Audited Consolidated Financial Statements of

MATRRIX Energy Technologies Inc.

As at and for the Years Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

Independent auditor's report

To the Shareholders of MATRRIX Energy Technologies Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MATRRIX Energy Technologies Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
April 3, 2019

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of MATRRIX Energy Technologies Inc. (the "Corporation") and all other financial and operating information contained in the report are the responsibility of management. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and in accordance with International Financial Reporting Standards.

Management is also responsible for establishing and maintaining adequate internal controls over the Corporation's financial reporting. The Corporation's internal control system has been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently and well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests they deem necessary to enable them to express an opinion on these consolidated financial statements.

The Audit Committee of the Board of Directors has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Signed "Lyle Whitmarsh"

President and Chief Executive Officer
April 03, 2019

Signed "Jeff Schab"

Chief Financial Officer
April 03, 2019

MATRRIX Energy Technologies Inc.
Consolidated Statements of Financial Position

(Stated in thousands of Canadian dollars)	Note	December 31, 2018	December 31, 2017
		$	**$**
Assets			
Current Assets			
Cash and cash equivalents	4	115	15,135
Restricted cash	4	100	-
Trade and other receivables	14	5,234	5,658
Inventory	7	-	281
Prepaid expenses and deposits		187	260
		5,636	21,334
Non-Current Assets			
Property and equipment	8	40,338	20,636
Goodwill	9	461	461
Total Assets		46,435	42,431
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	14	4,200	3,511
Operating loan	10	3,492	-
		7,692	3,511
Non-Current Liabilities			
Convertible debentures	11	2,422	2,297
Total Liabilities		10,114	5,808
Shareholders' Equity			
Share capital	12	62,054	58,448
Contributed surplus	13	3,357	3,150
Equity component of convertible debentures	11	265	265
Accumulated other comprehensive income		893	884
Accumulated deficit		(30,248)	(26,124)
Total Equity		36,321	36,623
Total Liabilities and Equity		46,435	42,431

Commitments (Note 19)
Subsequent Event (Note 20)

Signed "Thane Russell"	*Signed "Rodger Hawkins"*
Director	Director

See accompanying notes to these consolidated financial statements

MATRRIX Energy Technologies Inc.

Consolidated Statements of Comprehensive Income (Loss)

(Stated in thousands of Canadian dollars except per share amounts)	Note	For the years ended, December 31, 2018	2017
		$	**$**
Revenue	3	20,873	9,528
Cost of sales:			
Direct operating expenses		14,443	6,706
Depreciation	8	3,465	2,613
		17,908	9,319
Income from operations		2,965	209
Expenses			
Administrative		2,032	1,360
Salaries and benefits		2,622	1,651
Share-based payments	13	246	223
Depreciation	8	5	25
Impairment of assets		1,955	3,833
		6,860	7,092
Net loss before interest and other income (expense)		(3,895)	(6,883)
Gain from disposition of property and equipment		301	140
Gain from equipment lost in hole		635	310
Interest and other income		45	21
Interest on operating loan	10	(19)	-
Interest on convertible debenture	11	(261)	(53)
Accretion on debentures	11	(125)	-
Foreign exchange gain (loss)		(88)	44
Non-recurring restructuring charges		(330)	-
Transaction costs		(683)	(454)
Net loss before taxes		(4,420)	(6,875)
Deferred tax recovery	17	(296)	-
Net loss		(4,124)	(6,875)
Other comprehensive income			
Items that may be subsequently reclassified to profit or (loss):			
Foreign currency translation adjustment		9	6
Total comprehensive income (loss)		(4,115)	(6,869)
Basic income (loss) per common share	6	($0.03)	($0.16)
Diluted income (loss) per common share	6	($0.03)	($0.16)

See accompanying notes to these consolidated financial statements

MATRRIX Energy Technologies Inc.
Consolidated Statements of Changes in Equity

(Stated in thousands of Canadian dollars)

	Share Capital (Note 11) Shares	Share Capital (Note 11) Amount $	Employee Benefit Reserve $	Equity Component of Convertible Debenture $	Foreign Currency Translation Reserve $	Deficit $	Total Equity $
Balance at January 1, 2017	32,185	29,789	2,258	-	877	(19,155)	13,769
Share based payments expense	-	-	223	-	-	-	223
Issuance of agent options	-	(688)	688	-	-	-	-
Stock options exercised	120	30	-	-	-	-	30
Stock option value of exercised options	-	19	(19)	-	-	-	-
Comprehensive income (loss) for the period	-	-	-	-	7	(6,875)	(6,868)
Common shares issued - private placement	68,193	21,158	-	-	-	-	21,158
Common shares issued - Stampede acquisition	22,581	9,258	-	-	-	-	9,258
Share issuance costs	-	(1,118)	-	-	-	-	(1,118)
Equity component of convertible debenture	-	-	-	265	-	-	265
Increase in estimated credit loss resulting from the implementation of IFRS 9	-	-	-	-	-	(94)	(94)
Balance at December 31, 2017	123,079	58,448	3,150	265	884	(26,124)	36,623
Balance at January 1, 2018	123,079	58,448	3,150	265	884	(26,124)	36,623
Share based payments expense	-	-	246	-	-	-	246
Stock options exercised	296	48	-	-	-	-	48
Stock option value of exercised options	-	39	(39)	-	-	-	-
Comprehensive income (loss) for the period	-	-	-	-	9	(4,124)	(4,115)
Common shares issued - D2 acquisition	6,667	3,000	-	-	-	-	3,000
Common shares issued - Red Dog asset purchase	1,573	519	-	-	-	-	519
Balance at December 31, 2018	131,615	62,054	3,357	265	893	(30,248)	36,321

