | | | | |
| Net loss and comprehensive loss | (1,717) | (6,747) | (7,468) | (29,106) | (13,451) |
| Add: | | | | | |
| Depreciation | 3,733 | 3,730 | 14,248 | 15,469 | 19,543 |
| Finance costs | 502 | 559 | 2,515 | 2,203 | 2,186 |
| Transaction costs | - | - | - | - | 841 |
| Deferred income tax expense (recovery) | (420) | (2,271) | (2,414) | (1,966) | 2,960 |
| Stock based compensation | 594 | 200 | 945 | 1,008 | 1,345 |
| Impairment of goodwill and assets held for sale | - | 6,892 | - | 24,214 | 20,880 |
| Loss (gain) on sale of equipment | 231 | (36) | 394 | 215 | (246) |
| **EBITDAS** (1) | 2,923 | 2,327 | 8,220 | 12,037 | 34,058 |
| **EBITDAS per share – basic and diluted**(1) | $0.01 | $0.01 | $0.02 | $0.04 | $0.15 |
| **EBITDAS margin (EBITDAS/Revenue)** (1) | 14% | 12% | 11% | 15% | 24% |
| Weighted average number shares outstanding - basic | 390,655,440 | 291,693,064 | 349,836,144 | 285,524,891 | 227,675,260 |
| Weighted average number shares outstanding - diluted | 390,655,440 | 291,693,064 | 349,836,144 | 285,524,891 | 227,675,260 |
| Funds from operations: | | | | | |
| Cash flows from operating activities | 2,300 | 5,964 | 8,710 | 25,427 | 34,974 |
| Add (deduct): Change in non-cash working capital | 623 | (3,637) | (490) | (13,390) | (1,754) |
| **Funds from operations** (2) | 2,923 | 2,327 | 8,220 | 12,037 | 33,217 |
| Gross margin: | | | | | |
| Revenue | 20,992 | 18,787 | 73,122 | 81,260 | 143,666 |
| Less: Direct operating expenses | 15,248 | 13,003 | 53,209 | 55,124 | 91,751 |
| **Gross margin** (3) | 5,744 | 5,784 | 19,913 | 26,136 | 51,915 |
| **Gross margin percentage** (3) | 27% | 31% | 27% | 32% | 36% |

| $ thousands | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Working capital (excluding debt): | | | |
| Current assets | 18,691 | 17,333 | 38,405 |
| Less: Current liabilities | (7,535) | (5,716) | (18,003) |
| Add: Current portion of long term debt | 176 | 205 | 201 |
| **Working capital (excluding debt)** (4) | 11,332 | 11,822 | 20,603 |
| **Working capital (excluding debt) ratio** (4) | 2.5:1 | 3.1:1 | 2.2:1 |
| Net debt: | | | |
| Long term debt | 32,966 | 52,036 | 65,465 |
| Less: Current assets | (18,691) | (17,333) | (38,405) |
| Add: Current liabilities | 7,535 | 5,716 | 18,003 |
| **Net debt** (5) | 21,810 | 40,419 | 45,063 |

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

(2) Funds from operations is not a recognized measure under IFRS. Management believes that in addition to cash flow from operations, funds from operations is a useful supplemental measure as it provides an indication of the cash flow generated by the Company's principal business activities prior to consideration of changes in working capital. Investors should be cautioned, however, that funds from operations should not be construed as an alternative to cash flow from operations determined in accordance with IFRS as an indicator of the Company's performance. CWC's method of calculating funds from operations may differ from other entities and accordingly, funds from operations may not be comparable to measures used by other entities. Funds from operations is equal to cash flow from operations before changes in non-cash working capital items related to operations.

[3] Gross margin is calculated from the statement of comprehensive income 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.

[4] 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.

[5] 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.

# CWC ENERGY SERVICES CORP.

Financial Statements

For the years ended December 31, 2016 and 2015

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of CWC Energy Services Corp.

We have audited the accompanying consolidated financial statements of CWC Energy Services Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CWC Energy Services Corp. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 28, 2017
Calgary, Canada

## CWC ENERGY SERVICES CORP.
### STATEMENTS OF FINANCIAL POSITION
As at December 31, 2016 and December 31, 2015

| **December 31,** *Stated in thousands of Canadian dollars* | Note | **2016** | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Current | | | |
| Cash | | **$ 2** | $ 2 |
| Accounts receivable | | **15,335** | 13,800 |
| Inventory | | **2,191** | 2,112 |
| Prepaid expenses and deposits | | **1,164** | 1,419 |
| | | **18,692** | 17,333 |
| Property and equipment | 5 | **191,334** | 204,067 |
| Intangibles | 6 | **724** | 1,028 |
| | | **$ 210,750** | $ 222,428 |
| **LIABILITIES** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | **$ 7,359** | $ 5,511 |
| Current portion of long-term debt | 7 | **176** | 205 |
| | | **7,535** | 5,716 |
| Deferred tax liability | 8 | **14,767** | 17,214 |
| Long-term debt | 7 | **32,966** | 52,036 |
| | | **55,268** | 74,966 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | **242,306** | 227,149 |
| Contributed surplus | | **6,847** | 6,516 |
| Deficit | | **(93,671)** | (86,203) |
| | | **155,482** | 147,462 |
| | | **$ 210,750** | $ 222,428 |

*See accompanying notes to the financial statements.*

Approved on behalf of the board:

| *(signed) "Gary Bentham"* | *(signed) "Duncan Au"* |
|---|---|
| Gary Bentham, Director | Duncan Au, Director |

