

ENSIGN ENERGY SERVICES INC.

2017 ANNUAL REPORT



drilling | directional drilling | testing | well servicing

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Ensign Energy Services Inc. and all of its subsidiaries and partnerships ("Ensign" or the "Company") should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017, which are available on SEDAR at www.sedar.com.

This MD&A and the audited consolidated financial statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated and are stated in thousands, except for: per share amounts, number of drilling rigs and operating days. This MD&A is dated March 1, 2018. Additional information, including the Company's Annual Information Form for the year ended December 31, 2016, is available on SEDAR at www.sedar.com. The Company's Annual Information Form for the year ended December 31, 2017 is expected to be filed on SEDAR prior to March 31, 2018.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements can be identified by the words "believe", "anticipate", "expect", "plan", "estimate", "target", "continue", "could", "intend", "may", "potential", "predict", "should", "will", "objective", "project", "forecast", "goal", "guidance", "outlook", "effort", "seeks", "schedule" or other expressions of a similar nature suggesting future outcome or statements regarding an outlook.

Disclosure related to expected future energy commodity pricing or trends, revenue rates, equipment utilization or operating activity levels, operating costs, capital expenditures and other future guidance provided throughout this MD&A, including, but not limited to, information provided in the "Funds Flow From Operations and Working Capital" section regarding the Company's expectation that funds generated by operations combined with current and future credit facilities will support current operating and capital requirements, information provided in the "New Builds and Major Retrofits" section regarding the new build program, information provided in the "Financial Instruments" section regarding Venezuela and information provided in the "Outlook" section regarding the general outlook for 2017, constitute forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks. The reader should not place undue reliance on these forward-looking statements as there can be no assurance that the plans, initiatives or expectations upon which they are based will occur.

The forward-looking statements are based on current expectations, estimates and projections about the Company and the industry in which the Company operates, which speak only as of the date such statements were made or as of the date of the report or document in which they are contained, and are subject to known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others: general economic and business conditions which will, among other things, impact demand for and market prices of the Company's services and the ability of the Company's customers to pay accounts receivable balances; volatility of and assumptions regarding oil and natural gas prices; fluctuations in currency and interest rates; economic conditions in the countries and regions in which the Company conducts business; political uncertainty and civil unrest; ability of the Company to implement its business strategy; impact of competition; the Company's defense of lawsuits; availability and cost of labor and other equipment, supplies and services; ability of the Company and its subsidiaries to complete their capital programs; operating hazards and other difficulties inherent in the operation of the Company's oilfield services equipment; availability and cost of financing; timing and success of integrating the business and operations of acquired companies; actions by governmental authorities; government regulations and the expenditures required to comply with them (including safety and environmental laws and regulations and the impact of climate change initiatives on capital and operating costs); the adequacy of the Company's provision for taxes; and other circumstances that may affect revenues and expenses.

The Company's operations and levels of demand for its services have been, and at times in the future may be, affected by political developments and by national, regional and local laws and regulations such as changes in taxes, royalties and other amounts payable to governments or governmental agencies and environmental protection regulations. Should one or more of these risks or uncertainties materialize, or should any of the Company's assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and the Company's course of action may depend upon its assessment of the future considering all information then available.

For additional information refer to the "Risks and Uncertainties" section of this MD&A. Readers are cautioned that the foregoing list of important factors is not exhaustive. Unpredictable or unknown factors not discussed in this report could also have material adverse effects on forward-looking statements or results of operations. Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements are made, no assurances can be given as to future results, levels of activity and achievements. Except as required by law, the Company assumes no obligation to update forward-looking statements should circumstances or the Company's estimates or opinions change.

NON-GAAP MEASURES

This MD&A contains references to Adjusted EBITDA, Adjusted EBITDA per share, Funds flow from operations, Funds flow from operations per share and Revenue net of third party. These measures do not have any standardized meaning prescribed by IFRS and accordingly, may not be comparable to similar measures used by other companies. The non-GAAP measures included in this MD&A should not be considered as an alternative to, or more meaningful than, the IFRS measure from which they are derived or to which they are compared. The definition and method of calculation of the non-GAAP measures included in this MD&A are included in the "Overview and Selected Annual Information" section.

OVERVIEW AND SELECTED ANNUAL INFORMATION

(in thousands of Canadian dollars, except per share data and operating information)

	2017	2016	Change	% change	2015	Change	% change
Revenue	1,000,650	859,702	140,948	16	1,390,978	(531,276)	(38)
Revenue, net of third party ¹	873,864	755,857	118,007	16	1,234,775	(478,918)	(39)
Adjusted EBITDA ²	201,784	185,173	16,611	9	329,010	(143,837)	(44)
Adjusted EBITDA per share ²							
Basic	\$ 1.29	\$ 1.21	\$ 0.08	7	\$ 2.16	\$ (0.95)	(44)
Diluted	\$ 1.29	\$ 1.21	\$ 0.08	7	\$ 2.16	\$ (0.95)	(44)
Net loss	(37,644)	(150,522)	112,878	75	(104,049)	(46,473)	nm
Net loss per share							
Basic	\$ (0.24)	\$ (0.99)	\$ 0.75	76	\$ (0.68)	\$ (0.31)	46
Diluted	\$ (0.24)	\$ (0.98)	\$ 0.74	76	\$ (0.68)	\$ (0.30)	44
Cash provided by operating activities	135,147	165,336	(30,189)	(18)	412,224	(246,888)	(60)
Funds flow from operations ³	141,438	170,651	(29,213)	(17)	296,273	(125,622)	(42)
Funds flow from operations per share ³							
Basic	\$ 0.90	\$ 1.12	\$ (0.22)	(20)	\$ 1.94	\$ (0.82)	(42)
Diluted	\$ 0.90	\$ 1.11	\$ (0.21)	(19)	\$ 1.94	\$ (0.83)	(43)
Total assets	2,958,465	3,214,395	(255,930)	(8)	3,598,140	(383,745)	(11)
Long-term financial liabilities	739,933	717,459	22,474	3	794,109	(76,650)	(10)
Dividends per share	\$ 0.48	\$ 0.48	—	—	\$ 0.48	\$ —	—

nm - calculation not meaningful

¹ Revenue, net of third party is defined as "gross revenue less third party reimbursable items". Management believes that, in addition to revenue, Revenue, net of third party is a useful supplemental measure to indicate the Company's operating activity levels.

² Adjusted EBITDA is defined as "(loss) income before interest, income taxes, depreciation, asset decommissioning and write-downs, share-based compensation and foreign exchange and other". Management believes that, in addition to net (loss) income, Adjusted EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Company's principal business activities prior to consideration of how these activities are financed, how the results are taxed in various jurisdictions, how the results are impacted by foreign exchange or how the results are impacted by the accounting standards associated with the Company's share-based compensation plans.

(\$ thousands)	2017	2016	2015
Loss before income taxes	(187,796)	(204,545)	(129,754)
Interest expense	41,491	30,838	25,333
Interest income	(281)	(367)	(420)
Depreciation	325,811	349,947	335,513
Asset decommissioning and write-downs	—	—	28,281
Share-based compensation	656	10,287	7,952
Foreign exchange and other	21,903	(987)	62,105
Adjusted EBITDA	201,784	185,173	329,010

³ Funds flow from operations are defined as “cash provided by operating activities before the change in non-cash working capital”. Management believes that, in addition to net loss, Funds flow from operations constitute a measure that provides additional information regarding the Company’s liquidity and its ability to generate funds to finance its operations. Management utilizes this measure to assess the Company’s ability to finance operating activities and capital expenditures.

(\$ thousands)	2017	2016	2015
Net loss	(37,644)	(150,522)	(104,049)
Items not affecting cash			
Depreciation	325,811	349,947	335,513
Asset decommissioning and write-downs	—	—	28,281
Share-based compensation, net of cash paid	145	10,287	7,237
Unrealized foreign exchange and other	(918)	(6,864)	54,742
Accretion on long-term debt	1,843	316	407
Deferred income tax	(147,799)	(32,513)	(25,858)
Funds flow from operations	141,438	170,651	296,273

NATURE OF OPERATIONS:

The Company is in the business of providing oilfield services to the oil and natural gas industry in Canada, the United States and internationally. Oilfield services provided by the Company include drilling and well servicing, oil sands coring, directional drilling, underbalanced and managed pressure drilling, equipment rentals, transportation, wireline services and production testing services.

The Company’s Canadian operations span the four western provinces of British Columbia, Alberta, Saskatchewan and Manitoba and include the Northwest Territories and the Yukon. In the United States, the Company operates predominantly in the Rocky Mountain and southern regions as well as the states of California, New Mexico, North Dakota, Pennsylvania and South Dakota. Internationally, the Company currently operates in Australia, Argentina, Kurdistan, Oman and Venezuela. In addition to these international locations, the Company has operated in several other countries in the past and may relocate equipment to other regions in the future depending on bidding opportunities and anticipated levels of future demand.

2017 COMPARED WITH 2016

Revenue for the year ended December 31, 2017 was \$1,000.7 million, an increase of 16 percent from 2016 revenue of \$859.7 million. Revenue, net of third party, for the year ended December 31, 2017 was \$873.9 million, an increase of 16 percent from Revenue, net of third party, for the year ended December 31, 2016 of \$755.9 million. Adjusted EBITDA for 2017, totaled \$201.8 million (\$1.29 per common share), 9 percent higher than Adjusted EBITDA of \$185.2 million (\$1.21 per common share) for 2016.

Net loss for the year ended December 31, 2017 was \$37.6 million (\$0.24 per common share), compared to net loss of \$150.5 million (\$0.99 per common share) for the year ended December 31, 2016. Funds flow from operations decreased 17 percent to \$141.4 million (\$0.90 per common share) in 2017 compared to \$170.7 million (\$1.12 per common share) in the prior year.

The Company's increased operating and financial results for 2017 resulted from increased demand for oilfield services caused by modest price recovery of crude oil and natural gas commodity prices. Volatile energy commodity prices significantly impact the current and future cash flows of the Company's customers and, as a result, the expected levels of future demand for oilfield services, particularly in North America. Financial results from the Company's United States and international operations were adversely impacted by translation to Canadian dollars due to the weakening of the United States dollar relative to the Canadian dollar. During 2017, a two percent decrease in the Canadian/United States dollar exchange rate negatively impacted revenues and margins generated outside Canada.

In 2017 the Company added three new-build ADR[®] drilling rigs to its drilling rig fleet in the Canada and United States markets, which have been committed to long-term contracts. The Company also added one new-build well servicing rig in the United States.

The Company declared total dividends of \$0.48 per common share in 2017.

The Company exited 2017 with a working capital deficit of \$342.2 million, compared to a working capital deficit of \$11.2 million as at December 31, 2016. The decrease in working capital year-over-year was largely due to the Company's Global Bank Facility (\$488.8 million due October 3, 2018) maturing within the next 12 months. The Company's bank credit facilities provide unused and available borrowings of \$11.2 million at December 31, 2017, compared to \$184.4 million at December 31, 2016, down by \$173.2 million because of a reduction in the available credit under the current global facility arrangement and the repayment of Tranche A of the senior unsecured notes in February of 2017.

2016 COMPARED WITH 2015

The Company's decreased operating and financial results for the 2016 fiscal year resulted from the slow recovery of oil and natural gas prices. Continued low energy commodity prices adversely impacted cash flows of the Company's customers and, as a result, the expected levels of future demand for oilfield services, particularly in North America. Financial results from the Company's United States and international operations improved on translation to Canadian dollars due to the strengthening of the United States dollar relative to the Canadian dollar. For the year ended December 31, 2016, a four percent increase in the Canadian/United States dollar exchange rate positively impacted revenues and margins generated outside Canada.

REVENUE AND OILFIELD SERVICES EXPENSE

<i>(\$ thousands)</i>	2017	2016	Change	% change
Revenue				
Canada	262,793	222,804	39,989	18
United States	459,496	337,950	121,546	36
International	278,361	298,948	(20,587)	(7)
Total revenue	1,000,650	859,702	140,948	16
Revenue, net of third party	873,864	755,857	118,007	16
Oilfield services expense	759,700	622,026	137,674	22
Gross margin	240,950	237,676	3,274	1
Gross margin as a percentage of Revenue, net of third party	27.6	31.4		

Revenue for the year ended December 31, 2017 totaled \$1,000.7 million, a 16 percent increase from the year ended December 31, 2016 of \$859.7 million. The increase in revenue was a direct result of the increased demand for oilfield services resulting in higher equipment utilization rates which was offset by lower revenue rates.

Revenue, net of third party, for the year ended December 31, 2017 totaled \$873.9 million, an increase of 16 percent from the previous year of \$755.9 million. As a percentage of Revenue, net of third party, gross margin for the year ended December 31, 2017 was 27.6 percent (2016 - 31.4 percent). As a result of slow recovery of energy prices, the Company has reduced its revenue rate and operating cost structure and made changes to reduce the cost of its administrative and supervisory structure.

The cautious optimism regarding oil and natural gas commodity prices increased demand for oilfield services during 2017, which resulted in higher equipment utilization rates; however, revenue rates declined during prior years and have

yet to increase with demand. Financial results from the Company's United States and international operations were negatively impacted on translation, as the weaker United States dollar relative to the Canadian dollar in 2017 compared to the prior year further increased the impact of certain of the revenue rate declines experienced during the year.