See accompanying notes to these consolidated financial statements

MATRRIX Energy Technologies Inc.
Consolidated Statements of Cash Flows

(Stated in thousands of Canadian dollars)	Note	For the years ended, December 31, 2018	2017
		$	$
Cash flows from the following activities:			
Operating activities			
Net loss		(4,124)	(6,875)
Adjustments for:			
Share based payments		246	223
Depreciation	8	3,470	2,638
Gain on disposition of property and equipment		(301)	(140)
Gain on equipment lost in hole		(635)	(310)
Accretion of debentures	11	125	3
Deferred income tax recovery	17	(296)	-
Unrealized foreign exchange gain		9	(4)
Impairment of assets	8,9	1,955	3,833
Changes in non-cash working capital items	15	338	(1,159)
Cash flows from operating activities		787	(1,791)
Financing activities			
Proceeds from issuance of common shares		-	21,158
Share issue costs		-	(1,118)
Proceeds from convertible debentures (net)	11	-	2,559
Interest on debentures	11	(261)	(53)
Proceeds from operating loan	10	3,492	-
Interest on operating loan	10	(19)	-
Proceeds from short-term debt		-	2,500
Repayment of short-term debt		-	(2,500)
Repayment of Stampede debt		-	(5,418)
Stock options exercised	13	48	30
Cash flows from financing activities		3,260	17,158
Investing activities			
Additions to property and equipment	8	(16,462)	(7,257)
Acquisitions	5	(4,992)	-
Proceeds from the disposition of property and equipment		562	421
Cash received from Stampede acquisition	5	-	2,599
Cash paid for D2 acquisition	5	(523)	-
Short term investments - restricted cash		(100)	-
Interest earned		45	-
Proceeds from equipment lost in hole		756	386
Changes in non-cash working capital balances	15	1,643	-
Cash flows from investing activities		(19,071)	(3,851)
Change in cash and cash equivalents		(15,024)	11,516
Effect of foreign exchange rate changes on cash		4	11
Cash and cash equivalents, beginning of year		15,135	3,608
Cash and cash equivalents, end of the year		115	15,135
Supplementary cash flow disclosure information:			
Interest paid during the year		280	53
Interest received during the year		45	21

See accompanying notes to these consolidated financial statements

1. REPORTING ENTITY

MATRRIX Energy Technologies Inc. (the "Corporation") was incorporated pursuant to the provisions of the Canada Business Corporations Act on January 7, 2011 and maintains its head office at Bow Valley Square IV, 250 – 6th Ave SW 22nd Floor, Calgary, AB, T2P 3H7. The Corporation is a publicly-traded company listed on the TSX Venture Exchange under the symbol “MXX”. The Corporation offers oilfield services to the oil and natural gas industry in the Western Canadian Sedimentary Basin (“WCSB”).

The consolidated financial statements of the Corporation are comprised of the Corporation and its wholly-owned subsidiary MATRRIX (US) Energy Technologies Inc.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in Note 3, and are presented in Canadian dollars, which is the Corporation’s functional and reporting currency. The Corporation’s US subsidiary uses US dollars as its functional currency.

These consolidated financial statements were approved and authorized for issue by the Corporation’s Board of Directors on April 3, 2019 and are in compliance with IFRS.

(b) Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by the Corporation are believed to be reasonable under current circumstances, actual results could differ.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Property and equipment

The Corporation allocates amounts initially recognized as property and equipment to significant component parts. Significant component parts are depreciated based on estimates of useful lives and residual value. Useful lives and residual values can change as a result of actual usage experience. A change in the useful life or residual value may have an impact on the related depreciation expense. The Corporation reviews the useful lives and estimated residual values of property and equipment at the end of each reporting period.

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before the deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. Further, there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Impairments

The Corporation performs impairment tests on property and equipment when impairment indicators exist. Application of judgment is required in determining whether an impairment test is warranted. The determination of recoverable amounts of any given asset is subject to significant estimates regarding such issues as timing and magnitude of cash flows and appropriate discount rates.

2. BASIS OF PREPARATION (continued)

Share-based payments

Share-based payments are subject to fair value estimates using the Black-Scholes model. This model uses significant assumptions such as volatility, interest rates, and expected life.

Determination of cash generating units ("CGUs")

Significant judgement is involved in determining the smallest group of assets that generate independent cash flows. Management has determined the Corporation currently operates two CGU's which is the service of horizontal and directional drilling that includes the interchangeable performance motor drilling assets and land-based contract drilling.

Accounts receivable

The Corporation is subject to credit risk on accounts receivable balances and assesses the recoverability of accounts receivable on an ongoing basis. Assessing accounts receivable for impairment involves significant judgement and uncertainty, including estimates of future events. Changes in circumstances underlying these estimates may result in the Corporation recognizing an additional allowance against accounts receivable.

Business combinations & goodwill

Refer to the accounting policy for business combinations in Note 3(g) included in the Corporation's significant accounting policies for a detailed discussion of this.

Convertible debentures

The Corporation's debentures are non-derivative financial instruments that create a financial liability for the Corporation and grant an option to the holder of the instrument to convert it into common shares of the Corporation. The issuance of the convertible debentures required management to make estimates to determine the fair value of the liability and equity components. The liability component of the debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. Estimates include the interest rate for debt with similar terms with no conversion feature and includes assumptions about sector risk, entity size, and entity credit quality. The equity component is recognized initially, net of deferred income taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the debentures are reclassified to shareholders' capital on conversion to common shares.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of deposits held in a bank and highly liquid investments having original terms to maturity of 90 days or less.

