Management's Discussion and Analysis

Management for Xtreme Drilling Corp. ("Xtreme" or the "Company"), based this Management's Discussion and Analysis ("MD&A") on operating and financial results for the three and six months ended June 30, 2018, and provides comparative information for the three and six months ended June 30, 2017. Management recommends reading this discussion and analysis in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2017, and related notes (the "Audited Financial Statements").

Xtreme's common shares trade on the Toronto Stock Exchange under the symbol "XDC".

The Company prepares its consolidated financial statements and comparative information in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Unless otherwise stated, all amounts are expressed in thousands of Canadian dollars ("CAD"), except share and per share data. The information in this MD&A was approved by Xtreme's Board of Directors. This MD&A is based on information available as of August 14, 2018, and incorporates all relevant considerations to that date.

Advisory Regarding Forward-Looking Information

This MD&A, or documents incorporated herein, contains forward-looking information ("FLI"). FLI is typically contained in statements with words such as "anticipate", "believe", "estimate", "expect", "plan", "schedule", "intend", "propose" or similar words suggesting future outcomes or an outlook. More particularly, this MD&A contains FLI that may relate to contracting, marketing, financing, construction, modifications, deployment, operation, and utilization of drilling rigs in the Company's current and future fleet. Although Xtreme believes expectations reflected in such FLI are reasonable, readers should not place undue reliance on them because Xtreme can give no assurance they will prove to be correct. There are many factors that could cause FLI not to be correct, including risks and uncertainties inherent in the Company's business.

FLI is based on certain factors and assumptions including, but not limited to:

- the assessment of current and projected future drilling and related operations;
- ongoing and future strategic business alliances, negotiations and opportunities to enter new, extend or complete existing contracts;
- the availability and cost of financing;
- currency exchange rates;
- timing and magnitude of capital expenditures;
- expenses and other variables affecting rig operation, modification and construction;
- the ability and commitment of vendors to provide rig equipment, services and supplies, including labor, in a cost-effective and timely manner;
- the issuance of applied-for patents;
- changes in tax structures and rates; and,
- government regulations.

Although Xtreme considers the assumptions used to prepare this MD&A reasonable, based on information available to management as of August 14, 2018, ultimately the assumptions may prove to be incorrect.

FLI is also subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from management's current expectations. These factors include, but are not limited to:

- the cyclical nature of drilling market demand;
- currency exchange rates;
- commodity prices;
- access to credit and to equity markets;
- the availability and retention of qualified personnel;
- vendor-provided equipment components and services; and
- competition for customers.

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Management's assumptions considered the following:

- ongoing access to key services, supplies and equipment required to continue operating and maintaining the rigs, including fuel;
- continued successful performance of drilling and related equipment;
- expectations regarding gross margin;
- recruitment and retention of qualified personnel;
- continuation or extension of existing long-term, multi-well contracts or other contracts;
- revenue expectations related to shorter-term drilling opportunities;
- willingness and ability of customers to remit amounts owing to Xtreme in accordance with normal industry practices; and,
- management of accounts receivable in direct relation to revenue generation.

In preparing this MD&A, the following risk factors were considered:

- fluctuations in crude oil and natural gas prices, as well as supply and demand for the products;
- fluctuation in currency exchange and interest rates;
- financial stability of Xtreme's customers;
- current and future applications for Xtreme's proprietary technology;
- related services provided by, and competition from, other drilling contractors;
- regulatory and economic conditions in regions where Xtreme operates;
- environmental constraints;
- changes to government legislation;
- international trade barriers or restrictions; and,
- where appropriate, global economic, political and military events, as well as acts of terrorism, riots, strikes, insurrections, revolutions and civil war.

FLI contained in this MD&A about prospective results of operations, financial position or cash provided by operating activities is based on assumptions about future events, including economic conditions and proposed courses of action, and on management's assessment of relevant information currently available. Readers are cautioned such financial outlook information contained in this MD&A is not exhaustive and not appropriate for purposes other than for which it is disclosed here. Readers should not place undue importance on FLI and should not rely on this information as of any other date. Except as required pursuant to applicable securities laws, Xtreme disclaims any intention, and assumes no obligation, to update publicly or revise FLI to reflect actual results, whether as a result of new information, future events, changes in assumptions, changes in factors affecting such FLI or otherwise.

Additional GAAP Measures

In this MD&A, the Company references additional generally accepted accounting principles ("GAAP") measures that are not defined terms under IFRS to assess performance because the Company believes they provide useful supplemental information to investors.

Operating cash flows from operations

Xtreme believes that operating cash flows from operations, as reported in the Consolidated Statements of Cash Flows, is a useful measure because it gives the Company and investors an indication of the funds the principal business activities generated prior to the consideration of working capital, which is primarily made up of highly liquid balances.

Corporate Overview

Xtreme designs, assembles, and operates a fleet of onshore high specification drilling rigs featuring leading-edge proprietary technology, modular transportation systems, and continuous integration of in-house advances in methodologies. Xtreme provides drilling rigs, equipment, and personnel on a contract basis.

Xtreme is a publicly traded company incorporated on May 24, 2005, under the Business Corporations Act of Alberta. The Company's registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5. The Company also maintains a headquarters in Houston, Texas.

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Plan of Arrangement

On June 4, 2018, Xtreme and AKITA Drilling Ltd. and its subsidiaries ("AKITA") agreed to combine their respective businesses and entered into a plan of arrangement (the "Arrangement"), a copy of which is available at www.sedar.com. Under the Arrangement, Xtreme Shareholders will receive 0.3732394 of a Class A Non-Voting Share of AKITA or $2.65 in cash for each Xtreme Share. An Xtreme Shareholder may elect to receive AKITA Non-Voting Shares, cash, or a combination of AKITA Non-Voting Shares and cash, in each case subject to proration such that the aggregate consideration to be paid by AKITA will not exceed $45,000 and will not exceed 22,235,458 Class A Non-Voting Shares of AKITA.

AKITA Drilling Ltd.

AKITA is an Alberta corporation engaged in the contract drilling business in Western and Northern Canada, and the Permian Basin. AKITA was an early adopter of pad rig technology and currently enjoys a dominant market share in heavy operations, with pad rigs making up approximately one-half of its dep capacity fleet. AKITA has been a pioneer among drilling companies in forming mutually beneficial joint ventures with the First Nations, Inuit and Metis people living proximate to areas of concentrated oil and gas development.