CANADIAN OILFIELD SERVICES

	2017	2016	Change	% change
Revenue (\$ thousands)	\$ 262,793	\$ 222,804	\$ 39,989	18
Drilling rigs ¹				
Opening balance	69	83		
Additions	2	—		
Transfers, net	—	(2)		
Decommissions/Disposals	(1)	(12)		
Ending balance	70	69	1	1
Drilling operating days ¹	6,860	4,587	2,273	50
Drilling rig utilization (%) ¹	26.8	15.2	11.6	76
Well servicing rigs				
Opening balance	65	72		
Decommissions/Disposals	—	(7)		
Ending balance	65	65	—	—
Well servicing operating hours	70,556	61,635	8,921	14
Well servicing utilization (%)	29.7	23.8	5.9	25

¹Excludes coring rig fleet.

The Company recorded revenue of \$262.8 million in Canada for the year ended December 31, 2017, an increase of 18 percent from \$222.8 million recorded for the year ended December 31, 2016. During the year ended December 31, 2017, Canadian revenues were 26 percent of the Company's revenue, consistent with the prior year. During 2017 the Company received \$1.3 million in shortfall and termination revenue in Canada compared to \$17.1 million in 2016.

For the year ended December 31, 2017, the Company recorded 6,860 drilling days in Canada, compared to 4,587 drilling days for the year ended December 31, 2016, an increase of 50 percent. Well servicing hours increased by 14 percent to 70,556 operating hours compared with 61,635 operating hours for the year ended December 31, 2016.

Demand for the Company's Canadian oilfield services was higher compared to 2016 due largely to a modest increase in oil and natural gas commodity prices. The increase in demand was offset by lower revenue rates and lower short fall revenue earned in 2017 compared to 2016.

During 2017, the Company added two new-build ADR[®] drilling rigs to the Canadian fleet and decommissioned one drilling rig.

UNITED STATES OILFIELD SERVICES

	2017	2016	Change	% change
Revenue (\$ thousands)	\$ 459,496	\$ 337,950	\$ 121,546	36
Drilling rigs				
Opening balance	84	89		
Additions	1	1		
Decommissions/Disposals	—	(6)		
Ending balance	85	84	1	1
Drilling operating days	10,944	7,152	3,792	53
Drilling rig utilization (%)	35.6	21.8	13.8	63
Well servicing rigs				
Opening balance	44	44		
Additions	1	—		
Ending balance	45	44	1	2
Well servicing operating hours	90,281	66,211	24,070	36
Well servicing utilization (%)	55.6	41.2	14.4	35

For the year ended December 31, 2017, revenue of \$459.5 million was recorded in the United States, an increase of 36 percent from the \$338.0 million recorded in the prior year. The Company's United States operations accounted for 46 percent of the Company's revenue in 2017 fiscal year (2016 - 39 percent) and were the largest contributor to the Company's consolidated revenues in 2017, consistent with the prior year.

In the United States, drilling operating days increased by 53 percent from 7,152 operating days in 2016 to 10,944 operating days in 2017. For the year ended December 31, 2017 well servicing activity increased 36 percent to 90,281 operating hours from 66,211 operating hours in 2016.

Overall operating and financial results for the Company's United States operations were positively impacted by a significant increase in demand for oilfield services due primarily to renewed optimism regarding oil and natural gas commodity prices. The increased activity and associated operating financial results increase were partially offset by a weakening of the United States dollar, which decreased by two percent versus the Canadian dollar when compared to 2016.

During 2017, the Company added one new-build ADR[®] drilling rig and one new-build well servicing rig to the United States fleet.

INTERNATIONAL OILFIELD SERVICES

	2017	2016	Change	% change
Revenue (\$ thousands)	278,361	298,948	(20,587)	(7)
Drilling and workover rigs				
Opening balance	46	50		
Transfers	—	2		
Decommissions	—	(6)		
Ending balance	46	46	—	—
Drilling operating days	6,106	6,545	(439)	(7)
Drilling rig utilization (%)	36.4	36.0	0.4	1

The Company's international revenues for the year ended December 31, 2017, decreased seven percent to \$278.4 million from \$298.9 million recorded in the year ended December 31, 2016. The Company's international operations contributed 28 percent of the Company's revenue in 2017 (2016 - 35 percent).

International operating days totaled 6,106 compared to 6,545 drilling days for the year ended December 31, 2017, a decrease of seven percent compared to the year prior.

Similar to the Company's United States operations, international operations were negatively impacted by the weakening United States dollar year-over-year in 2017, versus the Canadian dollar, on translation into Canadian dollars for reporting purposes compared to 2016. International operations incurred a decrease in activity as certain drilling rigs on long-term contracts completed their term and were not renewed. Moreover, the decline in crude oil prices over the past several years has been particularly challenging for Venezuela due to the heavy economic reliance on energy revenues in that country. The possible impact to the Company of the challenges in Venezuela are discussed further in the "Financial Instruments" section of this MD&A under Credit Risk and also in the "Risks and Uncertainties – Foreign Operations" section of this MD&A.

DEPRECIATION

(\$ thousands)	2017	2016	Change	% change
Depreciation	325,811	349,947	(24,136)	(7)

Depreciation expense for the year decreased by seven percent to \$325.8 million compared with \$349.9 million for the year ended 2016. Depreciation expense was lower in the year ended December 31, 2017 when compared to the year ended December 31, 2016, due to certain operating assets having become fully depreciated in which case no further depreciation expense is required. Furthermore, the impacts of a weaker United States dollar compared to the Canadian dollar on non-Canadian domiciled fixed assets decreased the expense.

As a result of certain external impairment indicators existing in the market, the Company completed impairment tests in all its cash generating units (each a "CGU"). The Company did not note any impairments for any CGUs based on the following key assumptions: weighted average pre-tax discount rate of 10 percent to 14 percent based on cost of capital and debt, asset and country risk, together with past experience; annual inflationary growth after five years and limited to the assets' lives; and cash flow projections consistent with market conditions and estimated rig salvage values of 10 percent. A 1.6 percent change in the discount rate, an eight percent change in cash flow projections, or a changing in the terminal growth rate to zero, independent of each other, would not have resulted in any impairments.

GENERAL AND ADMINISTRATIVE EXPENSE

(\$ thousands)	2017	2016	Change	% change
General and administrative	39,166	52,503	(13,337)	(25)
% of revenue	3.9	6.1		

For the year ended December 31, 2017, general and administrative expense totaled \$39.2 million (3.9 percent of revenue) compared to \$52.5 million (6.1 percent of revenue) for the year ended December 31, 2016, a decrease of 25 percent. The year over year decrease in general and administrative expense reflect the Company's initiatives to reduce costs in reaction to the oil service industry decline and lower oil and natural gas commodity prices, which began in 2015 and are ongoing.

SHARE-BASED COMPENSATION

(\$ thousands)	2017	2016	Change	% change
Share-based compensation	656	10,287	(9,631)	(94)

nm - calculation not meaningful

Share-based compensation expense arises from the Black-Scholes valuation associated with the Company's share-based compensation plans, whereby the liability associated with share-based compensation is adjusted for the effect of granting and vesting of employee stock options and changes in the underlying market price of the Company's common shares.

For the year ended December 31, 2017, share-based compensation was an expense of \$0.7 million compared with an expense of \$10.3 million for the year ended December 31, 2016. The share-based compensation expense for the year ended December 31, 2017 was a result of changes in the fair value of the share-based compensation liability and was impacted by the amortization of stock options which was offset by additional expenses in 2017 related to Performance Share Units (PSUs) issued under a long-term incentive plan implemented in 2017.

The fair value of share-based compensation is impacted by both the input assumptions used to estimate the fair value and the price of the Company's common shares during the period. The closing price of the Company's common shares was \$6.47 at December 31, 2017, compared with \$9.38 at December 31, 2016.

During 2017 the Company granted PSUs to certain officers and employees of the Company to participate in the growth and development of the Company and to promote further alignment of interests between employees and the shareholders. PSUs are subject to the Company's pre-established performance metrics with a three year performance period. Each PSU granted permits the holder to receive a cash payment equal to the fair market value of a share as of the maturity date, adjusted for a performance multiplier. PSU holders are entitled to share in dividends which are credited as additional PSUs at the dividend record date.

Included in net earnings for the year ended December 31, 2017 is an expense of \$1.1 million (2016 - \$nil). This was calculated using the trailing ten day volume weighted average share price of the Company's underlying common shares, as the PSUs have no exercise price, are adjusted for performance factors and are subject to a two percent cap relative to Adjusted EBITDA in the final year of their three year term based on certain financial performance metrics.

INTEREST EXPENSE

(\$ thousands)	2017	2016	Change	% change
Interest expense	41,491	30,838	10,653	35
Interest income	(281)	(367)	86	(23)
	41,210	30,471	10,739	35

Interest is incurred on the Company's \$500.0 million global revolving credit facility (the "Global Bank Facility") and the United States dollar \$200.0 million senior unsecured notes (the "Notes") issued in February 2012. The amortization of deferred financing costs associated with the issuance of the Notes is included in interest expense.

Due to payment delays for work performed in Venezuela, the Company recognized a discount on its receivable in the amount of \$4.6 million within interest expense. The receivable is discounted at 15 percent and assumes nominal collections in the first year with even collections thereafter over a five year period.

Interest expense increased by 35 percent for the year ended December 31, 2017 compared to the same period in 2016 as a result of borrowings of an additional \$42.2 million on the bank credit facilities in fiscal 2017, an increase in the interest rate and a discount applied on the Venezuela receivable.

FOREIGN EXCHANGE AND OTHER

(\$ thousands)	2017	2016	Change	% change
Foreign exchange and other	21,903	(987)	22,890	nm

nm - calculation not meaningful

Included in this amount is the impact of foreign currency fluctuations in the Company's subsidiaries that have functional currencies other than the Canadian dollar.

INCOME TAXES

(\$ thousands)	2017	2016	Change	% change
Current income tax	(2,353)	(21,510)	19,157	(89)
Deferred income tax	(147,799)	(32,513)	(115,286)	nm
Total income tax	(150,152)	(54,023)	(96,129)	nm
Effective income tax rate (%)	80.0	26.4		

nm - calculation not meaningful

The effective income tax rate for the year ended December 31, 2017 was 80.0 percent compared with 26.4 percent for the year ended December 31, 2016. The United States passed comprehensive tax reform under the Tax Cut and Jobs Act ("Tax Act") on December 22, 2017. The Federal corporate income tax rate will drop from 35% to 21% beginning January 1, 2018. Due to these changes, the Company has revalued its deferred tax liability as at December 31, 2017

and the result of this revaluation was a deferred tax recovery for the year ended December 31, 2017 of \$109.3 million to reduce the deferred tax liability balance.

FUNDS FLOW FROM OPERATIONS AND WORKING CAPITAL

<i>(\$ thousands, except per share data)</i>	2017	2016	Change	% change
Funds flow from operations	141,438	170,651	(29,213)	(17)
Funds flow from operations per share	\$0.90	\$1.12	(0.22)	(20)
Working capital	(342,199)	(11,153)	(331,046)	nm

nm - calculation not meaningful

For the year ended December 31, 2017, the Company generated Funds flow from operations of \$141.4 million (\$0.90 per common share) a decrease of 17 percent from \$170.7 million (\$1.12 per common share) for the year ended December 31, 2016. The decrease in Funds flow from operations in 2017 compared to 2016 is due to the impact of foreign exchange. The significant factors that may impact the Company's ability to generate Funds flow from operations in future periods are outlined in the "Risks and Uncertainties" section of this MD&A.

As at December 31, 2017, the Company's working capital was a deficit of \$342.2 million, compared to a working capital deficit of \$11.2 million at December 31, 2016. The decrease in working capital in 2017 was mainly related to the financial statement reclassification of the portion of long-term debt (\$488.8 million of the Global Bank Facility, due October 3, 2018) maturing within the next 12 months to current liabilities. The Company expects funds generated by operations, combined with current and future credit facilities, to fully support current operating and capital requirements. Existing revolving credit facilities provide for total borrowings of \$500.0 million, of which \$11.2 million was undrawn and available at December 31, 2017. In addition, the Company has a \$50 million accordion to be included in the existing revolving global facilities but not yet exercised.

INVESTING ACTIVITIES

<i>(\$ thousands)</i>	2017	2016	Change	% change
Purchase of property and equipment	(123,763)	(43,394)	(80,369)	nm
Proceeds from disposals of property and equipment	6,051	14,274	(8,223)	(58)
Net change in non-cash working capital	(2,667)	(23,627)	20,960	(89)
Cash used in investing activities	(120,379)	(52,747)	(67,632)	nm

nm - calculation not meaningful

Net purchases of property and equipment during the fiscal year ending 2017 totaled \$117.7 million (2016 - \$29.1 million). The purchase of property and equipment relates predominantly to expenditures made pursuant to the Company's new build and major retrofit program, and for maintenance capital costs incurred during the year. The Company completed a total of three new-build ADR[®] drilling rigs for the Canadian and United States fleets that commenced work under long term contracts and one new-build well servicing rig for the United States.

FINANCING ACTIVITIES

<i>(\$ thousands)</i>	2017	2016	Change	% change
Net increase (decrease) in bank credit facilities	42,189	(48,995)	91,184	nm
Purchase of shares held in trust	(1,103)	(2,035)	932	(46)
Dividends	(52,577)	(66,440)	13,863	(21)
Net change in non-cash working capital	(482)	(1,887)	1,405	(74)
Cash used in financing activities	(11,973)	(119,357)	107,384	(90)

nm - calculation not meaningful

The Global Bank Facility is available to the Company and certain of its wholly-owned subsidiaries, and may be drawn in Canadian, United States or Australian dollars, up to the equivalent value of \$500.0 million Canadian dollars. The Global Facility matures in early October 2018.

In addition, the Company has a \$20.0 million uncommitted facility, solely for issuing letters of credit, primarily used for bidding on contracts in the normal course of business.