(b) Financial instruments

The Corporation initially applied IFRS 9, Financial Instruments, on January 1, 2018, as described in Note 3(n). New guidance under IFRS 9 does not affect the Corporation's classification, measurement, and recognition of financial assets and financial liabilities. The Corporation does not have any hedging arrangements. The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification

The Corporation classifies its financial assets in the following two measurement categories: (1) those to be measured subsequently at fair value (either through other comprehensive income, or through profit or (loss), and (2) those to be measured at amortized cost. The classification depends on the Corporation's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. The Corporation reclassifies financial assets when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Corporation measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement of financial assets depends on the Corporation's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Corporation classifies its financial assets:

- Amortized cost: Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in profit or loss.
- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as a separate line item in profit or loss.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Corporation 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.

(c) Share capital

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

(d) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(e) Share-based payment transactions

The Corporation has an employee stock option plan that provides all option holders the right to purchase common shares for the options exercised. The Corporation follows the fair value method for accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized for the stock options on the date of grant and amortized over the option's vesting period. Share-based payment arrangements in which the Corporation receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Corporation.

(f) Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the income or loss attributable to ordinary shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the treasury stock method by adjusting the income or loss attributable to ordinary shareholders and the weighted average number of common shares outstanding based on the assumption that any proceeds obtained on exercise of stock options and warrants would be used to purchase common shares at the average market price during the period.

(g) Basis of consolidation

<u>Business combinations and goodwill</u>

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the equity interests issued by the Corporation in exchange for control of the acquiree. acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are recognized in profit or loss as incurred.

The Corporation measures goodwill as the fair value of the consideration transferred plus the recognized amount of any non-controlling interest in the acquiree, less the net recognized fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

The acquired assets and assumed liabilities are recognized at fair value on the date the Corporation effectively obtains control. The measurement of the assets and liabilities acquired in each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property, plant and equipment and other assets and the liabilities assumed at the date of acquisition as well

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

as the useful lives of the acquired intangible assets and property, plant and equipment is based on assumptions estimating the fair value of these items.

Foreign currency translation

The financial statements for the Corporation's subsidies are prepared using each functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation and functional currency of the parent company is Canadian dollars. Assets and liabilities of foreign operations are translated into Canadian dollars at the market rates at the balance sheet date. Operating results are translated at the average rates for the period. Exchange differences arising on the consolidation of the net assets of foreign operations are recorded in other comprehensive income. Foreign currency transactions are translated in the functional currency using exchange rates prevailing at the transaction date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of net loss and comprehensive loss.

Consolidation

Subsidiaries are all entities (including structured entities) over which the Corporation has control. The Corporation controls an entity when the Corporation 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are de-consolidated from the date on which control ceases. Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated.

(h) Property and equipment

Recognition and measurement

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of assets. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment.

Depreciation

Depreciation is calculated based on the cost of an asset less its residual value.

Depreciation is recognized in income or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

(In thousands of Canadian dollars except for per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimated useful lives are as follows:

	Expected Life	Salvage Value	Basis of depreciation
Rigs and related equipment	3 - 15 years	10% - 20%	straight-line
Directional drilling and related equipment	1 - 10 years	nil - 10%	straight-line
Machinery and other equipment	5 - 7 years	10% - 20%	straight-line
Vehicles	5 years	20%	straight-line
Office furniture and equipment	3 years	nil	straight-line

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate. In 2017, as part of the Corporation's impairment assessment, it was determined that current salvage values were not in line with management's original estimate. Based on this analysis, salvage values for certain directional drilling and related equipment has been reduced to 0% - 10%.

(i) Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the average cost of the item and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventory and work in progress, cost includes direct production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventory spares and consumables are charged to operating expenditures as items are sold or consumed at the average cost of the item.

(j) Revenue recognition

The Corporation has adopted IFRS 15, Revenue from Contracts with Customers, effective January 1, 2018 on a modified retrospective basis.

The Corporation's 2017 revenue policy is that revenue is recognized when there is persuasive evidence that it is probable that the economic benefits associated with a service provided or equipment is sold with the transaction will flow to the entity, the amount of revenue can be measured reliably, collection is reasonably assured and the costs incurred and costs to complete the transaction can be measured reliably.

There are no substantial differences between the accounting policies adopted under IFRS 15 and the revenue accounting policies previously adopted by the Corporation. The are no adjustments to the amounts recognized in the financial statements as a result of the adoption of IFRS 15.

Effective January 1, 2018, upon adoption of IFRS 15, the Corporation recognizes revenue when a performance obligation is satisfied by transferring promised goods or services to a customer and the amount recorded is measured at the fair value of the consideration received. The Corporation's standard drilling rig contract includes performance obligations to provide drilling services and rig equipment, which are satisfied over time. Once determined, the transaction price will be allocated to each performance obligation based on stand-alone selling prices. The Corporation recognizes revenue daily, based on agreed-upon rates in each contract and on the daily activity of the rig. As such, there will be no unfulfilled performance obligations.

The Corporation's services are generally sold based upon service orders or contracts that include fixed or determinable prices based upon daily, hourly or job rates. The Corporation also generates revenue from the purchase and sale of oil and gas service-related equipment to third parties.

The Corporation's contracts contain both a lease and a service element. IFRS 15 requires revenue from both the service and lease elements related to customer contracts to be presented separately.

(In thousands of Canadian dollars except for per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation's revenue streams under IFRS 15 are comprised of the following:

	Year ended December 31, 2018	2017
Horizontal and directional drilling revenue	4,845	8,075
Contract drilling rig services	8,152	682
Contract drilling rig lease revenue	7,876	771
Total revenue	20,873	9,528

(k) Impairments

<u>Financial assets</u>

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. In assessing collective impairment, the Corporation uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

<u>Non-financial assets</u>

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in income or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Interest income and interest costs

Interest income comprises interest from funds invested. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Interest costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income or loss using the effective interest method.