Strategic Rationale

The combination of AKITA and Xtreme provides the following compelling benefits to the shareholders of both companies:

- Combines two complementary companies, each with a focus on high-spec drilling rigs and disciplined operations that deliver leading performance for customers;
- Provides AKITA with immediate scale in the US market, building upon its recent strategic expansion into the Permian, and the potential for premium day rates and margins;
- Maintains a leading position in active Canadian markets, including oil sands maintenance drilling operations, with leverage to a longer-term recovery in Canadian drilling activity;
- Expands operational and customer network across all major North American resource basins providing the flexibility to deploy high quality drilling rigs on both sides of the border to optimize utilization and returns;
- Provides greater financial capacity to support potential new builds, including Xtreme's 850XE premium spec platform or AKITA's high spec multi rig platform design which both have a proven premium value proposition for pad development;
- Improves liquidity for all shareholders through increased scale and a larger public float;
- Offers meaningful value creation opportunity from an estimated $8 million in annual recurring synergies and efficiencies;
- Provides a differentiated opportunity to invest in a pure play drilling contractor with both Canadian and US exposure that has a strong balance sheet and liquidity.

The transaction is pending and requires the following approvals:

Xtreme Shareholder Approval

A resolution approving the Arrangement has been approved by at least 66 2/3% of the votes cast by the shareholders of Xtreme present in person or represented by proxy at a meeting of Xtreme shareholders held on August 13, 2018.

AKITA Shareholder Approval

A resolution approving the issuance of AKITA Class A Non-Voting Shares pursuant to the Arrangement must be approved by AKITA shareholders holding a majority of the AKITA Class B Common Shares. Pursuant to the requirements of the Toronto Stock Exchange, it is expected that the AKITA shareholder approval will be comprised of written evidence that holders of more than 50% of the AKITA Class B Common Shares are familiar with the terms of the transaction and are in favor of it. If such AKITA shareholder approval is not given, the Arrangement will not be completed as contemplated.

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Court Approval

On July 10, 2018, Xtreme obtained an interim court order providing for the calling and holding of the Xtreme Meeting and other procedural matters. If Xtreme and AKITA shareholder approvals are obtained, Xtreme will make an application to the court for the final order. The Arrangement is expected to be completed in the third quarter of 2018.

Drilling Industry Conditions

The drilling industry depends largely on the level of capital spending by oil and gas companies for exploration, development and production. The fluctuation of the oil and gas prices have a direct and material impact on the exploration, development and production activities of Xtreme's customers. As a result, significant fluctuations in oil and natural gas prices may have a material impact on the Company’s business, financial position and results of operations. In 2014, West Texas Intermediate ("WTI") oil prices (in USD) exceeded $100 per barrel and dropped to a low of approximately $30 per barrel in early 2016. For the first six months of 2017, the average price of oil was approximately $50 per barrel. The second half of 2017 saw an increase in the price per barrel, closing at approximately $60 per barrel at the end of 2017. Pricing has continued to fluctuate during the first half of 2018, but has increased from $60 per barrel at the beginning of the year to approximately $74 at June 30, 2018.

Drilling Services (XDR)

In January 2018, the first Evolution Series, or 850XE, rig commenced operations on a two-year term contract in Oklahoma. The second 850XE rig commenced operations with a leading Utica E&P company in March 2018, in the Appalachian Basin on an 18-month contract with a specified minimum day rate. The final 850XE rig was mobilized to a location in the Utica play of the Appalachian Basin at the end of the quarter and commenced operations on an 18-month contract in April 2018.

As of June 30, 2018, the Company had 11 drilling rigs working of the total available fleet of 13. As of the date of this MD&A, the Company had an active rig count of 10 drilling rigs earning revenue in Ohio, Colorado, North Dakota, and the Texas/Oklahoma border.

XDR 300 Strategic Review

In 2017, the Company began evaluating strategic alternatives with respect to the XDR 200 and XDR 300 series rigs. As part of the evaluation, the Company considered current opportunities in Canada, the US and internationally. It was determined that to maximize value related to these assets, it would be in the best interest of the Company and its shareholders to actively market these rigs for sale.

During 2017, the Company reclassified approximately $25,000 of drilling and servicing equipment to assets held for sale. The plan to dispose of the assets was an indicator of impairment under IFRS and, as such, an impairment test was completed prior to the transfer of the assets, resulting in an impairment loss of approximately $23,900.

During 2017, the Company closed on the sale of four XDR 200 series drilling rigs for $9,118, resulting in a gain on sale of $1,677, net of selling expenses. During the first quarter of 2018, the Company recorded an impairment of $1,423 based on on-going negotiations. During the second quarter of 2018, the Company sold one of the XDR 300 series rigs for $1,931, resulting in a gain of $128, net of expenses. In June 2018, the Company entered into an agreement to sell two of the XDR 300 series rigs for $7,901, resulting in an impairment charge of $1,312 during the period. The sale of the two rigs closed on July 2, 2018, and proceeds were received on that date.

After the sale of the two rigs, there is one remaining XDR 300 rig classified as assets held for sale stated at a fair value of $1,317 as of June 30, 2018.

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Financial and Operating Highlights from Operations

The following is a summary of selected financial and operating information of the Company's operations for each of the eight most recently completed quarters:

(unaudited)

Three months ended	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Revenue	**23,368**	21,321	16,323	18,172
Adjusted EBITDA [1]	**3,409**	1,526	818	1,008
Adjusted EBITDA as a percentage of revenue	**15%**	7%	5%	6%
Net loss	**(43,121)**	(5,926)	(9,564)	(8,673)
Net loss per share - basic	**(0.58)**	(0.08)	(0.13)	(0.12)
Operating cash flows from operations [1]	**2,223**	834	(3,130)	(3,096)
Capital assets	**192,486**	220,572	205,456	203,316
Total assets	**229,737**	262,927	251,573	253,171
Net debt [2]	**9,380**	2,772	(8,126)	(19,144)
Operating days [1]	**916**	844	707	851
Utilization (percentage) [1]	**79%**	85%	77%	93%
Weighted average number of rigs in service	**13**	11	10	10
Total number of available rigs, end of quarter	**13**	12	10	10

Three months ended	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016
Revenue	15,141	12,379	9,929	8,468
Adjusted EBITDA [1]	(1,630)	(78)	(148)	(1,423)
Adjusted EBITDA as a percentage of revenue	(11)%	(1)%	(1)%	(17)%
Net loss	(48,366)	(12,168)	(11,122)	(29,542)
Net loss per share - basic	(0.61)	(0.14)	(0.13)	(0.35)
Operating cash flows from operations [1]	(4,957)	101	(1,032)	(1,168)
Capital assets	196,704	245,267	240,656	243,564
Total assets	272,798	348,083	366,762	373,104
Net debt [2]	(41,682)	(88,152)	(113,882)	(118,863)
Operating days [1]	683	583	479	433
Utilization (percentage) [1]	75%	36%	25%	22%
Weighted average number of rigs in service	10	18	21	21
Total number of rigs, end of quarter	10	18	21	21

[1] See Non-GAAP measures
[2] Total debt less cash and cash equivalent

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2018 Analysis of Operations

For the quarter ended June 30, 2018

In the second quarter of 2018, operating days increased to 916 from 844 in the previous period, or 9 percent. The increase in the number of operating days corresponds to the increase in revenue over the previous period. The increase is principally attributed to the operating days contributed by the 850XE rigs for the full period, offset by a decrease in operating days for the XDR 500 rigs. Utilization decreased to 79 percent in the second quarter of 2018 from 85 percent in the previous quarter.