The Company has a \$50 million accordion included in the existing Global Facility, but this has not yet been exercised. The Company also finalized a waiver with its lenders that allows the Company to maintain Global Facility unsecured.

The Company made a net withdrawal on the Global Facility of \$42.2 million during the year ended December 31, 2017, increasing the outstanding long-term debt balance. As of December 31, 2017, the Global Facility is primarily being used to fund capital expenditures.

During the year ended December 31, 2017, the Board of Directors of the Company cancelled a Dividend Reinvestment Plan (the "DRIP"). The DRIP provided eligible holders of common shares with an option to elect to reinvest their dividends in common shares of the Company at a discount of up to five percent of the average market price on each dividend payment date.

Subsequent to December 31, 2017, the Company declared a dividend for the first quarter of 2017. A quarterly dividend of \$0.12 per common share is payable April 5, 2018 to all Common Shareholders of record as of March 23, 2018. The dividend is pursuant to the quarterly dividend policy adopted by the Company. Pursuant to subsection 89(1) of the Canadian Income Tax Act ("ITA"), the dividend being paid is designated as an eligible dividend, as defined in subsection 89(1) of the ITA.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company enters into various commitments that will have an impact on future operations. These commitments relate primarily to credit facilities, senior unsecured notes and facility leases.

A summary of the Company's total contractual obligations as of December 31, 2017, is as follows:

(\$ thousands)	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Senior unsecured notes	11,045	148,198	130,626	—	289,869
Drawings on bank and credit facilities	509,741	—	—	—	509,741
Capital Leases	408	1,017	11	—	1,436
Facility leases	4,104	6,936	6	448	11,494
	525,298	156,151	130,643	448	812,540

FINANCIAL INSTRUMENTS

The classification and measurement of financial instruments the Company has recognized is presented below:

Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost.

Accounts payable and accruals, operating lines of credit, dividends payable and long-term debt are classified as financial liabilities at amortized cost.

Credit Risk

The Company is subject to credit risk on accounts receivable balances, which at December 31, 2017 totaled \$232.2 million, an increase of \$26.8 million from \$205.3 million as at December 31, 2016. Reduced levels of oil and natural gas commodity prices negatively impact the cash flow of the Company's customers and, consequently, increases the collection risk of accounts receivable balances.

The Company assesses the credit worthiness of its customers on an ongoing basis and establishes credit limits for each customer based on external credit reports and other publicly available information, internal analysis and historical experience with the customer. Credit limits are approved by senior management and are reviewed on a regular basis or when changing economic circumstances dictate. The Company manages credit risk through dedicated credit resources, ongoing monitoring and follow up of balances owing, well liens, and tightening or restriction of credit terms as required. The Company also monitors the amount and age of accounts receivable balances on an ongoing basis.

As at December 31, 2017, the Company had trade receivables of \$25.8 million (2016 - \$30 million) with multiple customers that were greater than 90 days old for which an allowance for doubtful accounts of \$4.2 million (2016 - \$5.8 million) has been recorded to provide for balances which, in management's best estimate, are deemed uncollectible as at December 31, 2017. The allowance for doubtful accounts is an estimate requiring significant judgment and may differ materially from actual results.

As part of the Company's international operations, it provides oilfield services in Venezuela pursuant to contractual arrangements. As at December 31, 2017, the Company had accounts receivable of approximately \$28.6 million for work performed in Venezuela, of which certain account receivables were discounted at 15 percent and assumed nominal collections in the first year with even collections thereafter over a five year period (2016 - \$24.8 million). Though the Company has a history of collecting accounts receivable in Venezuela, due to the recent decline in the price of oil and continuing political unrest in the country there can be no assurance that the Company will be successful in collecting all of such accounts receivable outstanding.

Liquidity Risk

The Company is subject to liquidity risk on its financial liabilities, which at December 31, 2017 totaled \$948.9 million, an increase of \$59.2 million from \$889.7 million as at December 31, 2016.

The Company manages liquidity by forecasting cash flows on an annual basis and secures sufficient credit facilities to meet financing requirements that exceed anticipated internally generated funds. As at December 31, 2017, the remaining contractual maturities of accounts payable and accruals and dividends payable are less than one year. Maturity information regarding the Company's bank credit facilities and long-term debt is described in the "Contractual Obligations" section of this MD&A.

As at December 31, 2017, the Company had undrawn and available bank credit facilities of \$11.2 million (2016 - \$184.4 million). The Company was in compliance with all debt covenants as of December 31, 2017.

NEW BUILDS AND MAJOR RETROFITS

During the year ended December 31, 2017, the Company added two new-build ADR[®] drilling rigs in Canada and one new-build ADR[®] drilling rig in the United States. The additions to the drilling fleet have been contracted on long-term contracts. One new-build well servicing rig was added in the United States. The Company continues to selectively add new ADR[®] drilling rigs to meet the increasing technical demands of its customers.

SUMMARY QUARTERLY RESULTS

<i>(\$ thousands, except per share data)</i>	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016
Revenue	270,013	247,121	232,232	251,284	234,001	191,313	175,924	258,464
Revenue, net of third party ¹	241,987	211,299	211,687	208,891	204,474	168,098	156,423	226,862
Adjusted EBITDA ¹	54,820	52,600	44,276	50,088	51,665	42,456	31,485	59,567
Adjusted EBITDA per share ¹								
Basic	\$0.34	\$0.34	\$0.29	\$0.32	\$0.33	\$0.28	\$0.21	\$0.39
Diluted	\$0.35	\$0.33	\$0.29	\$0.32	\$0.33	\$0.28	\$0.21	\$0.39
Net (loss) income	46,488	(36,526)	(33,814)	(13,792)	(61,905)	(33,727)	(39,979)	(14,911)
Net (loss) income per share								
Basic	\$0.30	\$(0.23)	\$(0.22)	\$(0.09)	\$(0.41)	\$(0.22)	\$(0.26)	\$(0.10)
Diluted	\$0.30	\$(0.23)	\$(0.22)	\$(0.09)	\$(0.40)	\$(0.22)	\$(0.26)	\$(0.10)
Cash provided by operating activities	38,124	32,791	44,687	19,545	8,089	25,315	66,854	65,079
Funds flow from operations ¹	12,244	39,616	44,769	44,809	48,862	30,281	36,328	55,180
Funds flow from operations per share ¹								
Basic	\$0.07	\$0.25	\$0.29	\$0.29	\$0.32	\$0.20	\$0.24	\$0.36
Diluted	\$0.07	\$0.25	\$0.29	\$0.29	\$0.31	\$0.20	\$0.24	\$0.36
Total debt, net of cash	707,559	700,011	714,357	709,062	687,662	669,618	664,560	688,405

¹ See definition of "Non-GAAP Measures" in the "Overview and Selected Annual Information" section of this MD&A.

Variability in the Company's quarterly results is driven primarily by the seasonal operating environment in Canada and fluctuations in oil and natural gas commodity prices. Financial and operating results for the Company's Canadian oilfield services division are generally strongest during the first and fourth quarters when the Company's customers conduct the majority of their drilling programs. Utilization rates typically decline during the second quarter as spring break-up weather conditions hinder mobility of the Company's equipment in Canada. Oil and natural gas commodity prices ultimately drive the level of exploration and development activities carried out by the Company's customers and the resultant demand for the oilfield services provided by the Company.

The quarterly results may also be impacted by the Black-Scholes valuation accounting associated with the Company's share-based compensation and Performance Share Unit plans respectively, which can fluctuate significantly from quarter to quarter as a result of changes in the valuation inputs, as well as changes in foreign currencies against the functional currencies of the Company's operating entities.

In addition to the seasonality noted above, the variability noted in the Company's quarterly results reflect continued varying levels of demand for oilfield services in the 2017 and 2016 fiscal years compared to prior years. Such demand for oilfield services was positively influenced by more favorable oil and natural gas commodity prices for 2017.

FOURTH QUARTER ANALYSIS

(in thousands of Canadian dollars, except per share data and operating information)

	Three months ended December 31			
	2017	2016	Change	% change
Revenue	270,013	234,001	36,012	15
Revenue, net of third party ¹	241,987	204,474	37,513	18
Adjusted EBITDA ¹	54,820	51,665	3,155	6
Adjusted EBITDA per share ¹				
Basic	\$0.34	\$0.33	\$0.01	3
Diluted	\$0.35	\$0.33	\$0.02	6
Net (loss) income	46,488	(61,905)	108,393	nm
Net (loss) income per share				
Basic	\$0.30	\$(0.41)	\$0.71	nm
Diluted	\$0.30	\$(0.41)	\$0.71	nm
Cash provided by operating activities	38,124	8,088	30,036	nm
Funds flow from operations ¹	12,244	48,862	(36,618)	(75)
Funds flow from operations per share ¹				
Basic	\$0.07	\$0.32	\$(0.25)	(78)
Diluted	\$0.07	\$0.32	\$(0.25)	(78)
Weighted average shares - basic (000s)	156,794	153,579	3,215	2
Weighted average shares - diluted (000s)	156,976	154,093	2,883	2
Drilling	2017	2016	Change	% change
Operating days				
Canada ²	1,649	1,271	378	30
United States	3,066	2,067	999	48
International ³	1,547	1,690	(143)	(8)
Drilling rig utilization (%)				
Canada ²	25.3	17.1	8.2	48
United States	39.4	25.0	14.4	58
International ³	36.4	37.5	(1.1)	(3)
Well Servicing	2017	2016		% change
Operating hours				
Canada	16,947	18,967	(2,020)	(11)
United States	23,644	18,976	4,668	25
Well servicing rig utilization rate (%)				
Canada	28.3	29.0	(0.7)	(2)
United States	57.1	46.9	10.2	22

nm - calculation not meaningful

¹ See definition of "Non-GAAP Measures" in the "Overview and Selected Annual Information" section of this MD&A. Certain prior period amounts have been restated to reflect current year presentation.

² Excludes coring rigs.

³ Includes workover rigs.

REVENUE AND OILFIELD SERVICES EXPENSE

(\$ thousands)	2017	2016	Change	% change
Revenue				
Canada	64,260	61,137	3,123	5
United States	129,188	91,881	37,307	41
International	76,565	80,983	(4,418)	(5)
Total revenue	270,013	234,001	36,012	15
Revenue, net of third party	241,987	204,474	37,513	18
Oilfield services expense	206,750	170,267	36,483	21
Gross margin	63,263	63,734	(471)	(1)
Gross margin as a percentage of Revenue, net of third party	26.1	31.2		

The Company recorded revenue of \$270.0 million for the three months ended December 31, 2017, a 15 percent increase from the \$234.0 million recorded in the three months ended December 31, 2016. Drilling operating days for the fourth quarter of 2017 totaled 6,262 days, a 25 percent increase from the prior year of 5,028 drilling operating days. The modest recovery of oil and natural gas commodity prices in 2017 positively impacted the demand for oilfield services. Increased North American demand was offset by the negative translational impact of the strengthening of the United States dollar versus the Canadian dollar compared to the prior year.

As a percentage of revenue, net of third party, gross margin decreased for the fourth quarter of 2017 to 26.1 percent from 31.2 percent for the fourth quarter of 2016. The reduction in gross margin in the fourth quarter of 2017 compared to the prior year is due to revenue rate pressures in reaction to reduced levels of demand for oilfield services in a lower commodity price environment and shortfall payments earned in the prior year not earned in 2017.

Depreciation expense totaled \$91.7 million for the fourth quarter of 2017 compared with \$90.1 million for the fourth quarter of 2016. The decrease was due to the negative impact of a two percent year-over-year increase in the United States dollar exchange rate against the Canadian dollar.

General and administrative expense decreased 30 percent to \$8.4 million (3.1 percent of revenue) for the fourth quarter of 2017 compared with \$12.1 million (5.2 percent of revenue) for the fourth quarter of 2016. The decrease in general and administrative expense in the fourth quarter of 2017 compared to the prior year is primarily due to the Company's initiatives to reduce fixed costs in reaction to lower oil and natural gas commodity prices.

OUTSTANDING SHARE DATA

The following common shares and stock options were outstanding as of March 1, 2018:

	Number	Amount (\$)
Common shares	156,792,521	\$ 206,055
	Outstanding	Exercisable
Stock options	6,477,500	2,862,300

OUTLOOK

Industry Overview

Signs of a modest recovery for the industry started to show in 2017. In the first half of 2017 activity picked up substantially compared to 2016 before leveling off in the latter half 2017. Oil prices continued to be volatile, with the price of WTI fluctuating between the low \$40's and mid \$60's throughout the year and early 2018.

The rebalancing of the oil markets continues to date in 2018 with the expectation that world GDP and oil demand will increase in the current year and beyond, and that OPEC and non-OPEC members, led by Russia, remain supportive

of the oil production cuts. This optimism is overshadowed by the expected increase in oil production from the United States. Until the market overall can gain a proper understanding of the United States production capability and sustainability, there appears to be a ceiling on oil prices as additional production could impact oil supply and pricing.

In 2018 it is generally expected that oil and natural gas producers will focus more on financial returns. This will impact where and when capital investments are deployed. Areas like the United States expected to continue to see capital deployment in contrast to Canada where ongoing uncertainty of provincial and federal government policies and market pricing are expected to continue impacting the oil and natural gas industry. In addition, companies will continue to seek at contractors that capable of providing drilling and operational efficiencies that will help reduce total well costs. The challenge for oil and natural gas drilling contractors will be how to share in the financial gains that they are creating from these efficiencies.