(m) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by key management personnel to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to key management personnel include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Corporation's head office), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

(n) Recent pronouncements and application of new and revised IFRS

Certain new or amended standards or interpretations have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are not required to be adopted in the current period. The Corporation has not early adopted these standards or interpretations. The standards which the Corporation anticipates may have a material effect on the consolidated financial statements or note disclosures are described below.

Standards adopted in the year:

1) IFRS 9

IFRS 9, "Financial Instruments" replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 amends its classification and measurement of financial assets and introduces a new expected loss impairment model and new general hedge accounting requirements. The Corporation has adopted IFRS 9 for the annual period beginning on January 1, 2018. The adjustment to the opening deficit as of January 1, 2018 due to the cumulative impact of adopting IFRS 9 was $94. The impact to net earnings for the year ended December 31, 2018 was ($13) which was recorded in administrative costs. The Corporation's financial instruments policy under IFRS 9 is as described in Note 3(b).

2) IFRS 15

Effective January 1, 2018, the Corporation adopted IFRS 15, "Revenue from Contracts with Customers" using the modified retrospective approach, which requires the cumulative effect of adopting the standard to be recognized as at January 1, 2018. Upon adopting IFRS 15, the Company did not have a cumulative adjustment, with the previous revenue recognition policy being applied consistently under the new standard. The Company's revenue recognition policy under IFRS 15 is as described in Note 3(j).

New and revised IFRS that has been issued but is not yet effective:

IFRS 16, "Leases" replaces the previous guidance on leases and sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The new standard is effective for annual periods beginning on or after January 1, 2019, and which supersedes IAS 17, Leases; earlier application is allowed, but not before the application of IFRS 15, Revenue from Contracts with Customers. This new pronouncement introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases.

(In thousands of Canadian dollars except for per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation has elected to adopt IFRS 16 using the modified retrospective approach by recognizing the cumulative effect of initially applying the new standard on January 1, 2019 using the simplified right-of-use asset measurement method, along with the application of various practical expedients. The Corporation has reviewed its lease agreements and is currently evaluating the impact of the adoption of IFRS 16 on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	December 31,	
	2018	2017
Total cash and cash equivalents	115	15,135
Restricted cash	100	-
Total cash and cash equivalents and restricted cash	215	15,135

Cash and cash equivalents are comprised of cash in the bank, as well as short term investments that mature in 90 days or less.

Restricted cash is held with a financial institution as security for the pre-existing corporate credit card facility in the maximum amount of $100. As at December 31, 2018, the restricted cash balance was $100 (December 31, 2017 – nil).

5. BUSINESS COMBINATIONS

Stampede Drilling Inc.

On November 21, 2017, the Corporation acquired all the issued and outstanding shares of Stampede Drilling Ltd. (“Stampede”), a private corporation which owned and operated three heavy telescopic double drilling rigs in the Weyburn/Estevan area of southeast Saskatchewan.

Total consideration for Stampede was $9,258, which comprised of 22,580 common shares at $0.41 per share, being the Corporation’s share price on the closing date of the acquisition.

Balance at acquisition date	November 21, 2017
Total consideration	9,258

Assets and liabilities acquired	November 21, 2017
Cash	2,599
Account receivable	1,417
Inventory	139
Prepaid expenses	48
Property and equipment	10,372
Goodwill	461
Accounts payable	(360)
Bank debt	(5,418)
Total assets and liabilities assumed	9,258

The Corporation incurred costs related to the acquisition of $454 relating to due diligence, external legal fees, and other related transaction costs. These costs were included as transaction costs in the consolidated statement of comprehensive profit and loss for the period ended December 31, 2017.

The acquisition contributed revenue and net income before tax (excluding interest and transaction costs) from the date of acquisition to December 31, 2017 of $1,136 and $771, respectively. The Corporation estimates that had the acquisition occurred on January 1, 2017, the increase in revenue and net income before tax would have been approximately $9,326 and $1,073, respectively, for the year ended December 31, 2017.

(In thousands of Canadian dollars except for per share amounts)

5. BUSINESS COMBINATIONS (continued)

D2 Drilling Ltd.

On January 19, 2018, the Corporation acquired all the issued and outstanding shares of D2 Drilling Ltd. ("D2"), a private corporation which owned and operated one heavy telescopic double drilling rig in the Weyburn/Estevan area of southeast Saskatchewan and total working capital of $530.

Total consideration for D2 was $3,530, which comprised of $530 cash and 6,667 common shares at $0.45 per share, being the Corporation's share price on the closing date of the acquisition.

Balance at acquisition date	January 19, 2018
Shares issued	3,000
Cash paid	530
Total consideration	3,530

Assets and liabilities acquired	January 19, 2018
Cash	7
Account receivable	550
Prepaid expenses	9
Property and equipment	3,296
Deferred tax liability	(296)
Accounts payable	(36)
Total assets and liabilities acquired	3,530

The Corporation incurred costs related to the acquisition of $141 relating to due diligence, external legal fees, and other related transaction costs. These costs have been included as transaction costs in the consolidated statement of comprehensive income and loss.

The acquisition contributed revenue of $82 and incurred $278 in loss before tax (excluding interest and transaction costs) from the date of acquisition to December 31, 2018. The Corporation estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately $217 and loss before tax would have been approximately $263 for the year ended December 31, 2018.

Red Dog Drilling Assets

On May 24, 2018, the Corporation acquired the land-based drilling rigs owned by Red Dog Drilling Inc. ("Red Dog") which included two heavy telescopic double drilling rigs, one cantilever triple drilling rig, and one cantilever double drilling rig.

Total consideration for the assets of Red Dog was $5,511, which comprised of $4,992 cash and 1,573 common shares at $0.33 per share, being the Corporation's share price on the closing date of the acquisition. As part of the acquisition, the Corporation did not acquire any of Red Dog's debt or working capital.