# CWC ENERGY SERVICES CORP.

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31, 2016 and 2015

| *Stated in thousands of Canadian dollars except per share amounts* | Note | **2016** | 2015 |
|---|---|---|---|
| **Revenue** | | **$ 73,122** | $ 81,260 |
| **Expenses** | 12 | | |
| Direct operating expenses | | **53,209** | 55,124 |
| Selling and administrative expenses | | **11,693** | 14,099 |
| Stock based compensation | | **945** | 1,008 |
| Finance costs | 7 | **2,515** | 2,203 |
| Depreciation and amortization | | **14,248** | 15,469 |
| Loss on disposal of equipment | | **394** | 215 |
| Impairment of goodwill and assets | 6 | **-** | 24,214 |
| | | **83,004** | 112,332 |
| **Net loss before income taxes** | | **(9,882)** | (31,072) |
| **Deferred income tax recovery** | 8 | **(2,414)** | (1,966) |
| **Net loss and comprehensive loss** | | **$ (7,468)** | $ (29,106) |
| **Loss per share** | | | |
| Basic and diluted | 9 | **$ (0.02)** | $ (0.10) |

*See accompanying notes to the financial statements.*

**CWC ENERGY SERVICES CORP.**

**STATEMENTS OF CHANGES IN EQUITY**

For the years ended December 31, 2016 and 2015

| *Stated in thousands of Canadian dollars except share amounts* | Note | Number of Shares | Share Capital | Contributed Surplus | Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance – January 1, 2015** | | 270,762,224 | $ 219,677 | $ 6,546 | $ (53,518) | $ 172,705 |
| Net loss and comprehensive loss | | - | - | - | (29,106) | (29,106) |
| Stock based compensation expense | 9(d)(e) | - | - | 997 | - | 997 |
| Issued common shares for acquisition | | - | - | - | - | - |
| Issued for cash | | - | - | - | - | - |
| Exercise of stock options | 9(d) | 2,630,002 | 1,182 | (524) | - | 658 |
| Settlement of restricted share units | 9(e) | 699,999 | 503 | (503) | - | - |
| Issued common shares under dividend reinvestment and stock dividend plans | | 18,535,782 | 5,787 | - | - | 5,787 |
| Dividends declared | 9(g) | - | - | - | (3,579) | (3,579) |
| **Balance – December 31, 2015** | | 292,628,007 | $ 227,149 | $ 6,516 | $ (86,203) | $ 147,462 |
| | | | | | | |
| **Balance - January 1, 2016** | | **292,628,007** | **$ 227,149** | **$ 6,516** | **$ (86,203)** | **$ 147,462** |
| Net loss and comprehensive loss | | **-** | **-** | **-** | **(7,468)** | **(7,468)** |
| Stock based compensation expense | 9(d)(e) | **-** | **-** | **945** | **-** | **945** |
| Settlement of restricted share units | 9(e) | **1,746,667** | **614** | **(614)** | **-** | **-** |
| Rights offering (net of share issue costs and deferred tax recovery) | 9(b) | **97,546,002** | **14,543** | **-** | **-** | **14,543** |
| **Balance – December 31, 2016** | | **391,920,676** | **$ 242,306** | **$ 6,847** | **$ (93,671)** | **$ 155,482** |

*See accompanying notes to the financial statements.*

# CWC ENERGY SERVICES CORP.

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

| *Stated in thousands of Canadian dollars* | Note | **2016** | 2015 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net loss | | **$ (7,468)** | $ (29,106) |
| Adjustments for: | | | |
| Stock based compensation expense | 9(d) | **945** | 1,008 |
| Finance costs | | **2,515** | 2,203 |
| Depreciation and amortization | | **14,248** | 15,469 |
| Impairment of goodwill and assets | | **-** | 24,214 |
| Loss on disposal of equipment | | **394** | 215 |
| Deferred income tax recovery | 8 | **(2,414)** | (1,966) |
| Funds from operations | | **8,220** | 12,037 |
| Changes in non-cash working capital balances | 10 | **489** | 13,390 |
| Operating cash flow | | **8,709** | 25,427 |
| **Investing activities:** | | | |
| Purchase of equipment | | **(2,535)** | (8,952) |
| Proceeds on disposal of equipment | | **1,053** | 1,131 |
| Investing cash flow | | **(1,482)** | (7,821) |
| **Financing activities:** | | | |
| Repayment of long-term debt | | **(19,026)** | (13,298) |
| Interest paid | | **(2,202)** | (1,965) |
| Finance costs paid | | **(276)** | (331) |
| Finance lease repayments | | **(232)** | (241) |
| Common shares issued on exercise of rights offering | | **14,632** | - |
| Common shares issued on exercise of options | 9(d) | **-** | 658 |
| Share issue costs | 9(c) | **(123)** | - |
| Dividends paid | 9(g) | **-** | (2,496) |
| Financing cash flow | | **(7,227)** | (17,673) |
| Decrease in cash during the year | | **-** | (67) |
| Cash, beginning of year | | **2** | 69 |
| Cash, end of year | | **$ 2** | $ 2 |

*See accompanying notes to the financial statements.*

**1. Reporting entity**

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

**2. Basis of presentation**

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved by the Board of Directors on February 28, 2017.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These annual 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 financial statements in conformity with IFRS requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying amounts of assets and liabilities. These estimates are based on historical experience and management's judgment. Anticipating future events involves uncertainty and consequently the estimates used by management in the preparation of the financial statements may change as future events unfold, additional experience is acquired or the Company's operating environment changes. In many cases the use of judgment is required to make estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Further details of the nature of these estimates and assumptions may be found in the relevant notes to the 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 financial statements:

Determination of cash generating units

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

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

Impairment of tangible and intangible assets

Tangible and intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is

the higher of fair value less costs to sell ("FVLCS") and value in use ("VIU"). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. As a result, any impairment losses are a result of management's best estimates of expected revenue, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Depreciation and amortization

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

Stock based compensation

Compensation expense associated with stock options granted is based on various assumptions, using the Black-Scholes option-pricing model, to produce an estimate of compensation. This estimate may vary due to changes in the variables used in the model including interest rates, expected life, expected volatility, expected dividends, expected forfeitures and share prices.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully transferable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Stock-based compensation expense is also provided for Restricted Share Units ("RSUs"). The number of stock options and RSUs expected to vest is expensed on a graded vested basis over the vesting period of the stock options and RSUs. The number of stock options and RSUs that actually vest could differ from those estimates and any changes are recognized prospectively when they occur as an increase or decrease in compensation expense.