Canadian Activity

The AECO natural gas price, oil price differentials and takeaway capacity will likely continue to dominate the headlines in 2018 and will likely continue to cast a shadow over industry activity. Absent any major announcements or volatility in commodity pricing, 2018 drilling activity, is expected to be similar to late 2017. With the corporate tax law changes in the USA that became effective in 2018, there is a possibility for customers with assets in the North America will focus on United States activity before deploying capital in Canada.

United States Activity

In comparison to the Canada, the United States market is much more optimistic for 2018. Analysts are expecting the rig count to continue to grow in 2018, with some expecting between 50 to 100 additional drilling rigs being activated in 2018 with additional rig deployments into 2019. The tightness and continued expected tightness in the AC 1500 horse power drilling rig category is expected to place upward pressure on rates for that class of assets that could trickle down to lower specification drilling rigs. At the current pricing levels there is minimal expectation that new builds will be introduced into the market during 2018, which may allow for pricing to begin to normalize and lower spec assets to be activated. In 2017, the market experienced upgrades and modifications to drilling rigs. The magnitude of such upgrades is expected to decline in 2018 as the assets that readily could be upgraded have been completed already and the remaining rigs that can be upgraded will involve a substantial capital expenditure, which will require increased pricing and/or longer contract terms to be economical.

The reduced corporate tax rate and changes to tax regulations in the United States have and are likely to continue creating incentives for capital to be allocated to the United States. It is expected that 2018 operating activity and pricing in the United States in this market is expected to be higher than 2017.

International Activity

The Company's expectation for its International segment is contemplates some growth and continued reduction in costs. The Australian operations appear to have bottomed in 2017 with activity looking to increase in 2018, especially the latter half of 2018. Activity in the Middle East is expected to remain relatively steady with the potential for some rig activations toward the latter half of 2018 as well. There is increased potential that Argentina may add additional drilling rigs and the Company is expected to participate in certain tenders for work in 2018 and beyond. Venezuela as a country continues to have significant social, economical and political challenges and those challenges are expected to continue for some time. The Company is closely monitoring business activities in Venezuela and will react as deemed appropriate. The Company continues to operate in Venezuela and is expected to do so into 2018 and beyond.

General Activity

The Company expects the overall market to be lower for longer. The modest recovery to date has been slow and steady as expected. The Company continues to review capital projects with returns on the forefront and only plans to proceed with projects that are expected to provide the appropriate returns for shareholders. The cost control and organizational changes that the Company has implemented during the past three years have resulted in reduced general and administrative costs that will be scalable into the future. The Company will continue to look at ways to reduce costs or increase revenue and will be focused on returns for its shareholders.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in applying its accounting policies and practices, which have a significant impact on the financial results of the Company. These significant accounting policies involve critical accounting estimates due to complex judgments and assumptions. These estimates, judgments and assumptions

are based on the circumstances that exist at the reporting date and may affect the reported amounts of income and expenses during the reporting periods and the carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities, other financial obligations, as well as the determination of fair values.

Property and Equipment

The estimated useful life, residual value and depreciation methods selected are the Company's best estimate of such and are based on industry practice, historical experience and other applicable factors. These assumptions and estimates are subject to change as more experience is obtained or as general market conditions change, both of which could impact the operations of the Company's property and equipment.

Impairment

For impairment testing, the assessment of facts and circumstances is a subjective process that often involves a number of estimates and is subject to interpretation. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. Property and equipment are aggregated into CGUs based on their ability to generate separately identifiable and largely independent cash flows. The testing of assets or CGUs for impairment, as well as the assessment of potential impairment reversals, requires that the Company estimate an asset's or CGU's recoverable amount. The estimate of a recoverable amount requires a number of assumptions and estimates, including expected market prices, market supply and demand, margins and discount rates. These assumptions and estimates are subject to change as new information becomes available and changes in any of the assumptions could result in an impairment of an asset's or CGU's carrying value.

Share-based Compensation

Measurement inputs include share price on measurement date, exercise price, expected volatility, expected life, expected dividends and the risk-free interest rate. Significant estimates and assumptions are used in determining the expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life and expected forfeitures, based on historical experience and general option holder behavior. Changes to the input assumptions could have a significant impact on the share-based compensation liability and expense.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Current income taxes for the current and prior periods are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period. The deferred income tax assets and liabilities are adjusted to reflect changes in enacted or substantively enacted income tax rates that are expected to apply, with the corresponding adjustment recognized in net income or in shareholders' equity depending on the item to which the adjustment relates.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty and the interpretations can impact net income through the income tax expense arising from the changes in deferred income tax assets or liabilities.

Allowance for Doubtful Accounts

The Company is subject to credit risk on accounts receivable balances and assesses the recoverability of accounts receivable balances on an ongoing basis. The Company establishes an allowance for estimated losses for uncollectible accounts as circumstances warrant. The allowance is determined based on customer credit-worthiness, current economic trends and past experience. Assessing accounts receivable balances for recoverability involves significant judgment and uncertainty, including estimates of future events. Changes in circumstances underlying these estimates may result in adjustments to the allowance for doubtful accounts in future periods.

Functional Currency

The Company determines functional currency based on the primary economic environment in which the entity operates. This includes a number of factors that must be considered by the Company in using its judgment to determine the appropriate functional currency for each entity.

RECENT ACCOUNTING PRONOUNCEMENTS

As of January 1, 2018, IFRS 15 *Revenue from Contracts with Customers* came into effect, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts* and any associated interpretations. The standard is required to be adopted either retrospectively or using a modified transition method, with early adoption permitted. The Company has completed its initial assessment of IFRS 15 *Revenue from Contracts with Customers* has adopted as of January 1, 2018. This will not have a material impact on the recognition of revenue, however, it will have an impact on the associated disclosures.

As of January 1, 2018, IFRS 9 *Financial Instruments*, came into effect, superseding earlier versions of IFRS 9 and replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The Company is currently in the process of completing its assessment of the standard and its expected impact on the consolidated financial statements ahead of year end.

On January 13, 2016 the IASB issued IFRS 16 - *Leases* ("IFRS 16") which has not yet been adopted by the Company. IFRS 16 replaces the accounting requirements under IAS 17 - *Leases* and is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. IFRS 16 requires all leases to be reported on the Company's balance sheet as assets and liabilities. The Company is in the process of assessing the impact that the amendments will have on its financial statements or whether to early adopt.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As of December 31, 2017, the Corporation's management evaluated the effectiveness of its disclosure controls and procedures as defined in the rules of the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and Chief Operating Officer and the Chief Financial Officer. The President and Chief Operating Officer and the Chief Financial Officer have concluded that the Corporation's Disclosure Controls and Procedures are effective as of December 31, 2017.

The President and Chief Operating Officer and Chief Financial Officer do not expect that the Corporation's disclosure controls and procedures will prevent or detect all errors, misstatements and fraud but they are designed to provide reasonable assurance of achieving these objectives. A control system, no matter how well designed or operated, can only provide reasonable, not absolute, assurance that the corresponding objectives are met.

As of December 31, 2017, the management of the Corporation evaluated the Corporation's effectiveness of internal controls over financial reporting, as defined in the rules of the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the President and Chief Operating Officer and Chief Financial Officer. The President and Chief Operating Officer and Chief Financial Officer concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2017.

Internal control over financial reporting, no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

RISKS AND UNCERTAINTIES

Oil and Natural Gas Prices

The most significant factors affecting the business of the Company are oil and natural gas commodity prices. Commodity price levels affect the capital programs of energy exploration and production companies, as the price they receive for the oil and natural gas they produce has a direct impact on the cash flow available to them and the subsequent demand for oilfield services provided by the Company. Oil and natural gas prices have been volatile in recent years and may continue to be so as supply/demand fundamentals, weather conditions, government regulations, political and economic environments, pipeline capacity, storage levels and other factors outside of the Company's control continue to influence commodity prices. Demand for the Company's services in the future will continue to be influenced by oil and natural gas commodity prices and the resultant impact on the cash flow of its customers, and may not be reflective of historical activity levels.

Competition and Industry Conditions

The oilfield services industry is, and will continue to be, highly competitive. Contract drilling companies compete primarily on a regional basis and competition may vary significantly from region to region at any particular time. Most drilling and workover contracts are awarded on the basis of competitive bids, which result in price competition. Many drilling, workover and well servicing rigs can be moved from one region to another in response to changes in levels of activity, which can result in an oversupply of rigs in an area. In many markets in which the Company operates, the supply of rigs exceeds the demand for rigs, resulting in further price competition. Certain competitors are present in more than one of the regions in which the Company operates, although no one competitor operates in all of these areas. In Canada, the Company competes with several firms of varying size. In the United States there are many competitors with national, regional or local rig operations. Internationally, there are several competitors in each country where the Company operates and some of those international competitors may be better positioned in certain markets, allowing them to compete more effectively. There is no assurance that the Company will be able to continue to compete successfully or that the level of competition and pressure on pricing will not affect the Company's margins.

Access to Credit Facilities and Debt Capital Markets

The Company and its customers require reasonable access to credit facilities and debt capital markets as an important source of liquidity. Global economic events, outside the control of the Company or its customers, may restrict or reduce the access to credit facilities and debt capital markets. Tightening credit markets may reduce the funds available to the Company's customers for paying accounts receivable balances and may also result in reduced levels of demand for the Company's services. Additionally, the Company relies on access to credit facilities, along with its reserves of cash and cash flow from operating activities, to meet its obligations and finance operating activities. The Company believes it has adequate bank credit facilities to provide liquidity.

Changes in Laws and Regulations

The Company and its customers are subject to numerous laws and regulations governing its operations and the exploration and development of oil and natural gas, including environmental regulations. Existing and expected environmental legislation and regulations may increase the costs associated with providing oilfield services, as the Company may be required to incur additional operating costs or capital expenditures in order to comply with any new regulations. The costs of complying with increased environmental and other regulatory changes in the future, such as royalty regime changes, may also have an adverse effect on the cash flows of the Company's customers and may dampen demand for oilfield services provided by the Company.

Foreign Operations

The Company provides oilfield services throughout much of North America and internationally in a number of onshore drilling areas. The Canadian, United States, and Australian regulatory regimes are generally stable and, typically, supportive of energy industry activity. Internationally, the Company's operations are subject to regulations in various jurisdictions and support for the oil and natural gas industry can vary in these jurisdictions. There are risks inherent in foreign operations such as unstable government regimes, civil and/or labor unrest, strikes, terrorist threats, regulatory uncertainty and complex commercial arrangements. Risks to the Company's operations include, but are not limited to, loss of revenue, expropriation and nationalization, restrictions on repatriation of income or capital, currency exchange restrictions, contract deprivation, force majeure events and the potential for trade and economic sanctions or other restrictions to be imposed by the Canadian government or other governments or organizations. To mitigate these risks, the Company seeks to negotiate long-term service contracts for drilling services that ideally include early termination provisions and other clauses for the Company's protection. However, there is, and there can be, no assurance that the Company will be fully effective in mitigating foreign operation risks. Such risks could have material adverse impacts on the Company's financial condition and operating results.

Foreign Exchange Exposure

The Company's consolidated financial statements are presented in Canadian dollars. Operations in countries outside of Canada result in foreign exchange risk to the Company. The principal foreign exchange risk relates to the conversion of United States dollar-denominated activity to Canadian dollars. The United States/Canadian dollar exchange rate at December 31, 2017 was approximately 1.26 compared with 1.34 at December 31, 2016 and 1.38 at December 31, 2015. In addition, the Company has foreign exchange risk in relation to the conversion of United States dollar-denominated debt to Australian dollars. The United States/Australian dollar exchange rate at December 31, 2017 was approximately

1.28, compared with 1.38 at December 31, 2016 and 1.37 at December 31, 2015. Fluctuations in the future period's exchange rates will impact the Canadian dollar equivalent of the results reported by foreign subsidiaries.

Litigation and Legal Proceedings

From time to time, the Company is subject to litigation and legal proceedings that may include employment, tort, commercial and class action suits. Amounts claimed in such suits or actions may be material and accordingly decisions against the Company could have an adverse effect on the Company's financial condition or results of operations.

Operating Risks and Insurance

The Company's operations are subject to risks inherent in the oilfield services industry. Where available and cost-effective, the Company carries insurance to cover the risk to its equipment and people, and each year the Company reviews the level of insurance for adequacy. Although the Company believes its level of insurance coverage to be adequate, there can be no assurance that the level of insurance carried by the Company will be sufficient to cover all potential liabilities.

Technology

As a result of growing technical demands of resource plays, the Company's ability to meet customer demands is dependent on continuous improvement to the performance and efficiency of existing oilfield services equipment. There can be no assurance that competitors will not achieve technological advantages over the Company.

Reliance on Key Management Personnel

The success and growth of the Company is dependent upon its key management personnel. The loss of services of such persons could have a material adverse effect on the business and operations of the Company. No assurance can be provided that the Company will be able to retain key management members.

Workforce

The Company's operations are dependent on attracting, developing and maintaining a skilled workforce. During periods of peak activity levels, the Company may be faced with a lack of personnel to operate its equipment. The Company is also faced with the challenge of retaining its most experienced employees during periods of low utilization, while maintaining a cost structure that varies with activity levels. To mitigate these risks, the Company has developed an employee recruitment and training program, and continues to focus on creating a work environment that is safe for its employees.

Seasonality and Weather

The Company's Canadian oilfield services operations are impacted by weather conditions that hinder the Company's ability to move heavy equipment. The timing and duration of "spring break-up", during which time the Company is prohibited from moving heavy equipment on secondary roads, restricts movement of equipment in and out of certain areas, thereby negatively impacting equipment utilization levels. Further, the Company's activities in certain areas in northern Canada are restricted to winter months when the ground is frozen solid enough to support the Company's equipment. This seasonality is reflected in the Company's operating results, as rig utilization is normally at its lowest during the second and third quarters of the year. The Company continues to mitigate the impact of Canadian weather conditions through expansion into markets not subject to the same seasonality and by working with customers in planning the timing of their drilling programs. In addition, volatility in the weather across all areas of the Company's operations can create additional risk and unpredictability in equipment utilization rates and operating results.