In April 2018, the last Evolution Series, or 850XE, rig commenced operations with a leading Utica E&P company in the Appalachian Basin on an 18-month contract with a specified minimum day rate.

During the three months ended June 30, 2018, management reviewed property and equipment for indicators of impairment. Indicators of impairment were identified for the drilling services segment in connection with the value estimated of the consideration expected to be received for Xtreme shares under the Arrangement. The recoverable amount of the CGU was determined based on the higher of fair value less cost of disposal ("FVLCD") or value-in-use ("VIU"). FVLCD was based on the estimated value of the purchase consideration, which is comprised of a combination of cash and AKITA non-voting shares. Management has estimated a fair value of approximately $169,000 for property and equipment. The fair value of the CGU was categorized as Level 3 fair value based on the unobservable inputs used.

For the quarter ended March 31, 2018

In the first quarter of 2018, operating days increased to 844 from 707 in the previous period, or 19 percent. The increase is principally attributed to the reactivation of two rigs during the quarter and the operating days contributed by two of the 850XE rigs that came on line during the period. Utilization increased to 85 percent in the first quarter of 2018 from 77 percent in the previous quarter. The increase in the number of operating days and utilization, corresponds to the increase in revenue over previous period.

In January 2018, the first Evolution Series, or 850XE, rig commenced operations on a two-year term contract in Oklahoma. The second 850XE rig commenced operations with a leading Utica E&P company in March 2018 in the Appalachian Basin on an 18-month contract with a specified minimum day rate. The final 850XE rig was mobilized to the Appalachian Basin at the end of the quarter and commenced operations in April 2018.

2017 Analysis of Operations

For the quarter ended June 30, 2017

In the second quarter of 2017, the US had an increase in operating days compared to the previous quarter. For part of the quarter, the Company had one rig in Canada operating and the remaining two rigs in Canada were stacked. The increase in operating days along with an increase in average day rates, resulted in the increase in revenue for the period.

During the second quarter of 2017, the Company made reductions in operational support and administrative personnel and recognized approximately $187 of severance expense during the period.

During the second quarter, the Company commenced the upgrades to the two remaining units as approved by the Board of Directors. Management of the Company reviewed the details of the rigs to determine what components would remain on the rig, what components would be transferred to spares, and components for which the Company had no further use. Based on the review performed, for the second quarter of 2017 the Company wrote off those components for which the Company had no further use to estimated salvage value and recorded a loss on disposal of $11,265. Management also reviewed the components on operating rigs and wrote off components deemed to have no further use and recorded a loss on disposal of approximately $1,000.

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During the second quarter, the Company began evaluating strategic alternatives with respect to the XDR200 and XDR300 series rigs. As part of the evaluation, the Company considered current opportunities in Canada, the US and internationally. It was determined that in order to maximize value related to these assets, it would be in the best interest of the Company and its shareholders to actively market these rigs for sale. The Company expects to sell these rigs and related spares and inventory within one year. Therefore, as of June 30, 2017, the eight rigs and associated spares and inventory are classified as "Assets held for sale" and are stated at estimated net realizable value of approximately $21,000. As part of the evaluation, the Company recorded an impairment of approximately $26,000 during the quarter ended June 30, 2017, for these assets. Excluding these rigs, available drilling rigs decreased to 10 and utilization for the quarter was 70 percent. Operating days and revenue related to Assets held for sale were 49 days and $814, respectively for the second quarter (58 days and $916, respectively for the first quarter).

For the quarter ended March 31, 2017

In the first quarter of 2017, operating days increased to 583 from 479 in the previous quarter, or 21 percent. This increase corresponds to the increase in revenue for the period.

During the first quarter of 2017, the Company made reductions in operational support and administrative personnel and recognized approximately $70 of severance expense during the period.

During the first quarter, the Company commenced the upgrade to one of the three units as approved by the Board of Directors. Management of the Company reviewed the details of the rig to determine what components would remain on the rig, what components would be transferred to spares, and components for which the Company had no further use. Based on the review performed, for the first quarter of 2017 the Company wrote off those components for which the Company had no further use to estimated salvage value and recorded a loss of $2,000. Effective January 1, 2017, the Company excluded these three units from its utilization calculation.

Rig Upgrades

With its extensive experience in the design, manufacture, and deployment of high specification drilling equipment, Xtreme plans to fully leverage the capabilities and inventory of quality rigs to address market demand through upgraded drilling rigs. Upgrades may result in a change in tier classification and are typically performed at the request of a customer.

Total Available Fleet by Model

As of August 14, 2018, the Company has 10 XDR 500 rigs and 3 XDR 850XE rigs available for service. The XDR rigs have the following specifications:

Rig	Type	Max Hook Load (lbs)	Rig Hp	Pump Capacity
XDR 500	AC VFD	500K	1,500 hp AC	(2) 1,600 hp
XDR 850XE	AC VFD	850K	1,800 hp AC	(3) 1,600 hp

People

Xtreme places a high priority on the safety of its people. The ability to perform at a high level is a result of having an experienced, high performance crew. Xtreme's commitment to the people and their safety is highly valued by Xtreme's customers. As the market strengthens and the rigs return to service, there are anticipated challenges with respect to recruitment and retention of quality manpower. The Company relies heavily on its safety record, investment in employee development, and reputation to attract and retain employees. Xtreme strives to focus on initiatives that provide a safe and productive work environment, opportunity for advancement, and added wage security. Xtreme has developed a strong vision focusing on personnel, training, and development that align with the requirements of the customer as well as the jurisdiction in which the Company operates.

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Utilization

Xtreme calculates utilization rates based upon drilling rigs available for service. Utilization rates is a key performance indicator for the drilling industry to measure a company's potential revenue volume, operating efficiency, and influence pricing. During the three months ended June 30, 2018, Xtreme achieved 916 operating days and an average utilization rate of 79 percent based on an average of 13 rigs available for service. The rigs classified as assets held for sale were excluded from the utilization calculation. Standby revenue is taken into account in Xtreme's utilization statistic.