Allowance for impairment in respect of accounts receivable

The allowance for impairment of accounts receivable is reviewed by management on a regular basis. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice. The assessment of the credit worthiness of a customer requires management to use significant judgment. The estimation of the allowance for impairment of accounts is subject to measurement uncertainty.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recorded based on temporary differences between the carrying amount of an asset or liability and its tax base. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are

generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The Company's operations are complex and computation of the provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. Any changes in the estimated amounts are recognized prospectively in the statement of income and comprehensive income.

(e) Comparative figures

Certain comparative amounts have been reclassified to conform to the current period's presentation.

## 3. Significant accounting policies

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

(a) Inventory

Inventory consists mainly of operating supplies, consumables and repair parts. Inventory is stated at the lower of cost or net realizable value. The cost of inventory is accounted for on a weighted average basis and includes expenditures incurred in acquiring the inventory, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(b) Business combinations

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

(c) Property and equipment and depreciation

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

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

Costs of replacing a component of property and equipment is 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 replacement component is derecognized. Cost of routine repairs and maintenance is expensed as incurred.

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

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

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

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

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

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

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

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

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

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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

(e) Financial instruments
Financial assets include accounts receivable and marketable securities (if any). The Company determines the classification of its financial assets at initial recognition and records the assets at their fair value. Subsequently, financial assets are carried at fair value or amortized cost less impairment charges. Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are recognized directly in equity unless the financial assets

have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognized directly in net earnings.

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

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

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

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

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

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

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

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

(f) 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.

(g) 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.

(h) Provisions
A provision is recognized in the financial statements when the Company has an obligation, whether existing or potential as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the obligation is determined to be material, then the estimated amount of the provision is determined by discounting the expected future cash outflows. At December 31, 2016 and December 31, 2015 there were no provisions recognized in the financial statements.

(i) Revenue recognition
The Company's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations. Revenue is recognized when services are rendered and when collectability of the consideration is probable and when the amount of revenue can be measured reliably.

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

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

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

Leasing contracts are classified as either finance or operating leases.

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

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

(k) Dividends
Dividends on shares are recognized in the Company's financial statements in the period in which the dividends are declared and approved by the Board of Directors of the Company.

(l) 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.

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

(n) 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 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.

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

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

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

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

is made to the participant, contributed surplus is reduced by the amount of the cash payment. It is the Company's intent to settle future RSUs by means of the issue of shares from treasury.

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

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

(p) 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

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

(r) New accounting standards not yet effective
A number of new standards, amendments to standards and interpretations have been issued by the IASB and are not yet effective for the year ended December 31, 2016. The following new standards, amendments to standards and interpretations have not been applied in preparing these financial statements.

IFRS 9, Financial Instruments Classification and Measurement, which introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its financial statements

IFRS 15, Revenue from Contracts with Customers, which provides guidance on revenue recognition and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

IFRS 16, Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its 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 carrying amounts for cash, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The fair value of long-term debt approximates its carrying value as the debt bears interest at floating rates and the credit spreads approximate current market rates.

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

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

(b) Inventories
The net realizable value of inventories is determined based on the estimated selling price in the ordinary course of business less cost and a reasonable profit margin.

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

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

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

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

The Company did not have any financial instruments that were required to be classified in Level 1, 2 or 3 as at December 31, 2016.

## 5. Property and equipment

| | Contract drilling equipment | Production services equipment | Other equipment | Total |
|---|---|---|---|---|
| **Costs** | | | | |
| Balance, January 1, 2016 | **$ 108,508** | **$ 204,123** | **$ 1,881** | **$ 314,512** |
| Additions | **1,662** | **930** | **66** | **2,658** |
| Disposals | **(1,223)** | **(907)** | **(141)** | **(2,271)** |
| Transfers | **-** | **(68)** | **68** | **-** |
| Balance, December 31, 2016 | **108,947** | **204,078** | **1,874** | **314,899** |
| **Accumulated depreciation and impairment losses** | | | | |
| Balance, January 1, 2016 | **12,230** | **96,710** | **1,505** | **110,445** |
| Depreciation | **2,979** | **10,800** | **165** | **13,944** |
| Disposals | **(136)** | **(566)** | **(122)** | **(824)** |
| Balance, December 31, 2016 | **15,073** | **106,944** | **1,548** | **123,565** |
| **Net book value** | | | | |
| Balance, December 31, 2016 | **$ 93,874** | **$ 97,134** | **$ 326** | **$ 191,334** |

| | Contract drilling equipment | Production services equipment | Other equipment | Total |
|---|---|---|---|---|
| Costs | | | | |
| Balance, January 1, 2015 | $ 104,749 | $ 205,233 | $ 1,638 | $ 311,620 |
| Additions | 4,330 | 4,807 | 25 | 9,162 |
| Disposals | (515) | (5,750) | (5) | (6,270) |
| Transfers | (56) | (167) | 223 | - |
| Balance, December 31, 2015 | 108,508 | 204,123 | 1,881 | 314,512 |
| Accumulated depreciation and impairment losses | | | | |
| Balance, January 1, 2015 | 4,543 | 86,825 | 1,342 | 92,710 |
| Depreciation | 3,806 | 11,185 | 161 | 15,152 |
| Disposals | (57) | (4,206) | (1) | (4,264) |
| Transfers | (14) | 14 | - | - |
| Impairments | 3,952 | 2,892 | 3 | 6,847 |
| Balance, December 31, 2015 | 12,230 | 96,710 | 1,505 | 110,445 |
| Net book value | | | | |
| Balance, December 31, 2015 | $ 96,278 | $ 107,413 | $ 376 | $ 204,067 |

At December 31, 2016, property and equipment includes equipment under finance leases which are recorded at cost totaling $854 (December 31, 2015: $915), less accumulated depreciation of $586 (December 31, 2015: $539).