MANAGEMENT'S REPORT

The consolidated financial statements and other information contained in the annual report are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards consistently applied, using management's best estimates and judgments, where appropriate.

Preparation of financial statements is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable financial statements. The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of the Company's accounting records and procedures to enable them to express an opinion as to the fairness of the consolidated financial statements, in conformity with International Financial Reporting Standards.

The Audit Committee, which is comprised of independent directors, meets with management and the Company's external auditors to review the consolidated financial statements and reports on them to the Board of Directors. The consolidated financial statements have been approved by the Board of Directors.

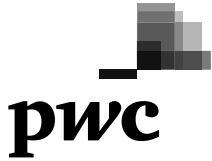
"Signed"

Robert H. Geddes
President and Chief Operating Officer

"Signed"

Michael Gray
Chief Financial Officer

March 1, 2018



March 1, 2018

Independent Auditor's Report

To the Shareholders of Ensign Energy Services Inc.

We have audited the accompanying consolidated financial statements of Ensign Energy Services Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise 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.

Auditor's responsibility

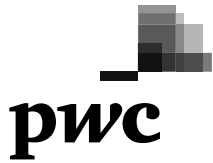
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 the auditor's 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, the auditor considers 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.

*PricewaterhouseCoopers LLP
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T: +1 403 509 7500 F: +1 403 781 1825*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ensign Energy Services Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	December 31 2017	December 31 2016
<i>(in thousands of Canadian dollars)</i>		
Assets		
Current Assets		
Cash and cash equivalents <i>(Note 16)</i>	\$ 32,374	\$ 29,837
Accounts receivable	232,155	205,347
Inventories, investments and other	92,424	48,850
Income taxes receivable	3,546	17,208
Total current assets	360,499	301,242
Property and equipment <i>(Note 5)</i>	2,597,966	2,913,153
Total assets	\$ 2,958,465	\$ 3,214,395
Liabilities		
Current Liabilities		
Accounts payable and accruals <i>(Note 6)</i>	\$ 190,152	\$ 153,385
Dividends payable	18,849	18,877
Share-based compensation <i>(Note 11)</i>	3,021	5,943
Income taxes payable	3,419	—
Current portion of long-term debt <i>(Note 7)</i>	487,257	134,190
Total current liabilities	702,698	312,395
Long-term debt <i>(Note 7)</i>	252,676	583,269
Share-based compensation <i>(Note 11)</i>	2,708	2,539
Deferred income taxes <i>(Note 8)</i>	311,007	483,703
Total liabilities	1,269,089	1,381,906
Shareholders' Equity		
Share capital <i>(Note 9)</i>	206,042	180,666
Contributed surplus	1,126	1,524
Foreign currency translation reserve	237,885	292,547
Retained earnings	1,244,323	1,357,752
Total shareholders' equity	1,689,376	1,832,489
Total liabilities and shareholders' equity	\$ 2,958,465	\$ 3,214,395

Contingencies and commitments *(Note 19)*

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

"Signed"

John Schroeder

Chairman of the Audit Committee and Director

"Signed"

James B. Howe

Director

CONSOLIDATED STATEMENTS OF LOSS

For the years ended December 31	2017	2016
<i>(in thousands of Canadian dollars, except per share data)</i>		
Revenue	\$ 1,000,650	\$ 859,702
Expenses		
Oilfield services	759,700	622,026
Depreciation <i>(Note 5)</i>	325,811	349,947
General and administrative	39,166	52,503
Share-based compensation <i>(Note 11)</i>	656	10,287
Foreign exchange and other	21,903	(987)
Total expenses	1,147,236	1,033,776
Loss before interest and income taxes	(146,586)	(174,074)
Interest income	(281)	(367)
Interest expense	41,491	30,838
Loss before income taxes	(187,796)	(204,545)
Income taxes <i>(Note 8)</i>		
Current tax	(2,353)	(21,510)
Deferred tax	(147,799)	(32,513)
Total income taxes	(150,152)	(54,023)
Net loss	\$ (37,644)	\$ (150,522)
Net loss per share <i>(Note 10)</i>		
Basic	\$ (0.24)	\$ (0.99)
Diluted	\$ (0.24)	\$ (0.98)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31 <i>(in thousands of Canadian dollars)</i>	2017	2016
Net loss	\$ (37,644)	\$ (150,522)
Other comprehensive (loss) income		
Item that may be subsequently reclassified to profit or loss		
Foreign currency translation adjustment	(54,662)	(39,683)
Comprehensive loss	\$ (92,306)	\$ (190,205)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital	Contributed Surplus	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
<i>(in thousands of Canadian dollars)</i>					
Balance January 1, 2017	\$ 180,666	\$ 1,524	\$ 292,547	\$ 1,357,752	\$ 1,832,489
Net loss	—	—	—	(37,644)	(37,644)
Other comprehensive loss	—	—	(54,662)	—	(54,662)
Total comprehensive loss	—	—	(54,662)	(37,644)	(92,306)
Dividends	23,208	—	—	(75,785)	(52,577)
Share-based compensation	—	2,873	—	—	2,873
Shares vested previously held in trust	3,271	(3,271)	—	—	—
Purchase of shares held in trust	(1,103)	—	—	—	(1,103)
Balance December 31, 2017	\$ 206,042	\$ 1,126	\$ 237,885	\$ 1,244,323	\$ 1,689,376
Balance January 1, 2016	\$ 169,171	\$ 2,538	\$ 332,230	\$ 1,582,657	\$ 2,086,596
Net loss	—	—	—	(150,522)	(150,522)
Other comprehensive loss	—	—	(39,683)	—	(39,683)
Total comprehensive loss	—	—	(39,683)	(150,522)	(190,205)
Dividends	7,943	—	—	(74,383)	(66,440)
Share-based compensation	—	4,573	—	—	4,573
Shares vested previously held in trust	5,587	(5,587)	—	—	—
Purchase of shares held in trust	(2,035)	—	—	—	(2,035)
Balance December 31, 2016	\$ 180,666	\$ 1,524	\$ 292,547	\$ 1,357,752	\$ 1,832,489

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 <i>(in thousands of Canadian dollars)</i>	2017	2016
Cash provided by (used in)		
Operating activities		
Net loss	\$ (37,644)	\$ (150,522)
Items not affecting cash		
Depreciation	325,811	349,947
Share-based compensation, net of cash paid	145	10,287
Unrealized foreign exchange and other	(918)	(6,864)
Accretion on long-term debt	1,843	316
Deferred income tax	(147,799)	(32,513)
Funds flow from operations	141,438	170,651
Net change in non-cash working capital <i>(Note 16)</i>	(6,291)	(5,315)
Cash provided by operating activities	135,147	165,336
Investing activities		
Purchase of property and equipment	(123,763)	(43,394)
Proceeds from disposals of property and equipment	6,051	14,274
Net change in non-cash working capital <i>(Note 16)</i>	(2,667)	(23,627)
Cash used in investing activities	(120,379)	(52,747)
Financing activities		
Net increase (decrease) in bank credit facilities	42,189	(48,995)
Purchase of shares held in trust <i>(Note 9)</i>	(1,103)	(2,035)
Dividends <i>(Note 9)</i>	(52,577)	(66,440)
Net change in non-cash working capital <i>(Note 16)</i>	(482)	(1,887)
Cash used in financing activities	(11,973)	(119,357)
Net increase (decrease) in cash and cash equivalents	2,795	(6,768)
Effects of foreign exchange on cash and cash equivalents	(258)	(3,781)
Cash and cash equivalents		
Beginning of year	29,837	40,386
End of year	\$ 32,374	\$ 29,837
Supplemental information		
Interest paid	\$ 37,161	\$ 30,851
Income taxes recovered	\$ (19,688)	\$ (9,249)

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars, except share and per share data)

1. NATURE OF BUSINESS

Ensign Energy Services Inc. is incorporated under the laws of the Province of Alberta, Canada. The address of its registered office is 1000, 400 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 0L6. Ensign Energy Services Inc. and its subsidiaries and partnerships (the “Company”) provide oilfield services to the oil and natural gas industry in Canada, the United States and internationally.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Company’s Board of Directors on March 1, 2018, after review by the Company’s Audit Committee.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement basis

These consolidated financial statements have been prepared on an historical cost basis, except as discussed in the significant accounting policies below.

(b) Basis of consolidation

These consolidated financial statements include the accounts of Ensign Energy Services Inc. and its subsidiaries and partnerships, substantially all of which are wholly owned, which it controls. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intercompany balances and transactions, including unrealized gains or losses between subsidiaries and partnerships are eliminated on consolidation.

(c) Cash and cash equivalents

Cash and cash equivalents consists of cash and cash equivalents with maturities of three months or less or convertible to cash on demand without penalty.

(d) Inventories

Inventories, comprised of spare equipment parts and consumables, are recorded at the lower of cost and net realizable value. Cost is determined on a specific item basis.

(e) Property and equipment

Property and equipment is initially recorded at cost. Costs associated with equipment upgrades that result in increased capabilities or performance enhancements of property and equipment are capitalized. Costs incurred to repair or maintain property and equipment are expensed as incurred. Property and equipment is subsequently carried at cost less accumulated depreciation and write-downs and is derecognized on disposal or when there is no future economic benefit expected from its use or disposal. Gains or losses on derecognition of property and equipment are recognized in net income.

Depreciation is based on the estimated useful lives of the assets as follows:

Asset Class	Expected Life	Method	Residual
Oilfield services equipment			
Drilling rigs and related	2,500 - 5,000 operating days	Unit-of-production	10%
Well servicing rigs	24,000 operating hours	Unit-of-production	10%
Oil sands coring rigs	680 - 1,370 operating days	Unit-of-production	10%
Heavy oilfield service equipment	3 - 15 years	Straight-line	10%
Drill pipe	1,500 operating days	Unit-of-production	—
Drilling rig spare equipment	1 - 10 years	Straight-line	—
Buildings	20 years	Straight-line	—
Automotive equipment	3 years	Straight-line	15%
Office furniture and shop equipment	5 - 15 years	Straight-line	—

The calculation of depreciation includes assumptions related to useful lives and residual values. The assumptions are based on experience with similar assets and are subject to change as new information becomes available. During the year the Company recorded additional depreciation for assets that have been inactive for a period of time.

Property and equipment is reviewed for impairment when events or changes in circumstances indicate that its carrying value may not be recoverable. The Company's operations and business environment are routinely monitored, and judgment and assessments are made to determine if an event has occurred that indicates possible impairment.

If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit ("CGU") is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down to its recoverable amount. The recoverable amount of an asset or CGU is the greater of its fair value less costs to dispose and value-in-use. Value-in-use is determined as the amount of estimated risk-adjusted discounted future cash flows.

(f) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Company at the date control of the business is obtained. The cost of the business combination is measured as the aggregate of the fair value at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognized at their fair values at the acquisition date.

(g) Revenue recognition

Revenue from oilfield services is generally earned based upon service orders or contracts with a customer that include fixed or determinable prices based upon daily, hourly or job rates. Revenue is recognized when services are performed and only when collectability is reasonably assured. Customer contract terms do not include provisions for significant post-service delivery obligations.

The Company also provides services under turnkey contracts whereby oilfield services are performed for a fixed price, regardless of the time required or the problems encountered performing the service. Revenue from such contracts is recognized using the percentage-of-completion method based upon costs incurred to date and estimated total contract costs. Anticipated losses, if any, on uncompleted contracts are recorded at the time the estimated costs exceed the contract revenue.

For contracts that are terminated prior to the specified term, early termination payments received by the Company are recognized as revenue when all contractual requirements are met.

(h) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars which is the Company's functional currency. Financial statements of the Company's United States and international subsidiaries have a functional currency different from Canadian dollars and are translated to Canadian dollars using the exchange rate in effect at the year-end date for all assets and liabilities, and at average rates of exchange during the year for revenues and expenses. All changes resulting from these translation adjustments are recognized in other comprehensive (loss) income.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of (loss) income.

(i) Borrowing costs

Interest and borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of those assets. Qualifying assets are those which take a substantial period of time to prepare for their intended use. Capitalization ceases when substantially all activities necessary to prepare the qualifying asset for its intended use are complete. All other interest is recognized in the consolidated statement of (loss) income in the period in which it is incurred.

(j) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted or substantively enacted income tax rates. The effect of a change in income tax rates on deferred income tax liabilities and assets is recognized in income in the period in which the change is substantively enacted.

Deferred tax assets are recognized to the extent that future taxable income will be available against which temporary differences can be utilized.

(k) Share-based compensation

The Company has an employee share option plan or equivalent that provides all option holders the right to elect to receive either common shares or a direct cash payment in exchange for the options exercised. These options are accounted for as a compound financial instrument, which requires the fair value of the liability component to be determined first and the residual value, if any, allocated to the equity component. The fair value of the settlement option under cash and shares is the same; therefore these options are accounted for as cash-settled awards.

The Company has other cash-settled share-based compensation plans. Cash-settled share-based compensation plans are recognized as compensation expense over the vesting period using fair values with a corresponding increase or decrease in liabilities. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as share-based compensation expense in the statement of income. The fair value is determined using the Black-Scholes option pricing model.