Balance at acquisition date	May 24, 2018
Shares issued	519
Cash paid	4,992
Total consideration	5,511

	May 24, 2018
Total assets acquired	5,511

The Corporation incurred costs related to the acquisition of $224 relating to due diligence, external legal fees, and other related transaction costs. These costs have been included as transaction costs in the consolidated statement of comprehensive income and loss.

(In thousands of Canadian dollars except for per share amounts)

5. BUSINESS COMBINATIONS (continued)

The acquisition contributed revenue of $1,416 and $179 in net income before tax (excluding interest and transaction costs) from the date of acquisition to December 31, 2018. The Corporation estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately $2,510 and income before tax would have been approximately $317 for the year ended December 31, 2018.

6. EARNINGS PER SHARE

Basic and diluted earnings per share have been calculated based on the net loss divided by the weighted average number of common shares outstanding for the years ended December 31, 2018 and 2017 based on the following data.

	Year ended December 31, 2018	Year ended December 31, 2017
Net loss	(4,124)	(6,875)
Weighted average common shares	130,541	43,099
Effect of stock options	-	-
Diluted balance, end of period	130,541	43,099
Basic loss per common share	($0.03)	($0.16)
Diluted loss per common share	($0.03)	($0.16)

The weighted average diluted number of common shares outstanding excludes 2,660 stock options as at December 31, 2018 (2017: 6,599).

7. INVENTORY

Inventory is mainly comprised of repair parts for drilling and other equipment as well as parts for directional kit builds. For the year ended December 31, 2018, consumed repair parts included in direct operating costs amounted to $406 (2017 - $345).

As part of the property and equipment impairment assessment (Note 8), the Corporation determined inventory of $103 (2017 - $202) for assets that were identified as being impaired and were written down to net realizable value.

(In thousands of Canadian dollars except for per share amounts)

8. PROPERTY AND EQUIPMENT

	Rigs and related equipment	Directional drilling and related equipment	Machinery and other equipment	Office furniture and equipment	Total
Cost					
Balance at January 1, 2017	-	24,851	570	85	25,506
Additions	6,377	287	656	3	7,323
Acquisitions	9,861	-	511	-	10,372
Disposals	-	(1,324)	(32)	-	(1,356)
Balance at December 31, 2017	16,238	23,814	1,705	88	41,845
Additions	16,242	339	13	5	16,599
Acquisitions	8,807	-	-	-	8,807
Disposals	(20)	(566)	(225)	-	(811)
Balance at December 31, 2018	41,267	23,587	1,493	93	66,440
Depreciation					
Balance at January 1, 2017	-	15,444	366	63	15,873
Depreciation for the year	293	2,277	43	25	2,638
Disposals	-	(910)	(22)	-	(932)
Impairment of assets	-	3,630	-	-	3,630
Balance at December 31, 2017	293	20,441	387	88	21,209
Depreciation for the period	2,329	980	156	5	3,470
Disposals	-	(413)	(16)	-	(429)
Impairment of assets	-	1,852	-	-	1,852
Effect of movements in exchange rates	-	-	-	-	-
Balance at December 31, 2018	2,622	22,860	527	93	26,102
Net book value					
Balance at December 31, 2017	15,945	3,373	1,318	-	20,636
Balance at December 31, 2018	38,645	727	966	-	40,338

Included in property and equipment at December 31, 2018 are assets under construction of $1,894 (December 31, 2017 - $nil) which will not depreciate until put into service.

The Corporation reviews the carrying value of its assets at each reporting period for indicators of impairment in accordance with the accounting policy in Note 3(k). The Corporation currently has two CGUs, the service of horizontal and directional drilling, that includes interchangeable performance motor drilling assets, and contract drilling rigs. During the year ended December 31, 2018, the Corporation determined that continued low utilization rates and the corresponding negative cash flows related to directional drilling assets were an indicator of impairment.

For the year ended December 31, 2018, the Corporation completed its assessment and the recoverable value of the property and equipment of both of the Corporation’s CGUs. The Corporation identified the horizontal and directional drilling CGU carrying amount exceeded the fair value amount using the market approach. As a result, an impairment of $1,852 was recorded as a reduction in directional drilling property and equipment for the year ended December 31, 2018 (2017 - $3,630). A $103 reduction in inventory related to the corresponding directional drilling equipment was also identified for impairment for the year ended December 31, 2018 (2017 - $202).

(In thousands of Canadian dollars except for per share amounts)

8. PROPERTY AND EQUIPMENT (continued)

The recoverable amount for the contract drilling rig CGU (including goodwill) was based on a value in use calculation by estimating the future cash flows that would be generated from the continuing operations and utilizing the following key assumptions:

- A pre-tax discount rate of approximately 17%, at December 31, 2018, which considered the industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels.
- Five year forecasted cash flows, taking into consideration industry conditions, actual 2018 operating results and past experience. Cash flow projections for 2019 to 2023, based on a 5% growth rate having assumed a gradual recovery in activity levels for oil field related services in the WCSB.
- A terminal value was used assuming no annual growth rate for cash flows through the remainder of the segment's life.
- 10% decrease in the forecasted cash flows would decrease the recoverable amount of the property and equipment by $5,916 and would not create an impairment.
- 1% increase change in the pre-tax discount rate would decrease the recoverable amount of the property and equipment by $2,986 and would not create an impairment.

9. GOODWILL

	December 31, 2018	2017
Balance - beginning of period	461	-
Additions through business acquisition	-	461
Balance - end of period	461	461

Goodwill of $461 related to the business acquisition of Stampede Drilling Inc. on November 21, 2017. Goodwill by definition has no useful life and therefore is not amortized but is tested for impairment at the end of each year. The Corporation assesses impairment at the CGU level. As at December 31, 2018, the total amount of goodwill has been allocated to the contract drilling rig CGU.