In 2015, the Company reviewed the recoverable value of service rigs and coil tubing units which resulted in an impairment of production services equipment totaling $2,892.

In 2015, the Company transferred production services equipment with a net book value of $1,359 to assets held for sale which were subsequently sold for proceeds of $699. The Company recognized an impairment of property and equipment of $660 in respect of these assets. Further information about the impairment loss is included in note 6. No asset impairment loss or impairment reversal was recorded for the year ended December 31, 2016 as triggers for an impairment test were not identified in any of the CGUs.

## 6. Goodwill and intangible assets

| | Intangible assets |
|---|---|
| **Costs** | |
| Balance, January 1, 2016 and December 31, 2016 | **$ 1,588** |
| | |
| **Accumulated depreciation and impairment losses** | |
| Balance, January 1, 2016 | **560** |
| Depreciation of intangible assets | **304** |
| Balance, December 31, 2016 | **864** |
| | |
| **Net book value** | |
| Balance, December 31, 2016 | **$ 724** |

| | Goodwill | Intangible assets |
|---|---|---|
| Costs | | |
| Balance, January 1, 2015 | $ 37,528 | $ 1,588 |
| Additions | 14 | - |
| Balance, December 31, 2015 | 37,542 | 1,588 |
| | | |
| Accumulated depreciation and impairment losses | | |
| Balance, January 1, 2015 | 20,880 | 198 |
| Depreciation of intangible assets | - | 317 |
| Impairment | 16,662 | 45 |
| Balance, December 31, 2015 | 37,542 | 560 |
| | | |
| Net book value | | |
| Balance, December 31, 2015 | $ - | $ 1,028 |

In 2015, the Company determined that low commodity prices and its impact on the current and future business and industry activity levels was an indicator of impairment and performed a comprehensive assessment of the carrying values of property, equipment, goodwill, and intangibles for the CGU's in the Contract Drilling and Production Services segments.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term compound annual adjusted EBITDA growth rate.

The recoverable amount of the CGUs was based on value in use, estimated using discounted cash flows based on historical results and incorporated the Company's 2016 internal forecasts. The fair value of measurement was categorized as Level 3 inputs in the valuation technique used.

The results of the test of the Contract Drilling CGU indicated a goodwill impairment of $16,662, a tangible asset impairment of $3,952 (see note 6) and an intangible asset impairment of $45 at December 31, 2015. The estimated recoverable amount of the Service Rig CGU exceeded its carrying amount by approximately $2,000 for the year ended December 31, 2015. The estimated recoverable amount of the Coil Tubing CGU exceeded its carrying amount by approximately $7,000 for the year ended December 31, 2015.

## 7. Loans and borrowings

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

| As at December 31, | **2016** | 2015 |
|---|---|---|
| Current liabilities: | | |
| Current portion of finance lease liabilities | **$ 176** | $ 205 |
| | **$ 176** | $ 205 |
| Non-current liabilities: | | |
| Bank Loan | **$ 33,333** | $ 52,359 |
| Finance lease liabilities | **97** | 178 |
| Financing fees | **(464)** | (501) |
| | **$ 32,966** | $ 52,036 |
| Total loans and borrowings | **$ 33,142** | $ 52,241 |

The Company has credit facilities with a syndicate of four Canadian financial institutions (the "Credit Facility"). The Credit Facility provides the Company with a $65,000 extendible revolving term facility (the "Bank Loan") and other credit instruments. The Bank Loan is for a committed term until July 31, 2018 (the "Maturity Date"). No principal payments are required under the Bank Loan until the Maturity Date, at which time any amounts outstanding are due and payable. The Company may, on an annual basis, request the Maturity Date be extended for a period not to exceed three years from the date of the request. If a request for an extension is not approved by the banking syndicate, the Maturity Date will remain unchanged.

The Bank Loan bears interest based on a sliding scale pricing grid tied to the Company's trailing Consolidated Debt to Consolidated EBITDA [(1)] ratio from a minimum of the bank's prime rate plus 0.75% to a maximum of the bank's prime rate plus 3.75% or from a minimum of the bankers acceptances rate plus a stamping fee of 1.75% to a maximum of the bankers acceptances rate plus a stamping fee of 4.75%. Standby fees under the Bank Loan range between 0.39% and 1.07%. Interest and fees under the Bank Loan are payable monthly. The Company has the option to borrow funds denominated in either Canadian or United States dollars under the Credit Facility. Borrowings under the Bank Loan are limited to an aggregate of 75% of accounts receivable outstanding less than 90 days plus 60% of the net book value of property and equipment less certain priority payables. As at December 31, 2016, $62,680 was available for immediate borrowing under the $65,000 Bank Loan facility and $41,013 was outstanding (December 31, 2015: $52,334). The Bank Loan has an accordion feature which provides the Company with an ability to increase the maximum borrowings to up to $125,000, subject to the approval of the lenders. The Bank Loan is secured by a security agreement covering all of the assets of the Company and a first charge Security Interest covering all assets of the Company. Effective December 31, 2016 the applicable rates under the Bank Loan are: bank prime rate plus 2.25%, banker's acceptances rate plus a stamping fee of 3.25%, and standby fee rate of 0.73%.