The Company has established Performance Share Units (PSU) incentive plan measured at the fair value when granted using the volume weighted average of the Company's stock price for the ten day period preceding the reporting date, as well as certain performance factors assessed by management and subject to a two percent cap based on certain financial performance metrics. The fair value is re-measured at each reporting date.

The Company has share savings and share bonus plans for employees, as well as a program whereby a portion of the retainer paid to Directors is in the form of common shares of the Company. In all cases, any common shares acquired for such plans are purchased in the open market and administered through trusts until the shares are vested. The share purchase price is considered the fair value.

(l) Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as a “financial asset or financial liability at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity investments”, “loans and receivables”, or “other financial liabilities”. The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right 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. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

(i) Financial assets at fair value through profit or loss:

Cash and cash equivalents are held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(ii) 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, adjusted for any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company’s trade and other receivables are categorized as loans and receivables.

(iii) Available for sale:

From time to time, the Company may have certain equity investments in certain entities and the fair value is determined using Level 1 of the three-level hierarchy. Investments that have a quoted price in an active market are measured at fair value with changes in fair value recognized in other comprehensive income. When the investment is ultimately sold, any gains or losses are recognized in net income and any unrealized gains or losses previously recognized in other comprehensive income are reversed.

The Company has the following non-derivative financial liabilities:

(i) Other financial liabilities:

Trade and other payables, finance lease obligations, senior unsecured notes and bank credit facilities are classified as “other financial liabilities”. Other financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Other financial liabilities, including the Senior Notes, are subsequently measured at amortized cost using the effective interest method. Transaction costs incurred with respect to the credit facilities are deferred and amortized using the straight-line method over the term of the facility. The asset is recognized in other assets on the balance sheet while the amortization is included in finance costs within net income.

(ii) Equity instruments:

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.

(m) Critical judgments and accounting estimates

Preparation of the Company’s consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates. Estimates, judgments and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the most critical estimates and assumptions used in determining the value of assets and liabilities:

Allowance for doubtful accounts

The Company establishes an allowance for estimated losses for uncollectible accounts. The allowance is determined based on customer credit-worthiness, current economic trends and past experience. Information regarding the allowance for doubtful accounts is included in Note 18.

Property and equipment

The calculation of depreciation includes assumptions related to useful lives and residual values. Assumptions are based on experience with similar assets and is subject to change as new information becomes available. In addition, assessing for impairment requires estimates and assumptions.

Assets are grouped into CGUs based on separately identifiable and largely independent cash inflows and are used for impairment testing. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of market prices, market supply and demand, margins, and discount rates. Information regarding property and equipment is included in Note 5.

Share-based compensation

Measurement inputs include share price on measurement date, exercise price, expected volatility, weighted average expected life, expected dividends, and risk-free interest rate. Significant estimates and assumptions are used in determining the expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life and expected forfeitures, based on historical experience and general option-holder behavior. Changes to input assumptions will impact share-based compensation liability and expense. Information regarding share-based compensation is included in Note 11.

Income taxes

The Company is subject to income taxes in a number of tax jurisdictions. The amount expected to be settled and the actual outcome and tax rates can change over time, depending on the facts and circumstances. Changes to these assumptions will impact income tax and the deferred tax provision. Information regarding income taxes is included in Note 8.

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Functional currency

The Company determines functional currency based on the primary economic environment in which the entity operates. This includes a number of factors that must be considered by the Company in using its judgment to determine the appropriate functional currency for each entity. These factors include currency of revenue contracts and currency that mainly influences operating, financing and investing activities. Information regarding the specific functional currencies by Subsidiaries and Partnerships is included in Note 15.

Impairments

Assessing for indicators of possible impairment requires judgment in the assessment of facts and circumstances and is a subjective process that often involves a number of estimates and is subject to interpretation. Information regarding impairment is included in Note 5.

Deferred income tax assets

The recognition of deferred tax assets is based on judgments about future taxable profits.

(n) Recent accounting pronouncements

As of 1 January, 2018, IFRS 15 *Revenue from Contracts with Customers* will come in effect, replacing IAS 18 *Revenue*, IAS 11 *Construction Contracts* and any associated interpretations. The standard is required to be adopted either retrospectively or using a modified transition method, with early adoption permitted. The

Company has completed its initial assessment of IFRS 15 Revenue from Contracts with Customers and determined that it will be adopted as of 1 January, 2018 and that it will not have a material impact on the recognition of revenue, however, it will have an impact on the associated disclosures.

As of 1 January, 2018, IFRS 9 *Financial Instruments*, will come into effect, superseding earlier versions of IFRS 9 and replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The Company is currently in the process of completing its assessment of the standard and its expected impact on the consolidated financial statements ahead of year end.

On January 13, 2016 the IASB issued IFRS 16 - Leases ("IFRS 16") which has not yet been adopted by the Company. IFRS 16 replaces the accounting requirements under IAS 17 - Leases and is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. IFRS 16 requires all leases to be reported on the Company's balance sheet as assets and liabilities. The Company is in the process of assessing the impact that the amendments will have on its financial statements or whether to early adopt.

4. FOREIGN OPERATIONS

The Company provides oilfield services throughout much of North America and internationally in a number of onshore drilling areas. The Company's foreign operations, with the general exception of operations in the United States and Australia, are subject to a number of risks and uncertainties such as unstable government regimes, civil and/or labor unrest, strikes, terrorist threats, regulatory uncertainty and complex commercial arrangements.

The Company's operations in Venezuela and Argentina are subject to certain restrictions with respect to the transfer of funds into or out of such countries; however, such restrictions are not considered significant to the Company at this time due to the relatively small size of the operations and certain contractual provisions that have been put in place designed to protect the Company.

5. PROPERTY AND EQUIPMENT

	Rig and related equipment	Automotive and other equipment	Land and buildings	Total
Cost:				
Balance at December 31, 2015	\$ 5,148,188	\$ 146,693	\$ 73,831	\$ 5,368,712
Additions	39,096	3,199	1,099	43,394
Disposals	(81,424)	(23,147)	(1,860)	(106,431)
Asset decommissioning and write-downs	(61,191)	—	—	(61,191)
Effects of foreign exchange	(72,856)	(4,042)	(1,025)	(77,923)
Balance at December 31, 2016	4,971,813	122,703	72,045	5,166,561
Additions	112,790	10,031	942	123,763
Disposals	(50,268)	443	(823)	(50,648)
Asset decommissioning	—	—	—	—
Effects of foreign exchange	(131,816)	(4,319)	(2,697)	(138,832)
Balance at December 31, 2017	\$ 4,902,519	\$ 128,858	\$ 69,467	\$ 5,100,844
Accumulated depreciation and write-downs				
Balance at December 31, 2015	\$ (1,979,677)	\$ (103,407)	\$ (20,048)	\$ (2,103,132)
Depreciation	(332,740)	(13,093)	(3,036)	(348,869)
Disposals	80,865	20,497	695	102,057
Asset decommissioning and write-downs	61,191	—	—	61,191
Effects of foreign exchange	33,192	1,925	228	35,345
Balance at December 31, 2016	(2,137,169)	(94,078)	(22,161)	(2,253,408)
Depreciation	(308,869)	(13,559)	(3,994)	(326,422)
Disposals	39,286	(1,934)	231	37,583
Asset decommissioning	—	—	—	—
Effects of foreign exchange	34,720	3,970	679	39,369
Balance at December 31, 2017	\$ (2,372,032)	\$ (105,601)	\$ (25,245)	\$ (2,502,878)
Net book value:				
At December 31, 2016	\$ 2,834,644	\$ 28,625	\$ 49,884	\$ 2,913,153
At December 31, 2017	\$ 2,530,487	\$ 23,257	\$ 44,222	\$ 2,597,966

Property and equipment includes equipment under construction of \$34,980 (2016 - \$106,881) that has not yet been subject to depreciation. During the year, the Company decommissioned 1 drilling rig that had been fully depreciated.

The adverse economic effects arising from the sustained low oil and natural gas prices are considered indicators of possible impairment of the Company's assets, and accordingly an asset impairment test was performed by Management. The Company completed impairment tests in each of its CGU's using five year cash flow projections with a terminal value and concluded that no impairment charges were required for any CGU's as at December 31, 2017. The impairment tests were based on the following key assumptions:

- a weighted average pre-tax discount rate of 10% to 14% based on the cost of the Company's capital and debt, asset and country risk, together with past experience;
- cash flow projections based on the assumption that activity levels will return to 85% of 2014 EBITDA in the year 2022; and
- a terminal growth rate of 2%.

The Company performed a sensitivity analysis and noted no material impact in any CGU under any of the following situations:

- discount rates 2.3% higher or lower;
- cash flows 24% higher or lower; and
- a terminal growth rate 2% higher or lower.

6. ACCOUNTS PAYABLE AND ACCRUALS

	December 31 2017	December 31 2016
Trade payables	\$ 110,789	\$ 58,705
Accrued liabilities	8,302	30,329
Accrued payroll	47,582	37,321
Interest payable	892	1,362
Deferred revenue	14,579	23,808
Other liabilities	8,008	1,860
	\$ 190,152	\$ 153,385

7. BANK CREDIT FACILITIES AND LONG-TERM DEBT

	December 31 2017	December 31 2016
Drawings on the Global Bank Facility	\$ 488,677	\$ 316,701
Senior unsecured notes		
Tranche A, due February 22, 2017, 3.43%	-	134,270
Tranche B, due February 22, 2019, 3.97%	125,730	134,270
Tranche C, due February 22, 2022, 4.54%	125,730	134,270
Capital Lease Commitments	1,436	-
Unamortized deferred financing costs	(1,640)	(2,052)
Total	\$ 739,933	\$ 717,459
Less: current portion	(487,257)	(134,190)
Total long-term debt	\$ 252,676	\$ 583,269

Bank credit facilities:

As at December 31, 2017, the Company's available bank credit facilities consists of a \$500,000 (2016 - \$500,000) global revolving credit facility (the "Global Bank Facility"). The Global Bank Facility is available to the Company and certain of its wholly-owned subsidiaries, and may be drawn in Canadian, United States or Australian dollars, up to the equivalent value of \$500,000 Canadian dollars. The Company finalized a \$50.0 million accordion in the second quarter of 2017, it is to be included in the existing revolving global facilities but not yet exercised.

Interest is incurred on the utilized balance of the Global Bank Facility based on election of one of the following options when funds are drawn:

- The bank's Canadian prime lending rate plus 0.20% to 2.50%
- The US base rate plus 0.20% to 2.50%
- The BBSY rate plus 1.20% to 3.50%
- The BA rate plus 1.20% to 3.50%
- The LIBOR rate plus 1.20% to 3.50%

The Global Bank Facility matures October 3, 2018, unless extended and is unsecured. No principal payments are due until then. At December 31, 2017 the Company had \$23 thousands outstanding in letters of credit and bank guarantees (2016 - \$9,250). Included in the drawings on the Global Bank Facility balance is an Australian denominated portion of \$152,300 (2016 - USD \$90,000, AUD \$140,800).

The Global Bank Facility has the following covenant requirements:

- The Consolidated Senior Debt (being the Company's bank debt and outstanding senior unsecured notes) to Consolidated EBITDA Ratio shall not exceed 3.75:1.00 as at the end of the Fiscal Quarter ending on December 31, 2017, and 3.50:1.00 at any time thereafter;
- The Consolidated Debt to Consolidated EBITDA Ratio shall not exceed 4.75:1.00 as at the end of the Fiscal Quarter ending on December 31, 2017, and 4.25:1.00 at any time thereafter;
- The Consolidated Debt to Consolidated Capitalization Ratio as at the end of any Fiscal Quarter shall not exceed 45%; and
- The Consolidated EBITDA to Consolidated Interest Expense as at the end of any Fiscal Quarter shall not be less than 3.00:1.00.

Consolidated EBITDA is defined under the Agreement as net income from continuing operations for the 12 month period then ended determined in accordance with IFRS before interest expense, depreciation, amortization and accretion expenses, all provisions for taxes, all non-cash expenses and non-cash income, the amount of any stock-based compensation; and extraordinary gains and losses.

During the first quarter of 2014, the Company secured a \$20,000 uncommitted facility, solely for issuing letters of credit, primarily used for bidding on contracts in the normal course of business. As at December 31, 2017, the Company had \$10,530 (2016 - \$3,406) outstanding in letters of credit under the facility.

Senior unsecured notes:

On February 22, 2012, the Company completed the private placement of USD \$300.0 million of senior unsecured notes (the "Notes") with the terms noted above. Interest on the Notes is payable semi-annually on May 31st and November 30th each year with final interest payments due on expiry of the Notes. These Notes are unsecured, rank equally with the Company's Global Bank Facility and have been guaranteed by the Parent company and certain of the Company's subsidiaries located in Canada, the United States and Australia.

Interest accrued on the Notes at December 31, 2017 was \$892 (2016 - \$1,362) and has been included in accounts payable and accruals on the consolidated statement of financial position. The Company incurred financing costs associated with the Notes that are being deferred and amortized using the effective interest method.

During the year ended December 31, 2017, the Company extinguished Tranche A of the senior unsecured notes using the Global Bank Facility.