10. LOANS & BORROWINGS

On December 20, 2018, the Corporation established a new demand operating revolving loan facility with a Canadian chartered bank which provides for a total credit capacity of up to, but not exceeding, a maximum of $15,000 comprised of the following margin requirements:

(i) 75% of Acceptable Receivables from Non-Investment Grade Customers; plus
(ii) 85% of Acceptable Receivables from Investment Grade Customers and Major Customers; plus
(iii) 50% of the net orderly liquidation value of capital assets and equipment; less
(iv) Potential Prior Ranking Claims; less Accounts Receivables of the Corporation that have been sold or factored, whether to the Bank or another third party.

The operating loan facility bears interest at the lender's prime rate plus 85 basis points and is secured by a general first ranking security agreement on all assets, property, and undertakings of the Corporation.

The operating loan facility is subject to the following financial covenants:

	Covenant	December 31, 2018
Interest Coverage Ratio (1)	3.00:1.00 or more	15.50:1.00
Net Funded Debt to EBITDA Ratio (2)	3.00:1.00 or less	0.80:1.00

(In thousands of Canadian dollars except for per share amounts)

10. LOANS & BORROWINGS (continued)

EBITDA is calculated as net income plus interest expense, income taxes, depreciation and amortization, other non-cash charges, transaction costs not to exceed $1,500, cash dividends, and losses attributable to minority equity investments, less non-cash gains, and income attributable to minority equity investments. EBITDA shall be calculated on a trailing twelve-month basis except as follows:

- for the fiscal quarter ended December 31, 2018, EBITDA is calculated for the fiscal quarter times four;
- for the first fiscal quarter ending March 31, 2019, EBITDA shall be calculated for the fiscal quarter and the immediately preceding fiscal quarter times two; and
- for the second fiscal quarter ending June 30, 2019, EBITDA shall be calculated for the fiscal quarter and the two immediately preceding fiscal quarters divided by 0.75.

(1) Interest Coverage is calculated as the ratio of EBITDA as at such date to interest expense for the 12 months ending as at such date.

(2) Net Funded Debt to EBITDA is calculated as total interest-bearing indebtedness on a consolidated basis excluding cash and cash equivalents held by the bank and loans which have been subordinated and postponed in favour of the bank to EBITDA.

As at December 31, 2018, $3,406 was drawn on the operating loan facility and the Corporation was in compliance with all covenants related to its operating loan facility.

11. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($,000)	Equity component ($,000)
Balance at December 31, 2016	-	-	-
Issuance of convertible debentures	2,612	2,341	271
Issue costs	-	(47)	(6)
Accretion of discount	-	3	-
Balance at December 31, 2017	2,612	2,297	265
Accretion of discount	-	125	-
Balance at December 31, 2018	2,612	2,422	265

In 2017, the Corporation closed two private placement tranches of unsecured, subordinated convertible debentures of the Corporation. An aggregate principal amount of $2,305 was issued under the first tranche on October 18, 2017 and $307 of debentures was issued under the final tranche on October 27, 2017, bringing the total principal amount of debentures issued under the Offering to $2,612. The Corporation incurred $53 of transaction costs related to the convertible debenture raise for total net proceeds of $2,559. Certain Executives, Board members and employees of the Corporation participated in the Offering and purchased debentures having an aggregate Principal Amount of $950, or approximately 36.4% of the Offering.

The debentures mature on October 31, 2020 and bear interest at a rate of 10% per annum to be paid semi-annually, in arrears on December 31 and June 30 of each year. They are convertible into common shares in the capital of the Corporation at a price of $0.49 per common share based on a conversion premium of approximately 25% to the last trade on the TSXV on October 6, 2017.

The principal amount of the debentures are convertible at the option of the holder at any time prior to the close of business on the earlier of (i) the business day immediately preceding the Maturity Date or, (ii) if called for redemption, on the business day immediately preceding the date fixed for redemption, or (iii) if called for repurchase pursuant to a transaction resulting in any person or persons acquiring voting control or direction over at least 50% of the aggregate voting rights attached to the common shares then outstanding, on the business day immediately preceding the payment date.

(In thousands of Canadian dollars except for per share amounts)

11. CONVERTIBLE DEBENTURES (continued)

The liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option, which was calculated based on a market interest rate of 14.5%. The difference between the principal amount of the debentures and the fair value of the liability component was recognized in shareholders' equity, net of deferred income taxes.

Prior to October 31, 2019, the debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the weighted average trading price of the common shares on the TSXV, for the 30 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the conversion price. On or after October 31, 2019, and prior to the Maturity Date, the debentures may be redeemed by the Corporation, from time to time, on not more than 60 days and not less than 40 days prior notice of redemption at a redemption price equal to the principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

12. SHARE CAPITAL

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of December 31, 2018.

Authorized and Issued Common Shares

	Number	Amount ($)
Balance as at January 1, 2017	32,185	29,789
Issued shares pursuant to private placement	68,193	21,158
Issued shares pursuant to Stampede Drilling Inc. acquisition	22,581	9,258
Transaction costs	-	(1,806)
Issued shares pursuant to the exercise of stock options	120	30
Stock option value of exercised options	-	19
Balance as at January 1, 2018	123,079	58,448
Issued shares pursuant to D2 Drilling Inc. acquisition	6,667	3,000
Issued shares pursuant to Red Dog Drilling Inc. asset acquisition	1,573	519
Issued shares pursuant to the exercise of stock options	296	48
Stock option value of exercised options	-	39
Balance as at December 31, 2018	131,615	62,054

On August 23, 2017, the Corporation completed a private placement of 3,673 common shares at a deemed price of $0.315 per common share with certain Executives and Board members of the Corporation for gross proceeds of $1,157.