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

| | Covenant limits | Actual December 31, 2016 |
|---|---|---|
| Consolidated Debt[2] to Consolidated EBITDA[1] | 5.25:1.00 or less | 2.70:1.00 |
| Consolidated Debt[2] to Capitalization[3] | 0.50:1.00 or less | 0.21:1.00 |
| Consolidated Adjusted Cash Flow[4] to Consolidated Finance Obligations[5] | 1.15:1.00 or more | 3.23:1.00 |

[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. 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. The Consolidated Debt to Consolidated EBITDA covenant limit reduces through 2017 to 4.00:1.00 and 3.50:1.00 thereafter.
[2] Consolidated Debt is calculated as total loans and borrowings as shown in the schedule above adjusted to exclude the funds held in the segregated account and to remove any financing fees included.
[3] Capitalization is calculated as Consolidated Debt plus Shareholders' Equity as at the calculation date.
[4] Consolidated Adjusted Cash Flow is calculated as Consolidated 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 Finance Obligations is calculated as finance costs plus scheduled principal payments on debt including scheduled principal payments under finance leases minus accretion of finance fees included in finance costs for the twelve month period ended the calculation date.

On June 2, 2016, the Company received gross proceeds of $14,632 from a rights offering of common shares (see Note 9), the funds were placed into a segregated bank account. On July 9, 2016, $7,000 was paid on the bank loan. At December 31, 2016 the remaining $7,632 plus earned interest has been offset against long term debt as the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously.

| | **December 31, 2016** | | |
|---|---|---|---|
| | **Cash** | **Long-Term Debt** | **Net** |
| Gross amounts | **7,682** | **(40,646)** | **(32,964)** |
| Amount offset | **(7,680)** | **7,680** | **-** |
| Net amounts | **2** | **(32,966)** | **(32,964)** |

Obligations under finance leases are primarily for leased automobiles with an expected term of three years and a one year minimum term. Interest rates on finance leases are specific to each leased asset, are fixed for the lease term and vary between 4.4% and 5.2% per annum.

Financing fees consist of commitment fees and legal expenses relating to the Credit Facility and are being amortized using the effective interest rate method over the term of the Credit Facility. Financing fees of $313 were amortized and included in finance costs during the year ended December 31, 2016 (year ended December 31, 2015: $238).

## 8. Income taxes

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

| Years ended December 31, | **2016** | 2015 |
|---|---|---|
| Loss before income taxes | **$ (9,882)** | $ (31,072) |
| Combined federal and provincial income tax rate | **27%** | 26.05% |
| Expected income taxes | **(2,668)** | (8,094) |
| | | |
| Increase (decrease) resulting from: | | |
| Non-deductible items | **29** | 22 |
| Income tax effect of income tax rate change | **-** | 1,411 |
| Goodwill impairment | **-** | 4,341 |
| Stock based compensation | **255** | 263 |
| Other | **(30)** | 91 |
| | **$ (2,414)** | $ (1,966) |

The deferred income tax liability is comprised of:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Deferred tax assets | | |
| Non capital losses | **$ 13,370[1]** | $ 14,531[1] |
| Share issue costs | **196** | 294 |
| Finance lease liabilities | **74** | 103 |
| Other | **119** | 73 |
| | **13,759** | 15,001 |
| Deferred tax liabilities: | | |
| Property and equipment | **(28,526)** | (32,215) |
| | **(28,526)** | (32,215) |
| Net deferred income tax liability | **$ (14,767)** | $ (17,214) |

[1]The Company has $49,520 (2015: $53,820) of non-capital loss carry forwards for income tax purposes which are available for application against future taxable income. These non-capital loss carry forwards expire between 2027 and 2036.

All changes in deferred income tax temporary differences were recognized in income in the years ended December 31, 2016 and 2015.

## 9. Share capital

(a) Authorized

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

(b) Rights offering

On June 2, 2016, CWC closed a rights offering for aggregate gross proceeds of $14,632 ($14,543 after deductions of $123 in share issue costs plus deferred income taxes of $33). Under the fully subscribed offering, 97,546,002 common shares were issued to shareholders who exercised their rights. Each eligible shareholder received one right for every three common shares held and each right was exercisable for one common share at a price of $0.15 per share.

(c) Normal course issuer bid

The Company has a program to purchase its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities laws. Pursuant to the issuer bid, CWC is allowed to purchase for cancellation up to 19,512,200 of its issued and outstanding common shares at prevailing market prices on the TSX Venture Exchange or other recognized marketplaces during the twelve month period ending June 7, 2017. There were no purchases made under the NCIB during 2015 or 2016.

(d) Stock options

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

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

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance at January 1, 2015 | 13,020,012 | 0.54 |
| Granted | 6,900,000 | 0.11 |
| Exercised for common shares | (2,630,002) | 0.25 |
| Forfeited | (2,890,010) | 0.31 |
| Balance at December 31, 2015 | 14,400,000 | 0.43 |
| **Granted** | **11,291,000** | **0.18** |
| **Forfeited** | **(3,900,000)** | **0.57** |
| **Balance at December 31, 2016** | **21,791,000** | **$ 0.28** |

The following table summarizes information about stock options outstanding as at December 31, 2016:

| Exercise price | Number of options outstanding | Weighted average remaining life (years) contractual | Weighted average exercise price | Number of options exercisable |
|---|---|---|---|---|
| **$ 0.11** | **5,900,000** | **3.9** | **$ 0.11** | **1,966,664** |
| **$0.175** | **5,650,000** | **4.2** | **$0.175** | **-** |
| **$0.19** | **5,591,000** | **4.9** | **$0.19** | **-** |
| **$ 0.45** | **2,500,000** | **3.0** | **$ 0.45** | **1,666,666** |
| **$ 0.80** | **250,000** | **0.4** | **$ 0.80** | **250,000** |
| **$ 1.04** | **1,900,000** | **2.4** | **$ 1.04** | **1,266,668** |
| **$ 0.11- 1.04** | **21,791,000** | **4.0** | **$ 0.28** | **5,149,998** |

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

| | **2016** | 2015 |
|---|---|---|
| Risk free interest rate (%) | **0.8%** | 0.8% |
| Expected life (years) | **4.5** | 4.7 |
| Expected volatility (%) | **77%** | 74% |
| Expected forfeiture rate (%) | **12%** | 0% |
| Expected dividend per share | **$ 0.00** | $ 0.00 |

The weighted average fair value of the stock options issued during the year ended December 31, 2016 was $0.13 (year ended December 31, 2015 - $0.06). For the year ended December 31, 2016, stock-based compensation expense relating to stock options totaled $371 (year ended December 31, 2015: $449).