Contingencies

The Company is subject to income taxes in Canada, the US and several foreign jurisdictions. Therefore, significant judgment is required in evaluating tax positions and determining the provision for income taxes. During the ordinary course of business, there are prevalent transactions and calculations for which the decisive tax determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when the Company believes that certain positions might be challenged despite its belief that the Company's tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. While fully supportable in the Company's view, some of these positions, including uncertain tax positions, if challenged may not be fully sustained on review.

Results of Operations – Three and Six Months ended June 30, 2018 and 2017

Revenue, Operating Expenses and Gross Margin for Operations

	For the three months ended			For the six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Revenue	**23,368**	15,141	54 %	**44,689**	27,520	62%
Operating expenses	**17,965**	13,452	34 %	**35,435**	23,264	52%
Gross margin[1]	**5,403**	1,689	220 %	**9,254**	4,256	117%
Gross margin as a percentage of revenue	**23%**	11%	109 %	**21%**	15%	40%
Adjusted EBITDA[1]	**3,409**	(1,630)	n/a	**4,936**	(1,708)	n/a
Adjusted EBITDA as a percentage of revenue	**15%**	(11)%	n/a	**11%**	(6%)	n/a
Operating cash flows from operations [1]	**2,223**	(4,957)	n/a	**3,057**	(4,856)	n/a
Operating days [1]	**916**	683	34 %	**1,760**	1,266	39%
Revenue per operating day	**25.5**	22.2	15 %	**25.4**	21.7	17%
Operating expenses per operating day	**19.6**	19.7	(1)%	**20.1**	18.4	9%
Gross margin per operating day	**5.9**	2.5	136 %	**5.3**	3.4	56%
Rig utilization (percentage) [1]	**79%**	70%	13 %	**82%**	48%	71%

1 See Non-GAAP measures

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Three and six months ended June 30, 2018 compared to same period in 2017

Revenue for the three months ended June 30, 2018, increased compared to the same periods in 2017 primarily as a result of an increase in operating days, utilization and day rates. For the three months ended June 30, 2018, operating days increased to 916 days from 683 days for the three months ended June 30, 2017, or 34 percent. Utilization for the three months ended June 30, 2018, increased from the corresponding periods in 2017, from 70 percent to 79 percent.

Revenue for the six months ended June 30, 2018, increased compared to the same period in 2017 primarily as a result of an increase in operating days, utilization and day rates. Included in the 2018 revenue is revenue of approximately $775 related to the mobilization of the first 850XE rig to location. For the six months ended June 30, 2018, operating days increased to 1,760 days from 1,266 days for the six months ended June 30, 2017, or 39 percent. Utilization for the six months ended June 30, 2018, increased from the corresponding period in 2017, from 48 percent to 82 percent.

The average revenue per operating day increased for the three months ended June 30, 2018, compared to the same period in 2017 from $22.2 to $25.5. The average revenue per operating day increased to $25.4 for the six months ended June 30, 2018, from $21.7 for the six months ended June 30, 2017. The higher day rates are consistent with increase in market rates in the industry.

Operating expenses includes all direct and indirect costs associated with the operation, maintenance and support of the drilling equipment. The direct costs increase or decrease in proportion to rig utilization and operating days. Indirect costs are often not affected by changes in operating days and utilization. For the three months ended June 30, 2018, the operating expenses per day was $19.6 compared to $19.7 in the prior year. For the six months ended June 30, 2018, the operating expenses per day was $20.1 compared to $18.4 in the prior year. The increase is principally attributed to higher personnel and start up related costs in 2018 as the Company prepared for the three upgraded rigs to commence operations, offset by a benefit recognized in 2017 for duties and the recovery of bad debts.

Gross margin as a percentage of revenue for the three and six months ended June 30, 2018, was 23 percent and 21 percent, compared with 11 percent and 15 percent for the three and six months ended June 30, 2017. Gross margin per operating day was $5.9 and $2.5 for the three months ended June 30, 2018 and 2017, respectively, and $5.3 and $3.4 for the six months ended June 30, 2018 and 2017, respectively.

Adjusted EBITDA for the three months ended June 30, 2018, was $3,409, an increase from $(1,630) for the three months ended June 30, 2017. Adjusted EBITDA as a percentage of revenue was 15 percent and (11) percent for the three months ended June 30, 2018 and 2017, respectively. The increase in Adjusted EBITDA was primarily due to an increase in gross margin during the period. For the six months ended June 30, 2018, Adjusted EBITDA was $4,936, an increase from $(1,708) for the six months ended June 30, 2017.

Net cash used in operations for the three and six months ended June 30, 2018 and 2017, was $6,559 and $(11,299), respectively. The increase was primarily driven by a decrease in the net loss and the changes in non-cash working capital items during the period.

The Company recorded a net loss for the three months ended June 30, 2018 and 2017, of $(43,121) and $(48,366), respectively. The decrease in net loss is principally due to an increase in revenue, gross margin and a decrease in depreciation expense and loss on disposal of equipment during the period, offset by an increase in impairment expense. For the six months ended June 30, 2018 and 2017, the company recorded a net loss of $(49,047) and $(60,534), respectively.

The month-end exchange rate used to translate the USD denominated assets and liabilities to CAD was $1.3168 at June 30, 2018, and $1.2545 at December 31, 2017. The average exchange rate used to translate the USD denominated revenues and expenses for the three and six months ended June 30, 2018 and 2017, was $1.3129 and $1.2780, and $1.3410 and $1.3320, respectively.

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General and Administrative ("G&A") Expenses

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
G&A expenses	**3,149**	3,319	(5)	**5,530**	5,964	(7)
As a percentage of revenue	**13%**	22%	n/a	**12%**	22%	n/a

G&A expenses decreased to $3,149 for the three months ended June 30, 2018, from $3,319 compared to the same period in 2017 primarily due to a decrease in personnel cost and lower infrastructure costs as a result of the closure of the Canadian office and downsizing of the Houston office. These decreases were partially offset by increases in professional fees. G&A expense decreased to $5,530 for the six months ended June 30, 2018, from $5,964 compared to the same period in 2017 primarily due to a decrease in lower infrastructure cost and bad debt adjustments offset by an increase of professional fees.

Included with G&A for the three and six months ended June 30, 2018, are $1,154 and $1,212, respectively, of professional fees associated with the transaction contemplated under the Arrangement.

Depreciation Expense

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Depreciation	**7,872**	7,148	10	**13,097**	16,233	(19)

Depreciation for the three months ended June 30, 2018, increased compared to the same period in 2017 principally due to depreciation associated with the 850XE rigs and related spares and drill pipe.