8. INCOME TAXES

Analysis of deferred tax liability:

	December 31 2017	December 31 2016
Property and equipment	\$ 427,893	\$ 614,965
Share-based compensation	(803)	(1,497)
Non-capital losses	(109,808)	(120,644)
Other	(6,275)	(9,121)
Net deferred tax liability	\$ 311,007	\$ 483,703

Deferred Tax:

Deferred tax asset recovered within 12 months	\$ (11,291)	\$ (9,720)
Deferred tax asset recovered after 12 months	(109,808)	(133,019)
Deferred tax liability recovered within 12 months	4,213	4,375
Deferred tax liability recovered after 12 months	427,893	622,067
Net deferred tax liability	\$ 311,007	\$ 483,703

The provision for income taxes is different from the expected provision for income taxes using combined Canadian federal and provincial income tax rates for the following reasons:

For the years ended	December 31 2017	December 31 2016
Income (loss) before income taxes	\$ (187,796)	\$ (204,545)
Income tax rate	26.9%	26.9%
Expected income tax expense	(50,517)	(55,023)
Increase (decrease) from:		
Higher effective tax rate on foreign operations	(9,848)	(10,462)
Non-deductible expenses	3,624	3,116
Adjustments from prior years	7,442	4,050
Functional currency translation adjustment and other	7,107	(704)
Rate change impact on deferred taxes	(107,960)	5,000
Income tax expense	\$ (150,152)	\$ (54,023)

The statutory rate for 2017 increased slightly over that of 2016 due to the increase in the Alberta tax rate, effective July 1, 2015. The United States passed comprehensive tax reform under the Tax Cut and Jobs Act ("Tax Act") on December 22, 2017. The Federal corporate income tax rate will drop from 35% to 21% beginning January 1, 2018. Due to these changes, the Company has revalued its deferred tax liability as at December 31, 2017 and the result of this revaluation was a deferred tax recovery for the year ended December 31, 2017 of \$109.3 to reduce the deferred tax liability balance.

9. SHARE CAPITAL

(a) Authorized

Unlimited common shares, no par value
Unlimited preferred shares, no par value, issuable in series

(b) Issued, fully paid and outstanding

	2017		2016	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Opening balance – January 1	153,594,857	\$ 180,666	152,302,273	\$ 169,171
Shares issue as part of the dividend reinvestment plan	2,933,708	23,208	1,080,777	7,943
Changes in unvested shares held in trust	224,644	2,168	211,807	3,552
Closing balance - December 31	156,753,209	\$ 206,042	153,594,857	\$ 180,666

The total number of unvested shares held in trust for share-based compensation plans as at December 31, 2017 was 321,272 (December 31, 2016 – 545,916).

(c) Dividends

During the year ended December 31, 2017, the Company declared dividends of \$75,785 (2016 - \$74,383), being \$0.48 per common share (2016 - \$0.48 per common share). Subsequent to December 31 2017, the Company declared a dividend for the first quarter of 2018 of \$0.12 per common share or approximately \$18,877. The dividend has not been provided for and is pursuant to the quarterly dividend policy adopted by the Company. Pursuant to subsection 89(1) of the Canadian Income Tax Act ("ITA"), the dividend being paid is designated as an eligible dividend, as defined in subsection 89(1) of the ITA.

10. NET LOSS PER SHARE

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period.

Diluted net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period adjusted for conversion of all potentially dilutive common shares. Diluted net loss is calculated using the treasury share method, which assumes that all outstanding share options are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period.

	December 31 2017	December 31 2016
Net loss attributable to common shareholders:		
Basic and diluted	\$ (37,644)	\$ (150,522)
Weighted average number of common shares outstanding:		
Basic	156,545,624	152,759,973
Potentially dilutive share-based compensation plans	182,153	424,359
Diluted	156,727,777	153,184,332

Share options of 4,890,600 (2016 – 5,037,000) were excluded from the calculation of diluted weighted average number of common shares outstanding as they were anti-dilutive.

11. SHARE-BASED COMPENSATION

Share option plan

The Company has an employee share option plan that provides all option holders the right to elect to receive either common shares or a direct cash payment in exchange for the options exercised. The Company may grant options to its employees for up to 14,886,400 (2016 - 14,885,900) common shares. The options' exercise price equals the market price of the Company's common shares on the date of grant. Share options granted vest evenly over a period of five years.

The total intrinsic value of the liability for vested benefits at December 31, 2017 was \$2,278 (2016 - \$2,817).

A summary of the Company's share option plan as of December 31, 2017 and 2016 and the changes during the years then ended, is presented below:

	2017		2016	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding – January 1	5,037,700	\$ 10.74	7,404,000	\$ 12.04
Granted	2,064,750	7.18	—	—
Exercised for cash	(2,100)	7.30	(32,200)	7.30
Forfeited	(342,850)	9.88	(991,100)	12.08
Expired	(32,600)	15.51	(1,343,000)	17.00
Outstanding - December 31	6,724,900	\$ 9.67	5,037,700	\$ 10.74
Exercisable - December 31	3,032,400	\$ 11.35	1,938,600	\$ 12.24

The weighted average share price at the date of exercise of options in 2017 was \$7.30 per common share (2016 - \$9.10).

The following table lists the options outstanding at December 31, 2017:

Exercise Price	Outstanding Options	Average Vesting Remaining (in years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$6.02 to \$9.00	3,825,200	3.75	\$ 7.22	1,001,400	\$ 7.46
\$9.01 to \$12.00	1,625,700	2.00	10.37	1,007,100	10.37
\$12.01 to \$16.13	1,274,000	1.00	16.13	1,023,900	16.13
	6,724,900	2.80	\$ 9.67	3,032,400	\$ 11.35

The assumptions used to estimate the fair value of employee share options as at December 31, were:

	December 31 2017	December 31 2016
Remaining expected life (years)	2.6	3.0
Volatility (percent)	40.0	40.0
Forfeiture rate (percent)	6.6	6.6
Risk-free interest rate (percent)	1.7	0.9
Expected dividend (percent)	7.4	5.1

The expected volatility is determined based on weighted average historic prices for the Company's common shares. The forfeiture rate is estimated based on historical experience and general option holder behavior.

Share Appreciation Rights (SARs)

The Company has granted share appreciation rights (“SARs”) to certain employees that entitle the employees to a cash payment. The amount of the cash payment is determined based on the increase in the share price of the Company between grant date and exercise date. Grants under the plan vest evenly over a period of five years.

A summary of the Company’s SARs plan as of December 31, 2017 and 2016 and the changes during the years ended, is presented below:

	2017		2016	
	Number of SARs	Weighted Average Exercise Price	Number of SARs	Weighted Average Exercise Price
Outstanding – January 1, 2016	477,100	\$ 10.97	895,100	\$ 12.70
Granted	241,000	6.97	—	—
Exercised	—	—	(2,300)	7.30
Forfeited	(101,400)	10.83	(307,200)	13.83
Expired	(4,000)	15.51	(108,500)	17.20
Outstanding - December 31, 2017	612,700	\$ 9.39	477,100	\$ 10.97
Exercisable - December 31, 2017	242,600	\$ 11.58	189,900	\$ 12.52

No SARs were exercised in 2017. The weighted average share price at the date of exercise of SARs in 2016 was \$8.51 per common share.

The following table lists the SARs outstanding at December 31, 2017:

Exercise Price	SARs Outstanding	Average Vesting Remaining (in years)	Weighted Average Exercise Price	SARs Exercisable	Weighted Average Exercise Price
\$6.02 to \$9.00	382,700	3.92	\$ 7.08	81,600	\$ 7.47
\$9.01 to \$12.00	115,000	2.00	10.37	69,000	10.37
\$12.01 to \$16.13	115,000	1.00	16.13	92,000	16.13
	612,700	3.07	\$ 9.39	242,600	\$ 11.58

Performance Share Units (PSUs)

During the third quarter of 2017 the Company granted Performance Share Units (PSUs) to certain officers and employees of the Company to participate in the growth and development of the Company and to promote further alignment of interests between employees and the shareholders. PSUs are subject to the Company’s performance metrics assessed by management with a three year performance period. Each PSU granted permits the holder to receive a cash payment equal to the fair market value of a share as of the maturity date, adjusted for a performance multiplier.

A summary of the activity under this share based incentive plan is presented below:

	Outstanding
Outstanding – January 1, 2017	—
Granted	714,253
Granted through dividend payment	34,332
Forfeited	(53,602)
Outstanding - December 31, 2017	694,983

Included in net earnings for the year ended December 31, 2017 is an expense of \$1.1 million (2016 - \$nil). This was calculated using the trailing ten day volume weighted average share price of the Company’s underlying common shares, as the PSUs have no exercise price, adjusted for performance factors and subject to a two percent cap based on certain financial performance metrics.

12. SEGMENTED INFORMATION

The Company determines its operating segments based on internal information regularly reviewed by management to allocate resources and assess performance. Oilfield services are provided in Canada, the United States and internationally. The amounts related to each geographic area are as follows:

As at and for the year ended December 31, 2017	Canada	United States	International	Total
Revenue	262,793	459,496	278,361	1,000,650
Depreciation and amortization	110,808	158,157	56,846	325,811
(Loss) income before interest and income taxes	(78,377)	(61,818)	(6,391)	(146,586)
Total assets	980,476	1,326,988	651,001	2,958,465
Total liabilities	561,809	486,653	220,627	1,269,089
Purchase of property & equipment, net	21,459	83,158	13,095	117,712

As at and for the year ended December 31, 2016	Canada	United States	International	Total
Revenue	222,804	337,950	298,948	859,702
Depreciation and amortization	121,141	164,306	64,500	349,947
(Loss) income before interest and income taxes	(76,303)	(80,151)	(17,620)	(174,074)
Total assets	1,036,806	1,456,516	721,073	3,214,395
Total liabilities	725,434	444,713	211,759	1,381,906
Purchase of property & equipment, net	5,864	(1,442)	24,698	29,120

There are no material differences in the basis of accounting or the measurement of (loss) income, assets and liabilities between the Corporation and reported segment information, except that certain inter-company liabilities and equity are offset with the assets of the appropriate related segment. Revenues and expenses are attributed to geographical areas based on the location in which the services are rendered. The segment presentation of assets and liabilities is based on the geographical location of the assets.

During the year ended December 31, 2017 the Company had one customers that represented 10.0 percent of the Company's revenue. During the year ended December 31, 2016, the Company had no customers that represented more than 10 percent of the Company's revenue.

13. EXPENSES BY NATURE

	December 31 2017	December 31 2016
Salaries, wages and benefits	524,291	\$ 371,986
Share-based compensation	656	10,287
Total employee costs	524,947	382,273
Depreciation	325,811	349,947
Purchased materials, supplies and services	274,575	302,543
Foreign exchange and other	21,903	(987)
Total expenses before interest and income taxes	\$ 1,147,236	\$ 1,033,776

14. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

Key management personnel comprises of the Company's directors and named executive officers. Compensation for key management personnel consists of the following:

	December 31 2017	December 31 2016
Short-term compensation	\$ 2,349	\$ 2,923
Share-based compensation	1,407	539
Total management compensation	\$ 3,756	\$ 3,462

During the fourth quarter of 2017, a corporation controlled by the Chairman of the Board of the Company provided a short-term guarantee for amounts owing by the Company to a third party. The guarantee had an annual fee of 1% and was terminated in January of 2018.

15. SIGNIFICANT SUBSIDIARIES AND PARTNERSHIPS

The following table lists the Company's principal operating partnerships and subsidiaries, the functional currency, the jurisdiction of formation, incorporation or continuance of such partnerships and subsidiaries and the percentage of shares owned, directly or indirectly, by the Company as of December 31, 2017:

Name of Subsidiary	Functional Currency	Jurisdiction of Formation Incorporation or Continuance	Percentage Ownership of Shares Beneficially Owned or Controlled Directly or Indirectly by the Company	
			2017	2016
Ensign Drilling Inc.	CAD	Alberta	100	100
Ensign Well Servicing Inc.	CAD	Alberta	100	100
Ensign Argentina S.A.	USD	Argentina	100	100
Ensign de Venezuela C.A.	USD	Venezuela	100	100
Ensign Energy Services PTY Limited	USD	Australia	100	100
Ensign Australia Pty Limited	AUD	Australia	100	100
Ensign International Energy Services LLC	USD	Oman	100	100
Ensign Testing Services Inc.	CAD	Alberta	100	100
Tristate (Barbados) Holdings Inc.	USD	Barbados	100	100
Ensign Testing Services (U.S.A) Inc.	USD	Montana	100	100
Ensign United States Drilling Inc.	USD	Colorado	100	100
Ensign United States Drilling (California) Inc.	USD	California	100	100
Ensign US Financial (Delaware) LP	USD	Delaware	100	100
Ensign US Southern Drilling LLC	USD	Delaware	100	100
OFS Canada Inc.	CAD	Alberta	100	100
OFS Global Inc.	USD	Nevada	100	100

16. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

(a) Non-cash working capital

	December 31 2017	December 31 2016
Net change in non-cash working capital		
Accounts receivable	\$ (21,623)	\$ (40,403)
Inventories, investments and other	(43,900)	30,015
Accounts payable and accruals	39,483	(10,154)
Income taxes receivable	17,042	(10,723)
Dividends payable	(442)	436
	\$ (9,440)	\$ (30,829)
Relating to:		
Operating activities	\$ (6,291)	\$ (5,315)
Investing activities	(2,667)	(23,627)
Financing activities	(482)	(1,886.925)
	\$ (9,440)	\$ (30,829)

(b) Cash and cash equivalents

	December 31 2017	December 31 2016
Cash	\$ 32,374	\$ 24,500
Cash equivalents and held in trust	—	5,337
Total cash and cash equivalents	\$ 32,374	\$ 29,837

17. CAPITAL MANAGEMENT STRATEGY

The Company's objectives when managing capital are to exercise financial discipline, and to deliver positive returns and stable dividend streams to its shareholders. The Company continues to be cognizant of the challenges associated with operating in a cyclical, commodity-based industry and may make future adjustments to its capital management strategy in light of changing economic conditions.