The Company has a Dividend Bonus Plan whereby holders of vested and in-the-money stock options receive a payment equal to the declared dividend amount. A portion of the dividend bonus is treated as stock based compensation while the remainder is recorded as a dividend. For the year ended December 31, 2016, there was no stock based compensation expense relating to the dividend bonus plan (year ended December 31, 2015: $11).

(e) Restricted share unit plan

The Company has a restricted share unit plan which allows the Corporation to issue RSUs which are redeemable for common shares at future vesting dates. The aggregate number of RSUs and stock options outstanding is limited to a maximum of ten percent of the outstanding common shares. The Corporation has granted RSUs to officers and key employees. RSUs vest annually over three years from the date of grant as employees or directors render continuous service to the Company and have a maximum term of the end of the third year following their grant date. The Company may choose to settle RSUs for the intrinsic value of the RSUs on the settlement date, but the Company has no current intention or obligation to do so. For 2016, the Board of Directors granted RSUs with immediate vesting in lieu of a cash bonus.

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, 2015 | 2,065,000 | $ 0.66 |
| Granted | 1,020,000 | 0.11 |
| Redeemed for common shares | (699,999) | 0.72 |
| Forfeited – unvested | (95,000) | 0.81 |
| Balance at December 31, 2015 | 2,290,001 | 0.39 |
| Granted | **4,301,333** | **0.19** |
| Redeemed for common shares | **(1,746,667)** | **0.35** |
| Forfeited - unvested | **(371,667)** | **0.42** |
| Balance at December 31, 2016 | **4,473,000** | **$ 0.21** |

The following table summarizes information about RSUs outstanding as at December 31, 2016:

| Issue date fair value | Number of RSUs outstanding | Weighted average remaining life (years) contractual | Weighted average exercise price ($) | Number of RSUs exercisable |
|---|---|---|---|---|
| $0.09 - $0.39 | 4,413,000 | 2.61 | n/a | 1,431,666 |
| $0.84 - $1.04 | 60,000 | 0.96 | n/a | - |
| **$0.09 – 1.04** | **4,473,000** | **2.59** | **n/a** | **1,431,666** |

For the year ended December 31, 2016, stock based compensation expense relating to RSUs totaled $574 (year ended December 31, 2015: $548).

(f) Loss per share

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

| | **Year ended December 31,** | |
|---|---|---|
| | **2016** | 2015 |
| Weighted average common shares outstanding – basic | **349,836,144** | 285,524,891 |
| Dilutive stock options | **-** | - |
| Dilutive Restricted Share Units | **-** | - |
| Weighted average common shares outstanding – diluted | **349,836,144** | 285,524,891 |

Outstanding stock options and RSUs are currently the only instruments which could potentially dilute earnings per share. For the year ended December 31, 2016, 21,791,000 stock options and 4,473,000 RSUs (year ended December 31, 2015: 14,400,000 and 2,290,001 RSUs) were not included in the computation of net loss per common share because to do so would be anti-dilutive.

(g) Dividends

The Company has made the following dividend payments in the past two fiscal years:

| Declaration Date | Record Date | Payment Date | Dividend per Common share |
|---|---|---|---|
| November 12, 2014 | December 31, 2014 | January 15, 2015 | **$0.01750** |
| March 9, 2015 | March 31, 2015 | April 15, 2015 | **$0.00500** |
| May 13, 2015 | June 30, 2015 | July 15, 2015 | **$0.00500** |
| August 10, 2015 | September 30, 2015 | October 15, 2015 | **$0.00250** |

On December 23, 2014, the Company introduced a Dividend Reinvestment Program ("DRIP") and Stock Dividend Program ("SDP") under which eligible shareholders may elect to participate in the DRIP or SDP or continue to receive a cash dividend beginning with the December 31, 2014 quarterly dividend paid on January 15, 2015. On November 25, 2015, the Company announced the suspension of the quarterly dividend and its DRIP and SDP.

For the year ended December 31, 2016 there were no common shares issued under the DRIP and SDP plans (year ended December 31, 2015, 17,985,746 and 550,036 respectively).

(h) 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.

## 10. Supplemental cash flow information

| For the years ended December 31, | 2016 | 2015 |
|---|---|---|
| Change in non-cash working capital items: | | |
| Accounts receivable | **$ (1,535)** | $ 21,009 |
| Inventory | **(79)** | 223 |
| Prepaid expenses and deposits | **255** | (244) |
| Accounts payable and accrued liabilities | **1,848** | (7,598) |
| | **$ 489** | $ 13,390 |