On November 21, 2017, the Corporation acquired all of the outstanding common shares of Stampede and issued 22,581 common shares at a deemed price of $0.41 per share for total consideration of $9,258.

On November 21, 2017, concurrent with the acquisition of Stampede, the Corporation closed a private placement resulting in the issuance of 64,520 common shares at a price of $0.31 per share for gross proceeds of $20,001. Certain Executives and Board members of the Corporation participated in the Private Placement and purchased an aggregate of 2,393 of the Corporation's shares or approximately 3.71% of the Private Placement.

On January 19, 2018, the Corporation acquired all the issued and outstanding common shares of D2 and as partial consideration issued 6,667 common shares of the Corporation at a deemed price of $0.45 per share, being the Corporation's share price on the closing date of the acquisition.

On May 24, 2018, the Corporation acquired the land-based drilling rigs owned by Red Dog and as partial consideration issued 1,573 common shares of the Corporation at a deemed price of $0.33 per share, being the Corporation's share price on the closing date of the acquisition.

(In thousands of Canadian dollars except for per share amounts)

12. SHARE CAPITAL (continued)

Contributed surplus

Contributed surplus is comprised solely of stock-based compensation expense and stock option exercises.

Accumulated other comprehensive income

Accumulated other comprehensive income is the cumulative translation account that comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

13. STOCK BASED COMPENSATION

Stock options

The Corporation has adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

The options are exercisable for a period of up to five years from the date of grant. Vesting terms are determined at the time of grant by the Board of Directors. The options granted up to June 30, 2017 for directors, officers, employees, and consultants have a vesting period of one third a year from the date of grant, another one third two years from the date of grant and the remaining third vesting three years from the date of grant. Once vested, the options can be exercised and have an expiration date a year from the vesting date. The options granted subsequent to December 3, 2017 carry a five-year term and are subject to vesting one quarter on each of the first, second, third and fourth anniversaries of the date of the grant or carry a five-year term and are subject to vesting as to one quarter on the day of the grant and one quarter on each of the first, second and third anniversaries of the date of the grant.

A summary of the Corporation's outstanding stock options as at December 31, 2018 and December 31, 2017 and the changes for the period ended, is as follows:

Stock Options	Outstanding	Weighted Average Exercise Price	
Outstanding at December 31, 2016	2,950	$	0.40
Grants - Employees and directors	1,546	$	0.32
Grants - Agents	3,111	$	0.31
Exercises	(120)	$	0.25
Expiries	(739)	$	0.58
Forfeited	(149)	$	0.26
Outstanding at December 31, 2017	6,599	$	0.29
Grants - Employees and directors	435	$	0.32
Exercises	(296)	$	0.16
Expiries - Agents	(3,111)	$	0.31
Expiries	(514)	$	0.44
Forfeited	(453)	$	0.22
Outstanding at December 31, 2018	2,660	$	0.28

(In thousands of Canadian dollars except for per share amounts)

13. STOCK BASED COMPENSATION (continued)

	Total Outstanding		
Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Employees and directors			
$0.12 to $0.18	593	$ 0.12	1.99
$0.22 to $0.27	751	$ 0.26	3.01
$0.32 to $0.41	1,316	$ 0.37	3.56
	2,660	$ 0.28	3.06

	Exercisable		
Range of Exercise Prices	Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Employees and directors			
$0.12 to $0.18	563	$ 0.12	1.96
$0.22 to $0.27	284	$ 0.26	1.48
$0.32 to $0.41	596	$ 0.36	3.14
	1,443	$ 0.25	2.35

Share-based payments

For the year ended December 31, 2018, the Corporation recorded share-based payment expense of $246 (2017 - $223). The following assumptions were used for the Black-Scholes valuation of stock options:

	2018	2017
Risk-free interest rate range	2.02% - 2.18%	1.07% - 1.65%
Expected Term	5.0 years	5.0 years
Annualized volatility	139% - 143%	134% - 162%
Dividend rate	0.00%	0.00%
Forfeiture rate	10.00%	10.00%
Average fair value per option granted	$0.30	$0.32

The expected volatility is determined based on weighted average historic prices for the Corporation's common shares.

14. FINANCIAL INSTRUMENTS

Capital management

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Corporation defines capital as share capital, convertible debentures and working capital, which was $62,685 at December 31, 2018 (2017 - 78,833).

(In thousands of Canadian dollars except for per share amounts)

14. FINANCIAL INSTRUMENTS (continued)

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized below:

Credit risk

The adoption of IFRS 9 requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Corporation's assessment, an increase in the allowance for doubtful accounts was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience since inception for each operating segment. The adjustment to allowance for doubtful accounts on initial application of IFRS 9 is $94, which was applied to opening Retained Earnings.

The loss allowance provision for trade accounts receivable as at December 31, 2018 reconciles to the opening loss allowance provision as follows:

	2018
At January 1, 2018 – calculated under IAS 39	94
Decrease in accounts receivable loss allowance per IFRS 9	(13)
As at December 31, 2018	81

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing services and on an ongoing basis as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry.

Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

During the year ended December 31, 2018, the Corporation had three customers that comprised 13%, 17% and 27% of total revenue, compared to two customers that comprised 12% and 18% of total revenue in 2017. For the accounts receivable balances outstanding at December 31, 2018, the Corporation had three customers that comprised 9%, 14% and 40% of the total balance as compared to two customers that comprised 9% and 14% of the total balance in 2017.

The Corporation's trade and other receivables aging is as follows:

	December 31,	
	2018	2017
Within 30 days	2,333	3,104
31 to 60 days	1,977	1,631
61 to 90 days	1,005	1,017
Over 90 days	-	-
Allowance for doubtful accounts	(81)	(94)
Accounts receivable	5,234	5,658

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by maintaining sufficient cash to settle current liabilities and meet its anticipated working capital requirements. As at December 31, 2018, the Corporation had negative working capital of $2,054 (2017 – working capital of $17,823).