The Company considers its capital structure to include shareholders' equity, bank credit facilities and senior unsecured notes. In order to maintain or adjust its capital structure, the Company may from time to time adjust its capital spending or dividend policy to manage the level of its borrowings, or may revise the terms of its bank credit facilities to support future growth initiatives. The Company may consider additional long-term borrowings or equity financing if deemed necessary. As at December 31, 2017, the bank credit facilities' drawings totaled \$488,677 (2016 - \$316,701), senior unsecured notes totaled \$249,820 (2016 - \$400,758) and shareholders' equity totaled \$1,689,376 (2016 - \$1,832,489).

The Company is subject to externally imposed capital requirements associated with its bank credit facilities and senior unsecured notes, including financial covenants that incorporate shareholders' equity, earnings, consolidated interest expense and level of indebtedness. The Company monitors its compliance with these requirements on an ongoing basis and projects future operating cash flows, capital expenditure levels and dividend payments to assess how these activities may impact compliance in future periods. As at December 31, 2017, the Company was in compliance with all debt covenants.

18. FINANCIAL INSTRUMENTS

Categories of financial instruments

The classification and measurement of financial instruments is presented below:

Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost.

Accounts payable and accruals, dividends payable and long-term debt are classified as financial liabilities at amortized cost.

Fair values

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accruals and dividends payable approximates their carrying value due to the short-term maturity of these financial instruments. The fair value of the drawings on the bank credit facilities approximates its carrying value.

The estimated fair value of the senior unsecured notes has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar instruments with similar risks and maturities. The estimated fair value of the senior unsecured notes approximates its carrying value.

Financial assets and liabilities recorded or disclosed at fair value in the consolidated statement of financial position are categorized using a three-level hierarchy that reflects the level of judgment associated with the inputs used to measure their fair value. The fair values of financial assets and liabilities included in Level 1 are determined by reference to unadjusted quoted prices in active markets for identical assets and liabilities. Fair values of financial assets and liabilities in Level 2 are based on inputs other than Level 1 quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The fair values in Level 3 financial assets and liabilities are not based on observable market data.

The estimated fair value of senior unsecured notes was based on Level 2 inputs and was estimated using the risk free interest rates on government debt instruments of similar maturities, adjusted for estimated credit risk and market risk premiums.

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. Credit risk arises principally from the Company's accounts receivable balances owing from customers operating primarily in the oil and natural gas industry in Canada, the United States and internationally. The carrying amount of accounts receivable represents the maximum credit exposure as at December 31, 2017.

The Company assesses the credit worthiness of its customers on an ongoing basis and establishes credit limits for each customer based on external credit reports and other publicly available information, internal analysis and historical experience with the customer. Credit limits are approved by senior management and are reviewed on a regular basis or when changing economic circumstances dictate. The Company manages credit risk through dedicated credit resources, ongoing monitoring and follow up of balances owing, well liens, and tightening or restriction of credit terms as required. The Company also monitors the amount and age of accounts receivable balances on an ongoing basis. As at December 31, 2017, the Company had trade receivables of \$25,775 (2016 - \$30,011) with multiple customers that were greater than 90 days old for which an allowance for doubtful accounts of \$4,165 (2016 - \$5,802) has been recorded to provide for balances which, in management's best estimate, are deemed uncollectible as at December 31, 2017. The allowance for doubtful accounts is an estimate requiring significant judgment and may differ materially from actual results.

As part of the Company's international operations, it provides oilfield services in Venezuela pursuant to contractual arrangements. As at December 31, 2017, the Company had accounts receivable of approximately \$28.6 million for work performed in Venezuela, of which certain account receivables were discounted at 15 percent and assumed nominal collections in the first year with even collections of the balance thereafter over a five year period. (2016 - \$24.8 million). However, due to the recent decline in the price of oil and continuing political unrest within Venezuela there can be no assurance that the Company will be successful in collecting all of such outstanding balance.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity by forecasting cash flows on an annual basis and secures sufficient credit facilities to meet financing requirements that exceed anticipated internally generated funds. As at December 31, 2017, the remaining contractual maturities of accounts payable and accruals and dividends payable are less than one year. Maturity information regarding the principal and interest on the Company's long-term debt are as follows:

As at December 31	Less than 1 Year	1-3 Years	4-5 Years	Total
Senior unsecured notes	\$ 11,045	\$ 148,198	\$ 130,626	\$ 289,869
Bank credit facilities ¹	509,741	—	—	509,741
Total	\$ 520,786	\$ 148,198	\$ 130,626	\$ 799,610

¹ Interest on the bank credit facilities is calculated based on the amount drawn at December 31, 2017 and the applicable bankers' acceptance/ LIBOR interest rates outstanding as at December 31, 2017. USD denominated balances are converted using the foreign exchange rate as of December 31, 2017.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company's net income or the value of its financial instruments.

Interest rate risk

The Company is exposed to interest rate risk with respect to its bank credit facilities which bear interest at floating market rates. For the year ended December 31, 2017, if interest rates applicable to its bank credit facilities had been 0.25 percent higher or lower, with all other variables held constant, income before income taxes would have been \$1,222 lower or higher.

Foreign currency exchange rate risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. The principal foreign exchange risk relates to the translation of the Company's foreign subsidiaries from their functional currencies to Canadian dollars. At December 31, 2017, had the Canadian dollar weakened or strengthened by \$0.01 against the United States dollar, with all other variables held constant, the Company's income before income taxes would have been \$1,156 higher or lower.

In addition, the Company has foreign exchange risk in relation to the conversion of Australian dollar denominated debt to Canadian dollars. At December 31, 2017, had the Australian dollar strengthened or weakened by \$0.01 against the Canadian dollar, with all other variables held constant, the Company's income before income taxes would have been \$1,524 higher or lower.

The above sensitivities are limited to the impact of changes in the specified variable applied to the items noted above and do not represent the impact of a change in the variable on the operating results of the Company taken as a whole.

19. CONTINGENCIES AND COMMITMENTS

The Company has provided insurance bonds to certain government agencies in respect of the temporary importation of equipment into that country. It is not anticipated that any material liabilities will arise from these insurance bonds. The Company has commitments for facility leases, with future minimum payments as follows:

Not later than 1 year	\$	4,104
Later than 1 year and not later than 5 years		6,942
Later than 5 years		448

The Company leases a number of facilities under operating leases. The leases typically run for a period of two to ten years, with an option to renew the lease after that date. Lease payments are increased throughout the lease term to reflect market rates.

For the year ended December 31, 2017, lease payments of \$4,888 (2016 - \$7,459) were recognized as an expense.

The Company is a party to various disputes and lawsuits in the normal course of its business and believes the ultimate liability arising from these matters will have no material impact on its consolidated financial statements.

20. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company secured a loan of \$19,000 outside of the bank credit facilities. The term of the loan is indefinite and bears an interest rate of Canadian prime lending rate plus 1.5% per annum and is secured by certain assets of a subsidiary of the Company.

Share Trading Summary

For the three months ended (Unaudited)	High (\$)	Low (\$)	Close (\$)	Volume	Value (\$)
2017					
March 31	9.81	7.43	7.97	24,600,100	216,304,588
June 30	8.26	6.27	6.93	22,972,300	165,293,284
September 30	7.56	6.09	7.05	11,395,900	75,766,121
December 31	6.98	5.95	6.47	11,341,600	71,825,426
Total				70,309,900	529,189,419

For the three months ended (Unaudited)	High (\$)	Low (\$)	Close (\$)	Volume	Value (\$)
2016					
March 31	7.87	4.72	5.98	26,405,400	156,908,091
June 30	8.37	5.83	7.25	14,017,900	101,023,677
September 30	8.02	6.81	7.50	8,995,800	67,376,904
December 31	10.41	7.36	9.38	15,125,200	137,422,931
Total				64,544,300	462,731,603

10 Year Financial information

<i>(Unaudited - \$ thousands, except per share data)</i>	2017	2016	2015	2014	2013
Revenue	1,000,650	859,702	1,390,978	2,321,765	2,098,011
Gross margin	240,950	237,676	395,953	635,370	573,838
Gross margin % of revenue	24.1 %	27.6 %	28.5 %	27.4%	27.4%
Adjusted EBITDA	201,784	185,173	329,010	542,262	485,712
Depreciation	325,811	349,947	335,513	298,854	248,026
Net income (loss)	\$ (37,644)	(150,522)	(104,049)	71,120	128,865
Net income (loss) per share					
Basic	\$ (0.24)	\$(0.99)	\$(0.68)	\$0.47	\$0.84
Diluted	\$ (0.24)	\$(0.98)	\$(0.68)	\$0.46	\$0.84
Funds from operations	141,438	170,651	296,273	491,886	435,611
Funds from operations per share					
Basic	\$0.90	\$1.12	\$1.94	\$3.22	\$2.85
Diluted	\$0.90	\$1.11	\$1.94	\$3.21	\$2.84
Net capital expenditures, excluding acquisitions	117,712	29,120	159,033	582,999	342,225
Acquisitions	—	—	—	—	76,408
Working capital (deficit)	(342,199)	(11,153)	144,239	189,698	(71,146)
Long-term debt, net of current portion	252,676	583,269	794,109	786,327	317,407
Shareholders' equity	1,689,376	1,832,489	2,086,596	2,045,237	1,962,569
Return on average shareholders' equity	(2.2)%	(8.2)%	(5.0)%	3.5%	6.7%
Long-term debt to equity	0.15:1	0.32:1	0.38:1	0.38:1	0.16:1
Weighted avg. common shares outstanding - basic	156,545,624	152,759,973	152,476,615	152,710,636	152,693,280
Closing share price - December 31	\$6.47	\$9.38	\$7.38	\$10.20	\$16.73

*Restated under IFRS

**Not restated for IFRS

All per share data and the weighted average common shares outstanding have been restated to reflect the 3-for-1 stock split effective May 2001 and the 2-for-1 stock split effective May 2006.

Certain prior year amounts have been restated to reflect current year presentation.

10 Year Financial information

<i>(Unaudited - \$ thousands, except per share data)</i>	2012	2011	2010*	2009**	2008**
Revenue	2,197,321	1,890,372	1,355,683	1,137,575	1,705,579
Gross margin	641,812	567,446	370,860	356,554	559,695
Gross margin % of revenue	29.2%	30.0%	27.4%	31.3%	32.8%
Adjusted EBITDA	560,975	497,188	310,011	305,670	498,139
Depreciation	220,227	177,927	132,980	111,015	125,809
Net income (loss)	217,522	212,393	119,308	125,436	259,959
Net income (loss) per share					
Basic	\$1.42	\$1.39	\$0.78	\$0.82	\$1.70
Diluted	\$1.42	\$1.39	\$0.78	\$0.82	\$1.68
Funds from operations	506,355	473,099	288,513	259,239	402,407
Funds from operations per share					
Basic	\$3.32	\$3.09	\$1.89	\$1.69	\$2.63
Diluted	\$3.31	\$3.09	\$1.88	\$1.69	\$2.61
Net capital expenditures, excluding acquisitions	306,689	386,833	255,463	132,573	274,323
Acquisitions	—	497,352	—	52,573	—
Working capital (deficit)	13,861	(10,233)	84,516	107,894	107,024
Long-term debt, net of current portion	296,589	405,953	—	—	20,000
Shareholders' equity	1,857,958	1,723,422	1,548,155	1,530,797	1,551,151
Return on average shareholders' equity	12.1%	13.0%	7.7%	8.1%	18.6%
Long-term debt to equity	0.16:1	0.24:1	NA	NA	0.01:1
Weighted avg. common shares outstanding - basic	152,664,447	152,865,133	152,834,798	153,154,557	153,094,863
Closing share price - December 31	\$15.37	\$16.25	\$15.03	\$15.00	\$13.22

*Restated under IFRS

**Not restated for IFRS

All per share data and the weighted average common shares outstanding have been restated to reflect the 3-for-1 stock split effective May 2001 and the 2-for-1 stock split effective May 2006.

Certain prior year amounts have been restated to reflect current year presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

N. MURRAY EDWARDS
Corporate Director and Investor

ROBERT H. GEDDES
President and COO,
Ensign Energy Services Inc.

GARY CASSWELL ^(2,4)
Independent Businessman

JAMES B. HOWE ^(1,3)
President, Bragg Creek Financial
Consultants Ltd.

LEN KANGAS ^(2,4)
Independent Businessman

CARY A. MOOMJIAN, JR ^(2,3)
President,
CAM OilServ Advisors LLC

JOHN SCHROEDER ^(1,3)
Independent Businessman

KENNETH J. SKIRKA ^(2,4)
Independent Businessman

GAIL SURKAN ^(2,3)
Independent Businesswoman

BARTH WHITHAM ^(1,4)
President and CEO,
Enduring Resources LLC

CORPORATE MANAGEMENT

N. MURRAY EDWARDS
Chairman

ROBERT H. GEDDES
President and Chief Operating
Officer

MICHAEL GRAY
Chief Financial Officer

ED KAUTZ
President United States
Operations

TOM CONNORS
Executive Vice President - Canada/
International East Operations

MICHAEL NUSS
Executive Vice President,
U.S. & Latin America Operations

TREVOR RUSSELL
Vice President, Finance

AHMED IQBAL
Corporate Controller

ROBERT RAIMONDO
Vice President, Health, Safety
and Environment

CATHY ROBINSON
Vice President, Global Human
Resources

SUZANNE DAVIES
Vice President Legal and Corporate
Secretary

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HSBC Bank Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: ESI

AUDITORS

PricewaterhouseCoopers LLP

TRANSFER AGENT

Computershare Trust Company
of Canada

COMMITTEE MEMBERS

¹ Audit

² Corporate Governance, Nominations and Risk

³ Compensation

⁴ Health, Safety and Environment



www.ensignenergy.com