Beginning in the second quarter of 2017, depreciation on rigs 6, 7 and 8 was ceased as the rigs were undergoing upgrades. Depreciation on rigs classified as assets held for sale also ceased in the second quarter of 2017. Depreciation for the six months ended June 30, 2018, decreased principally due to ceasing of depreciation for rigs 6, 7 and 8 and the assets held for sale in the first half of 2017.

Impairment of Assets Held for Sale

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Impairment of property and equipment and assets held for sale	**36,111**	25,983	39	**37,534**	25,983	44

At June 30, 2018, management reviewed property and equipment for indicators of impairment. Indicators of impairment were identified for the drilling services segment, as a result of the estimated fair value at June 30, 2018, of the purchase consideration offered by Akita as part of the Arrangement.

In the first quarter of 2018, the Company performed an evaluation of the indicators of impairment and recorded an impairment charge related to assets held for sale based on current market conditions of $1,423. In the second quarter of 2018, the Company recorded an additional impairment charge of $1,312 based on offers received for two rigs.

In the second quarter of 2017, the Company performed an evaluation of the indicators of impairment and recorded impairment charges related to the Series 200 and Series 300 rigs, related spares, other components and inventory classified as assets held for sale.

Management's Discussion and Analysis

Stock-Based Compensation

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Stock-based compensation	**487**	227	115	**697**	460	52

In connection with the Arrangement, all the outstanding Restricted Stock Units ("RSUs") will immediately vest upon the close of the transaction. In addition, any unvested options will also immediately vest. As the shareholders have approved the transaction, the Company has accelerated the related vesting and has recorded additional stock-based compensation expense of $347 during the three month period ended June 30, 2018.

Foreign Exchange Loss (Gain)

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Foreign exchange (gain) loss	**10**	313	(97)	**(160)**	422	n/a

Foreign exchange losses and gains result directly from the fluctuation in values of the USD relative to the CAD on the assets and liabilities denominated in USD. Operations in the United States are denominated primarily in USD.

(Gain) Loss on Disposal of Property and Equipment and Assets Held for Sale

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
(Gain) loss on disposal of equipment and assets held for sale	**(20)**	13,007	n/a	**(20)**	15,690	n/a

The decrease in loss on disposal of equipment and assets held for sale is the result of the retirement and derecognition of certain equipment associated with the upgrades of the three rigs in 2017.

Interest Expense

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Interest expense	**873**	—	n/a	**1,255**	—	n/a

Interest expense for the three and six months ended June 30, 2018, increased compared to the same period in 2017 principally as a result of interest associated with a working capital line of credit entered into in third quarter of 2017 and outstanding borrowings. The Company had no outstanding debt for the three months ended June 30, 2017. The effective interest on the Company's outstanding borrowings is approximately 17.5 percent and 14.5 percent for the three and six months ended June 30, 2018, respectively.

Loss Before Income Tax

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Loss before income tax	**(43,076)**	(48,271)	(11)	**(48,670)**	(60,437)	(20)

Management's Discussion and Analysis

Loss before income tax for the three and six months ended June 30, 2018, decreased compared to the same period in 2017 due to an increase in gross margin and a decrease in depreciation expense and loss on disposal of equipment during the period.

Income Tax

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Income tax (benefit) expense	**45**	95	n/a	**377**	97	n/a

The income tax expense for the three and six months ended June 30, 2018, relates primarily to withholding taxes in foreign jurisdictions.

Net Loss

	Three months ended			Six months ended		
	Jun 30, 2018	**Jun 30, 2017**	**% Change**	**Jun 30, 2018**	**Jun 30, 2017**	**% Change**
Net loss	**(43,121)**	(48,366)	(12)	**(49,047)**	(60,534)	(19)

The decrease in net loss for the three and six months ended June 30, 2018, compared to the respective periods in 2017 is due to an increase in revenue, gross margin and a decrease in depreciation expense and loss on disposal of equipment during the period.

Financial Position

The following table outlines significant changes in the consolidated statement of financial position from December 31, 2017 to June 30, 2018:

	Increase (Decrease)	Explanation
Cash and cash equivalents	**(9,403)**	The decrease is the result cash outlays for capital expenditures partially offset by cash received from financing activities.
Accounts receivable	**3,088**	The increase is the result of an increase in activity levels during the period.
Inventory	**1,658**	The increase is principally the result of purchases for start-up of operations in Ohio and Oklahoma related to the 850XE contracts.
Assets held for sale	**(3,954)**	The change in assets held for sale is the result of the sale of one rig in the second quarter and impairment charges recognized.
Property and equipment, net	**(12,970)**	The decrease is principally the result of the impairment charge recorded of $34,799 offset by capital additions during the period.
Accounts payable and accrued liabilities	**7,797**	The increase is the result of increased activity levels and remaining payments due on the 850XE upgrades.
Secured borrowings	**1,846**	The increase is the result of incremental borrowings during the period.
Debt	**8,103**	The increase is principally the result of additional borrowings of $9,000 during 2018, offset by monthly principal payments.
Shareholders' equity	**(39,512)**	The decrease is the result of a net loss partially offset by the positive impact of foreign currency translation.

Management's Discussion and Analysis

Financial Condition, Liquidity and Capital Resources

The charts below represent net debt as of June 30, 2018 and December 31, 2017.

	Jun 30, 2018	Dec 31, 2017
Total debt	**15,427**	7,324
Less: cash and cash equivalents	**6,047**	15,450
Net debt[1]	**9,380**	(8,126)

1 See "Non-GAAP Measures" below

Net debt as of June 30, 2018, was $9,380 reflecting an increase of approximately $17,500 from net debt of $(8,126) as of December 31, 2017. The increase in net debt was primarily due to an increase in total debt outstanding and a decrease in cash and cash equivalents.

Xtreme's cash requirements generally consist of working capital, capital expenditures and debt service. Xtreme's primary sources of liquidity are cash flows generated from operations and the various borrowing and secured borrowings described below. The Company actively manages the working capital and associated cash requirements and continually seek more effective use of cash.

Secured borrowings

On August 3, 2017, the Company signed a commitment with a financial institution that provides a working capital line of credit for up to $10,000 USD for a period of 18 months. The line is secured by the respective accounts receivables, inventory, and property and equipment, except for two rigs which secure the collateralized borrowings. As of June 30, 2018, approximately $6,265 has been drawn on this commitment. The Company recognized interest expense of $268 and $392 for the three and six months ended June 30, 2018, respectively.