## 11. Operating segments

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

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

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

The amounts related to each industry segment are as follows:

| For the year ended December 31, 2016 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 15,903 | $ 57,219 | $ - | $ 73,122 |
| Direct operating expenses | 12,356 | 40,853 | - | 53,209 |
| Selling and administrative expenses | 1,125 | 6,875 | 3,693 | 11,693 |
| Stock based compensation | - | - | 945 | 945 |
| Finance costs | - | - | 2,515 | 2,515 |
| Loss on disposal of equipment | 238 | 156 | - | 394 |
| **Net income (loss) before depreciation and taxes** | 2,184 | 9,335 | (7,153) | 4,366 |
| Depreciation | 3,284 | 10,799 | 165 | 14,248 |
| **Net loss before tax** | (1,100) | (1,464) | (7,318) | (9,882) |
| Deferred income tax recovery | - | - | (2,414) | (2,414) |
| **Net loss** | (1,100) | (1,464) | (4,904) | (7,468) |
| Capital expenditures | 1,662 | 930 | 66 | 2,658 |
| **As at December 31, 2016** | | | | |
| Property and equipment | 93,874 | 97,134 | 326 | 191,334 |
| Intangibles | 724 | - | - | 724 |

| For the year ended December 31, 2015 | Contract Drilling | Production Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $ 27,758 | $ 53,502 | $ - | $ 81,260 |
| Direct operating expenses | 17,743 | 37,381 | - | 55,124 |
| Selling and administrative expenses | 1,317 | 8,201 | 4,581 | 14,099 |
| Stock based compensation | - | - | 1,008 | 1,008 |
| Finance costs | - | - | 2,203 | 2,203 |
| Impairment of goodwill and assets held for sale | 20,659 | 3,552 | 3 | 24,214 |
| Loss on disposal of equipment | 193 | 20 | 2 | 215 |
| **Net income (loss) before depreciation and taxes** | (12,154) | 4,348 | (7,797) | (15,603) |
| Depreciation | 4,123 | 11,185 | 161 | 15,469 |
| **Net loss before tax** | (16,277) | (6,837) | (7,958) | (31,072) |
| Deferred income tax recovery | - | - | (1,966) | (1,966) |
| **Net loss** | (16,277) | (6,837) | (5,992) | (29,106) |
| Capital expenditures | 4,330 | 4,807 | 25 | 9,162 |
| **As at December 31, 2015** | | | | |
| Property and equipment | 96,278 | 107,413 | 376 | 204,067 |
| Intangibles | 1,028 | - | - | 1,028 |

## 12. Expenses by nature

| For the year ended December 31, 2016 | Direct operating expenses | Selling and administrative expenses | Stock based compensation | Finance costs | Depreciation expense | Loss on sale of equipment | Total |
|---|---|---|---|---|---|---|---|
| Personnel expenses | $ 36,330 | $ 6,994 | $ 945 | $ - | $ - | $ - | $ 44,269 |
| Other operating expenses[1] | 16,879 | - | - | - | - | - | 16,879 |
| Other selling and administrative expenses | - | 2,564 | | - | - | - | 2,564 |
| Bad debt recovery | - | (38) | - | - | - | - | (38) |
| Facility expenses | - | 2,173 | - | - | - | - | 2,173 |
| Depreciation expense | - | - | - | - | 14,248 | - | 14,248 |
| Finance costs | - | - | - | 2,515 | - | - | 2,515 |
| Loss on disposal of equipment | - | - | - | - | - | 394 | 394 |
| Total | $ 53,209 | $ 11,693 | $ 945 | $ 2,515 | $ 14,248 | $ 394 | $ 83,004 |

| For the year ended December 31, 2015 | Direct operating expenses | Selling and administrative expenses | Stock based compensation | Finance costs | Depreciation expense | Loss on sale of equipment | Impairment of goodwill and assets held for sale | Total |
|---|---|---|---|---|---|---|---|---|
| Personnel expenses | $ 35,670 | $ 8,125 | $ 1,008 | $ - | $ - | $ - | $ - | $ 44,803 |
| Termination expenses | 130 | 431 | - | - | - | - | - | 561 |
| Other operating expenses[1] | 19,324 | - | - | - | - | - | - | 19,324 |
| Other selling and administrative expenses | - | 3,000 | - | - | - | - | - | 3,000 |
| Bad debt expenses | - | 159 | - | - | - | - | - | 159 |
| Facility expenses | - | 2,384 | - | - | - | - | - | 2,384 |
| Depreciation expense | - | - | - | - | 15,469 | - | - | 15,469 |
| Finance costs | - | - | - | 2,203 | - | - | - | 2,203 |
| Loss on disposal of equipment | - | - | - | - | - | 215 | - | 215 |
| Impairment of goodwill and assets held for sale | - | - | - | - | - | - | 24,214 | 24,214 |
| Total | $ 55,124 | $ 14,099 | $ 1,008 | $ 2,203 | $ 15,469 | $ 215 | $ 24,214 | $ 112,332 |

[1] other operating expenses consists of the following:

| December 31, | 2016 | 2015 |
|---|---|---|
| Repairs and maintenance | **$ 7,082** | $ 9,556 |
| Fuel | **4,876** | 4,862 |
| Operating supplies and consumables | **1,193** | 957 |
| Certification and inspection | **1,130** | 1,121 |
| License, registration and permits | **983** | 1,073 |
| Travel and accommodation | **846** | 866 |
| Equipment rental | **562** | 830 |
| Other | **207** | 59 |
| | **$ 16,879** | $ 19,324 |

## 13. Commitments and contingencies:

As at December 31, 2016, the Company has lease commitments and other contractual obligations as follows:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **Next 12 months** | **Between 1 and 3 years** | **Between 4 and 5 years** | **Greater than 5 years** | **Total** |
| Contractual obligations: | | | | | |
| Bank Loan | **$ -** | **$ 33,333** | **$ -** | **$ -** | **$ 33,333** |
| Finance lease liabilities | **176** | **97** | **-** | **-** | **273** |
| Operating lease payments | **1,253** | **1,781** | **-** | **-** | **3,034** |
| Total contractual obligations | **$ 1,429** | **$ 35,211** | **$ -** | **$ -** | **$ 36,640** |

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

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

## 14. Related parties

Of the total outstanding shares of the Company, 72.4% are directly or indirectly owned by Brookfield Capital Partners Ltd and Brookfield Business Partners LP (together "Brookfield"). The Company is related to Brookfield by virtue of control, and is therefore also related to Brookfield's affiliates. During 2016, the Company had revenue totaling $1,195 (2015: $1,178) ($271 in accounts receivable as at December 31, 2016 (2015: $248)) 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:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Short term employee benefits (including directors' fees) | **$ 1,335** | $ 2,889 |
| Share based payments (stock options and RSUs) | **564** | 863 |
| Termination benefits | **-** | 180 |
| Total compensation to key management including directors and officers | **$ 1,899** | $ 3,932 |

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 12 to 24 months gross salary.