(In thousands of Canadian dollars except for per share amounts)

14. FINANCIAL INSTRUMENTS (continued)

The Corporation's trade and accrued payables are as follows:

	For the year ended December,	
	2018	2017
Accounts payable	2,678	2,941
Accrued payables	1,522	570
Total	4,200	3,511

Depending on the credit terms of the trade payable, interest will be charged after a predetermined number of days from the date of the invoice. The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest Rate Risk

The Corporation is exposed to interest rate fluctuations on its operating loan facility which bears interest at floating market rates. For the year ended December 31, 2018, if the prime interest rate increased/decreased by 1%, with all other variables held constant, the Corporation's net loss would not have been materially different. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

b) Foreign Currency Risk

The Corporation is exposed to foreign currency fluctuations on its financial instruments in relation to its U.S. dollar-denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding U.S. dollar denominated accounts payable.

c) Fair Value

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observable nature of inputs employed in the measurement:
Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value.

The carrying amount of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. At December 31, 2018, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 instruments. The fair value of the convertible debentures liability was recorded based on an estimated fair value interest rate and is considered a Level 3 fair value instrument.

As the debentures have not traded, the fair value of the debentures is $2,612 as at December 31, 2018 (2017 - $2,612), based on the purchase price of $1 per debenture.

(In thousands of Canadian dollars except for per share amounts)

15. SUPPLEMENTAL CASH FLOW INFORMATION

The following is a summary of net change in non-cash working capital items for the years ended December 31, 2018 and 2017:

	For the year ended, December 31, 2018	2017
	$	$
Changes in non-cash working capital items:		
Trade and other receivables	1,068	(3,423)
Inventory	178	62
Prepaid expenses and deposits	82	(57)
Accounts payable and accrued liabilities	653	2,259
Total	1,981	(1,159)
Relating to:		
Operating activities	338	(1,159)
Investing activities	1,643	-
Total	1,981	(1,159)

16. COMPENSATION

The key management personnel of the Corporation are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The key management compensation is as follows:

	For the year ended December 31, 2018	2017
Short-term employee benefits	1,162	1,211
Restructuring costs	313	-
Share-based payments	118	169
Total key management personnel compensation	1,593	1,380

17. INCOME TAXES

The income tax expense for the year can be reconciled to the accounting profit as follows:

	For the year ended December 31, 2018	2017
Net income (loss) before income tax	(4,420)	(6,908)
Canadian statutory rate	27%	27%
Expected income tax	(1,193)	(1,865)
Effect on taxes resulting from:		
Non taxable / deductible items	6	153
Statutory and other rate differences	-	608
Transaction costs	45	(371)
Stampede tax pools in excess of accounting basis	-	(1,625)
Unrecognized deferred tax asset and other	846	3,100
Total income tax recovery	(296)	-

(In thousands of Canadian dollars except for per share amounts)

17. INCOME TAXES (continued)

The components of the net deferred income tax liability are as follows:

	As at December 31, 2017	Recognized in earnings or loss	Recognized through Balance Sheet	As at December 31, 2018
Deferred tax assets				
Non-capital losses	229	1,103	-	1,332
Deferred tax liabilities				
Other	(85)	34	-	(51)
Property and equipment	(144)	(1,137)	-	(1,281)
Deferred tax liability	-	-	-	-

The components of unrecognized deferred tax assets are as follows:

	For the year ended December 31,	
	2018	2017
Deferred tax assets not recognized		
Non-capital losses	7,492	7,482
Other	327	413
Unrecognized deferred tax asset	7,819	7,895

The Canadian non-capital losses of approximately $32,700 (2017 – $25,200) expire between 2030 and 2038. The US Non-Capital Losses of approximately USD $3,200 (2017 – USD $3,200) expire between 2031 and 2036.

18. OPERATING SEGMENTS

Management evaluates the Corporation’s performance on an operationally segmented basis. The composition of the operational segments reported in the consolidated financial statements is consistent with the internal management reporting provided to key management.

The Corporation has identified the following two reportable operational segments: directional drilling and land-based contract drilling.

	For the year ended December 31, 2018		
	Directional Drilling	Contract Drilling	Total
Revenue	4,845	16,028	20,873
Net loss	(4,036)	(88)	(4,124)
Impairment of assets	1,955	-	1,955
Property and equipment, net	935	39,403	40,338
Goodwill	-	461	461

	For the year ended December 31, 2017		
	Directional Drilling	Contract Drilling	Total
Revenue	8,075	1,453	9,528
Net loss before taxes	(6,503)	(372)	(6,875)
Impairment of assets	3,833	-	3,833
Property and equipment, net	4,691	15,945	20,636
Goodwill	-	461	461

(In thousands of Canadian dollars except for per share amounts)

There are no material differences in the basis of accounting or the measurement of 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 land-based contract drilling segment.

19. COMMITMENTS

The following table reflects the Corporation's commitments as of December 31, 2018:

(000's CAD $)	2019	2020	2021	2022
Line of credit	3,492	-	-	-
Operating leases	369	291	198	99
Trade and other payables	4,200	-	-	-
Total	8,061	291	198	99

As of December 31, 2018, the Corporation has committed $1,029 related to maintenance capital.

20. SUBSEQUENT EVENT

Due to the ongoing directional drilling losses since Q1 2015, the Corporation is announcing that it will be discontinuing its directional drilling operations in the second quarter of 2019. After a thorough review of the division's operations, and potential implications of all options, management was unable to find a scenario that would have the division profitable without significant capital investment or major macroeconomic changes in Western Canada.