Collateralized borrowing

On November 14, 2017, the Company entered into an agreement with a commercial lender to provide a $6,000 USD loan secured by one of the upgraded rigs. On March 1, 2018, the Company amended its agreement with the commercial lender to increase the amount of the loan by $3,000 USD under the collateralized debt agreement. The loan is payable in monthly installments of $228 USD ($300 CAD at June 30, 2018) over 45 months, with a balloon payment due at the end of the term. The borrowing has an implied interest rate of approximately 11.7 percent. In connection with the amendment, the Company incurred $113 of debt origination costs, which are amortized over the term of the debt using the effective interest rate method. The Company recognized interest expense of $342 and $592 for the three and six months ended June 30, 2018, resulting in an effective annual interest rate on borrowings of approximately 13.3 percent. There are no debt covenants related to this debt agreement. As of June 30, 2018, $10,265 was outstanding.

On March 28, 2018, the Company entered into an agreement with a commercial lender to provide a $4,000 USD loan secured by one of the upgraded rigs. The loan was funded on April 27, 2018, and is payable in monthly installments of $118 USD ($155 CAD at June 30, 2018) over 36 months, with a balloon payment due at the end of the term. The borrowing has an implied interest rate of approximately 17.6 percent. The Company recognized interest expense of $170 for the three months ended June 30, 2018. There are no debt covenants related to this debt agreement. As of June 30, 2018, $5,162 was outstanding.

Liquidity Risks

See "Business Risks and Uncertainties" below for a discussion of the Company's liquidity risks.

Management's Discussion and Analysis

Capital Expenditures and Commitments

	Three months ended		Six months ended	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Capital expenditures	**12,275**	21,118	**28,350**	39,836

Capital expenditures for the three months and the six months ended June 30, 2018, decreased compared to the same period in 2017 primarily due to the upgrades of the rigs nearing completion.

	Jun 30, 2018	**Dec 31, 2017**	**% Change**
Commitments	**1,809**	10,597	(83)

Commitments as of June 30, 2018, decreased from the year ended December 31, 2017, primarily due the completion of the rigs 850XE toward the end of the second quarter.

Contractual obligations

The table below illustrates various contractual obligations which Xtreme expects to pay.

Contractual obligations	**Total**	**Less than 1 Year**	**1 – 3 Years**	**4 –5 Years**	**After 5 Years**
Accounts payable and accrued liabilities	**20,011**	**20,011**	**-**	**-**	**-**
Secured borrowings	**6,265**	**6,265**	**-**	**-**	**-**
Debt	**15,427**	**3,670**	**11,757**	**-**	**-**
Interest	**4,146**	**1,875**	**2,271**	**-**	**-**
Finance leases	**600**	**128**	**472**	**-**	**-**
Operating leases	**3,617**	**1,030**	**2,119**	**468**	**-**
Total contractual obligations	**50,066**	**32,979**	**16,619**	**468**	**-**

Segmented Information

The Company determines its operating segments based on internal information regularly reviewed by the chief operating decision maker to allocate resources and assess performance. For the three and six months ended June 30, 2017, the Company was engaged in two geographic areas - Canada and the US - with one operating segment, which is drilling services. The Company ceased operations in Canada during the third quarter of 2017. For the three and six months ended June 30, 2018, the Company was engaged in one geographic area - the US - with one operating segment, which is drilling services.

Management's Discussion and Analysis

Revenue and assets by geographic area for operations

Three months ended June 30, 2018	**United States**	**Canada**	**Other international**	**Total**
Revenue	**23,368**	**—**	**—**	**23,368**
Total assets	**215,553**	**1,792**	**12,392**	**229,737**
Three months ended June 30, 2017	**United States**	**Canada**	**Other international**	**Total**
Revenue	14,591	550	—	15,141
Total assets	262,858	8,928	1,012	272,798
Six months ended June 30, 2018	**United States**	**Canada**	**Other international**	**Total**
Revenue	**44,689**	**—**	**—**	**44,689**
Total assets	**215,553**	**1,792**	**12,392**	**229,737**
Six months ended June 30, 2017	**United States**	**Canada**	**Other international**	**Total**
Revenue	26,054	1,466	—	27,520
Total assets	262,858	8,928	1,012	272,798

Disaggregated revenue

The following table includes a reconciliation of disaggregated revenue by the term of the contract. Long term contracts extend beyond 12 months, while short-term and well-to-well contract are less than 12 months. Mobilization revenue represents revenue resulting from the mobilization of rigs to location.

	Three months ended		**Six months ended**	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Long-term contracts	**7,400**	550	**9,785**	1,466
Short-term/well-to-well contracts	**15,968**	14,591	**34,137**	26,054
Mobilization	**—**	—	**767**	—
Total revenue	**23,368**	15,141	**44,689**	27,520

Outstanding Common Shares

	Jun 30, 2018	**Dec 31, 2017**
Balance, beginning of period	**74,982,894**	85,091,367
Employee options exercised	**—**	100,000
Restricted stock units vested	**—**	208,193
Purchase of common shares	**—**	(10,416,666)
Balance, end of period	**74,982,894**	74,982,894

Share capital on August 14, 2018, was $298,262 and 74,982,894 common shares were issued and outstanding. At June 30, 2018, Xtreme had outstanding options to purchase approximately 766,000 common shares (December 31, 2017 – 616,000), at a weighted average exercise price of $2.47 per share (December 31, 2017 – $2.80).

On April 3, 2017, the Company announced its intent to undertake a substantial issuer bid to purchase up to an aggregate of $25,000 in Xtreme shares through a Dutch Auction tender process (the "Substantial Issuer Bid"). The Substantial Issuer Bid demonstrated Xtreme's confidence in the strength of the business and commitment to delivering shareholder value through the return of capital and enhancing liquidity to shareholders that elect to tender their Xtreme shares.

Management's Discussion and Analysis

The Board of Directors appointed an independent committee of the Directors to set the price and details around the Proposed Issuer Bid.

In June 2017, the Company completed its substantial issuer bid to purchase up to an aggregate $25,000 in Xtreme shares through a Dutch auction tender process. The Company took up and paid for 10,416,666 shares at a price of $2.40 per share for an aggregate cost of approximately $25,000 excluding fees and expenses related to the offer. The shares were subsequently canceled.