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 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, 2016 and December 31, 2015.

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer, however, management also considers the demographics of the Company's customer base. Currently, all of the Company's sales are concentrated within the Western Canadian Sedimentary Basin ("WCSB"). For the year ended December 31, 2016, ten customers comprised 74% of revenues (2015 - 60%) and one customer comprised 32% of revenue (2015 - 14%). At December 31, 2016, ten customers comprised 66% of trade accounts receivables (2015 - 75%) and one customer comprised 21% of trade receivables (2015 – 21%).

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

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

| As at December 31, | **2016** | 2015 |
|---|---|---|
| Trade accounts receivable: | | |
| 1 to 30 days outstanding – not past due | **$ 9,646** | $ 8,199 |
| 31 to 90 days outstanding | **5,351** | 5,404 |
| >90 days overdue | **414** | 344 |
| Allowance for impairment of accounts | **(76)** | (147) |
| | **$ 15,335** | $ 13,800 |

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

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Balance as at January 1: | $ | 147 | $ | 724 |
| Additional allowance | | 328 | | 275 |
| Amounts recovered | | (306) | | (166) |
| Amounts used | | (93) | | (686) |
| Balance as at December 31 | $ | 76 | $ | 147 |

Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Company records a specific allowance for impairment when management considers that the expected recovery is less than the actual amount receivable. Recoveries are the result of amounts which were previously determined to be uncollectable being collected in a period subsequent to an allowance for impairment being recorded.

b) Liquidity risk

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

At December 31, 2016, the Company has available committed amounts under its Credit Facility in the amount of $13,987 (2015: $10,100), segregated cash of $7,680 (2015: nil), plus trade and other receivables of $15,335 (2015: $13,800) for a total of $37,002 (2015: $23,900) available to fund the cash outflows related to its financial liabilities.

The Company anticipates that its existing capital resources including its Credit Facility and cash flows from operations will be adequate to satisfy its liquidity requirements through fiscal 2017. This expectation could be adversely affected by a material negative change in the oilfield service industry, which in turn could lead to covenant breaches on the Company's Credit Facility, which, if not amended or waived, could limit the Company's access to the credit facility. If available liquidity is not sufficient to meet CWC's operating and debt servicing obligations as they come due, management's plans include further expenditure reductions, pursuing alternative financing arrangements, asset dispositions, or pursuing other corporate strategic alternatives.

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

| Years ended December 31, 2016 | | 2017 | | 2018 | | 2019 | | 2020 | | 2021 and beyond |
|---|---|---|---|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 7,359 | $ | - | $ | - | $ | - | $ | - |
| Long-term debt | | 176 | | 32,966 | | - | | - | | - |
| | $ | 7,535 | $ | 32,966 | $ | - | $ | - | $ | - |

| Years ended December 31, 2015 | | 2016 | | 2017 | | 2018 | | 2019 | | 2020 and beyond |
|---|---|---|---|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 5,511 | $ | - | $ | - | $ | - | $ | - |
| Long-term debt | | 205 | | 52,011 | | - | | - | | 25 |
| | $ | 5,716 | $ | 52,011 | $ | - | $ | - | $ | 25 |

c) Market risk

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

Foreign currency risk

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

Interest rate risk

Interest rate risk is the risk that future cash flow will fluctuate as a result of change in market interest rates. The Company is exposed to interest rate fluctuations on its long-term debt which bears interest at floating market rates. For the year ended December 31, 2016, if the prime interest rate increased/decreased by 1%, with all other variables held constant, net income would have been $329 lower/higher (2015 – $400). The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the Company's exposure to interest rate fluctuations.

Commodity price risk

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

## 16. Capital management

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

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

The Company monitors capital using a key financial metric of Consolidated Debt to Consolidated EBITDA ratio as defined in the Credit Facility (see Note 7). 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, 2016, the actual and forecasted Consolidated Debt to Consolidated EBITDA of the Company has declined, primarily due to 2016's rights offering and amendments to credit facility terms. The Consolidated Debt to Consolidated EBITDA increased from Q1 2015 through Q1 2016 as Consolidated EBITDA declined. This resulted in additional review and monitoring of the actual and forecasted Consolidated Debt to Consolidated EBITDA ratio. The Consolidated Debt to Consolidated EBITDA ratio at December 31, 2016 was 2.70:1.00 (at December 31, 2015: 4.21:1.00). In the past, the key financial metric used by management was debt to equity ratio. The Company was in compliance with all externally imposed capital requirements as at December 31, 2016 and 2015.

# Corporate Information

## Directors
Jim Reid, Chairman
Duncan T. Au[1]
Daryl Austin
Gary L. Bentham[1,2]
Wade McGowan[1, 2]
Dean Schultz[2]

1. *Audit Committee*
2. *Compensation and Corporate Governance Committee*

## Officers
Duncan Au, CPA, CA, CFA
*President & Chief Executive Officer*

Craig Flint, CPA, CA
*Chief Financial Officer*

Paul Donohue
*Vice President Operations (Drilling)*

Darwin McIntyre
*Vice President Operations (Well Services)*

Bob Apps
*Vice President, Sales and Marketing (Drilling)*

Mike Dubois
*Vice President, Sales and Marketing (Well Services)*

## Corporate Secretary
James L. Kidd
Burnet, Duckworth & Palmer LLP

## Auditors
KPMG LLP

## Bankers
ATB Financial
National Bank
HSBC Bank Canada
Canadian Western Bank

## Legal Counsel
Burnet, Duckworth & Palmer LLP

## Transfer Agent
Computershare Limited

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