The Company's Incentive and Retention Plan ("the Incentive Plan") is designed to provide the Company's directors, officers and key employees and consultants with an opportunity to receive cash and/or equity-based incentives associated with common shares of the Company and to benefit from the appreciation of the common shares. Under the incentive plan, restricted stock units ("RSUs") granted to eligible individuals vest annually. Vested restricted stock units may be settled in cash or equity, at the discretion of the Company, at a value determined by the fair market value of the common shares at the vesting date. The fair value of the services received in exchange for the grant of the RSUs is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted including any market performance conditions, excluding the impact of any service and non-market performance vesting conditions, and including the impact of any non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

	Jun 30, 2018	Dec 31, 2017
RSUs outstanding, beginning of period	**548,261**	634,568
Granted	**—**	131,886
Vested	**—**	(208,193)
Forfeited	**(31,408)**	(10,000)
RSUs outstanding, end of period	**516,853**	548,261

In connection with the Arrangement, all the outstanding RSUs will immediately vest upon the close of the transaction. In addition, any unvested options will also immediately vest. As the shareholders have approved the transaction, the Company has accelerated the related vesting and has recorded additional stock-based compensation expense of $347 during the three month period ended June 30, 2018.

Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal control over financial reporting during the three and six months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Non-GAAP Measures

This MD&A contains references to certain supplementary financial measures and associated per share data that do not have any standardized meaning prescribed under IFRS and, therefore, are considered non-GAAP measures. These measures have been described and presented to provide shareholders and potential investors with additional information regarding the Company's financial results, liquidity and ability to generate funds to finance its operations.

These financial measures are computed on a consistent basis for each reporting period and include, Operating Days, Rig Utilization, Gross Margin, Adjusted EBITDA, and Net Debt. These measures may not be comparable to similar measures presented by other entities and are further explained as follows.

Management's Discussion and Analysis

Operating days

Operating days represent the total of all drilling, moving, standby and other revenue days for each drilling rig in the fleet during the period. Management uses operating days to measure rig utilization which quantifies the revenue generating activity of the fleet of drilling rigs.

Rig utilization

Xtreme calculates rig utilization as total operating days for all rigs divided by total days available for service for all rigs. During 2017 and through the second quarter of 2018, rigs 6, 7, and 8 were not available for service and excluded from the calculation of utilization, until such time as the rigs were available for service. The rigs classified as assets held for sale are also excluded from the calculation of utilization.

Gross margin

Gross margin represents revenue less operating expenses. Management believes gross margin is a useful supplemental measure of the financial performance of Xtreme's principal business activities before considering how activities are financed or taxed, as well as other expenses not closely associated with activity levels. The following is the calculation of gross margin.

Gross margin

	Three months ended		Six months ended	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Revenue	**23,368**	15,141	**44,689**	27,520
Less: Operating expenses	**17,965**	13,452	**35,435**	23,264
Gross margin	**5,403**	1,689	**9,254**	4,256
Gross margin as a percentage of revenue	**23%**	11%	**21%**	15%

Adjusted EBITDA

Adjusted EBITDA is defined as net income (loss) before interest, income taxes, depreciation and amortization, asset write-offs / gains (losses) on disposal, share-based compensation, foreign exchange, and impairment of property and equipment. Adjusted EBITDA also excludes non-recurring items, such as termination revenue earned under customer contracts. Management believes that in addition to net income (loss), Adjusted EBITDA is a useful supplemental measure as it provides an indication of the results generated by the Company's core 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, how the results are impacted by the accounting standards associated with the Company's share-based compensation plans, and excluding the impact of non-cash impairment, depreciation and amortization charges.

Xtreme believes that this measure is useful to investors and analysts in allowing for greater transparency of operating performance and makes it easier to compare results with those of other companies within the industry. Adjusted EBITDA should not be considered (a) in isolation of, or as a substitute for, net income (loss), (b) as an indication of cash flows from operating activities or (c) as a measure of liquidity. In addition, Adjusted EBITDA does not represent funds available for discretionary use. Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

Management's Discussion and Analysis

Adjusted EBITDA from operations

	Three months ended		Six months ended	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Net loss	**(43,121)**	(48,366)	**(49,047)**	(60,534)
Interest expense	**873**	—	**1,255**	—
Depreciation	**7,872**	7,148	**13,097**	16,233
Tax expense	**45**	95	**377**	97
Total	**(34,331)**	(41,123)	**(34,318)**	(44,204)
Non-cash items:				
Impairment of property and equipment and assets held for sale	**36,111**	25,983	**37,534**	25,983
Stock-based compensation	**487**	227	**697**	460
Foreign exchange (gain) loss	**10**	313	**(160)**	422
(Gain) loss on disposal of equipment	**(20)**	13,007	**(20)**	15,690
Total non-cash items	**36,588**	39,530	**38,051**	42,555
Non-recurring items:				
Other income	**(3)**	(37)	**(9)**	(59)
Costs related to the plan of Arrangement	**1,155**	—	**1,212**	—
Total non-recurring items	**1,152**	(37)	**1,203**	(59)
Adjusted EBITDA	**3,409**	(1,630)	**4,936**	(1,708)

Adjusted EBITDA from operations increased to $3,409 for the three months ended June 30, 2018, from $(1,630) for the three months ended June 30, 2017. Adjusted EBITDA from operations increased to $4,936 for the six months ended June 30, 2018, from $(1,708) for the six months ended June 30, 2017. The increase in Adjusted EBITDA was primarily due to an increase in gross margin during the period.

Net debt

Net debt is a measurement used by management and the investment community which is composed of total debt, including amounts outstanding under the operating line, less cash and cash equivalents.

Critical Accounting Estimates and Judgments

The preparation of interim and annual financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

Critical accounting judgments

Significant judgments are used in the application of accounting policies related to the following material amounts recognized in the consolidated financial statements:

Management's Discussion and Analysis

Cash generating units

Assets are grouped into cash generating units ("CGU") for the purpose of impairment testing. A CGU is defined as the lower grouping of integrated assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretation with respect to interchangeability of rig characteristics and technology, geographic proximity, and other economic factors, including price and contract risk, operational risk, development costs and tax regimes.

The Company's method of aggregating its assets for identifying the CGU has changed since the previous estimate of recoverable amount. Previously, assets within a geographic region were aggregated together to form a CGU. As a result of the disposal of the XSR business in 2016, centralization of operations into the US and changes in drilling technology, the Company now aggregates its assets by fleet series group to form the CGU.

Critical accounting estimates

Xtreme uses significant estimates in the determination of a number of account balances. Therefore, the estimates have a significant risk of causing a material adjustment to the carrying amounts of the underlying assets and liabilities within the next fiscal year. Material accounts subject to significant estimates are as follows:

Impairment of long-lived assets and assets held for sale

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. Recoverable amount is defined as the higher of an asset's fair value less costs of disposal and its value in use. Where the carrying value exceeds the recoverable amount the asset is impaired, and an impairment loss is required to be recognized.

Value in use is calculated using a discounted future cash flow model which requires management to make estimates of the future net cash flows to be generated from drilling rig and service rig activities. These estimates are dependent upon future rig utilization rates, rig rates, and other costs of operating drilling and coil service rigs. In calculating fair value less costs of disposal, management relies on third party valuation reports. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses and cash flows at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside management's control.

Depreciation

Property and equipment represents approximately 84 percent of the total assets of the Company. The carrying value of these assets is based on the Company's property and equipment accounting policies which incorporates estimates, assumptions and judgments relative to capitalized costs, useful lives and salvage values of the rigs.

Depreciation of the Company's property and equipment incorporates estimates of useful lives and residual values for the rig components and related equipment, including spares, which are determined by applying assumptions and judgments that reflect both the historical experience and expectations regarding future operations, utilization, recoverability and asset performance. These estimates may change as more experience is obtained or as general market conditions change, thereby impacting the carrying value of the Company's property and equipment. Useful lives are difficult to estimate due to a variety of factors, including, but not limited to, technological advances that impact the methods of oil and gas exploration and recovery, changes in market or economic conditions, changes in laws or regulations, obsolescence, access to capital, and utilization. The Company evaluates the remaining useful lives of the rig components and related equipment when certain events occur that directly impact the assessment of remaining useful lives, including changes in operating conditions, functional capability and market and other economic factors.

Fair value of financial instruments

The Company's financial instruments included in the interim consolidated statements of financial position are comprised of cash and cash equivalents, accounts receivable, current liabilities, bank indebtedness and long-term debt. The fair values of financial instruments included in the interim consolidated statement of financial positions approximate their carrying amounts due to the short-term maturity of those instruments. Long-term debt is carried at amortized cost using the effective interest method of amortization.

Management's Discussion and Analysis

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Estimates of the Company's future taxable income have been considered in assessing the utilization of available tax losses. The Company's business is complex, and the calculation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations.

Stock-based compensation

The fair value of options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends. The fair value of restricted stock units and performance stock units is recognized based on the market value of the Company's common shares underlying these compensation programs.

Uncertain tax positions

The Company reviews the adequacy of provisions for taxes at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities in the various jurisdictions in which the Company operates. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Critical Accounting Policies Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Costs related to major inspection and overhaul are recognized as part of the carrying amount of property and equipment if they meet the asset recognition criteria. The major overhaul component will then be depreciated on a straight-line basis over the useful life, which is estimated to be over the period to the next overhaul. Any remaining costs will be derecognized when the next overhaul is performed. Costs of the day-to-day servicing of property and equipment are expensed as incurred.

The cost of self-constructed assets includes the cost of materials, direct labor, and any other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. The carrying amount of a replaced part is derecognized when replaced. Residual values, method of depreciation and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the interim consolidated statement of loss.

Depreciation

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life of between 3 and 15 years. Drilling equipment uses an estimated residual value between zero and 20 percent of historical cost. The Company believes the straight-line method of depreciation is the most appropriate basis for allocating the depreciable value over its useful life.

Inventory

Inventory is composed of consumables and parts and is recorded at the lower of cost and net realizable value determined on a specific-item basis. The cost of inventory is comprised of the purchase price paid to a third party plus applicable duties, freight and shipping costs. Net realizable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

Management's Discussion and Analysis

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied or services rendered. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as specified below.

The Company's services are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based on daily, hourly, or job rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services are rendered and only when collectability is reasonably assured. Drilling operations revenue is recognized in the accounting period in which the services are rendered, with reference to the stage of completion of the specific transaction and assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Early termination revenue occurs when a customer has decided to negotiate the termination of an existing drilling contract before the expiration of the original terms of the contract. Early termination revenue is recognized when an amount has been agreed upon by both parties, collection is probable, and the Company does not have any further services to render in order to earn the estimated revenue. These amounts are generally recorded as lump sum payments when a contract is canceled. Some early termination contracts include a clause that would nullify a portion of the early termination revenue if the rig was re-contracted to a new customer. In these cases, the Company recognizes the early termination amounts on a monthly basis until the contract is complete or the rig is re-contracted, and the early termination contract is nullified. Amounts collected would be recorded in deferred revenue initially and amortized into revenue per an appropriate recognition method.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Board of Directors of Xtreme.

New and Amended Standards Adopted by the Company

Revenue

The Company adopted the following new or amended standards.

The Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), on January 1, 2018, using the full retrospective transition method.

The comparative figures in the Company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2017, were not required to be restated as a result of the adoption of IFRS 15.

The Company enters into contracts to provide drilling services to customers. These contracts contain both lease and non-lease revenue components, representing drilling rig rental income and drilling services revenue, respectively. Drilling rig rental income is accounted for under IAS 17, *Leases.* Revenue from drilling services is accounted for under IFRS 15.

Determining whether the services provided are considered distinct performance obligations can require significant judgment. Revenue is allocated to the respective performance obligations based on relative transaction prices and is recognized as services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the services delivered.

Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change. Revenue from drilling services is recognized as services are delivered to the customer.

Management's Discussion and Analysis

Financial Instruments

The Company adopted IFRS 9, *Financial Instruments* ("IFRS 9"), on January 1, 2018.

IFRS 9 replaces the provisions of IAS 39, *Financial Instruments: Recognition and Measurement,* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 resulted in no impact on the amounts recognized in the financial statements.

Classification

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. At June 30, 2018, the Company's only financial assets are trade receivables and contract assets relating to unbilled work in progress.

Measurement

Trade receivables represent assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest. As such, the Company's trade receivables continue to be classified and measured at amortized cost. Interest income associated with trade receivables 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 in other gains (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Impairment

From January 1, 2018, the Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income ("FVTOCI"). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Business Risks and Uncertainties

The Company derives all its revenue from companies in the oil and gas production industry, historically an industry significantly impacted by the cyclical nature of the industry and the volatility of oil and gas prices. As a result, a number of risks and uncertainties affect Xtreme's operations. Although the Company takes action to mitigate these risks where possible, many risks are beyond management's control. The business risks and uncertainties of the interim consolidated financial statements are consistent with those of the previous year. The following discussion does not constitute an exhaustive list of all possible risks.

Management’s Discussion and Analysis

Liquidity risk

The impact on capital markets resulting from investor uncertainty related to the North American economy can constrain access to capital for Xtreme’s customers in the crude oil and natural gas exploration, development and production sector, and, subsequently, the contract services sector. Xtreme’s ability to continue its drilling activities and any future activities, and to continue to execute its operating and growth plan, will depend in part on its ability to continue to manage its existing working capital, generate drilling revenue and / or to obtain suitable financing. The Company had consolidated working capital of approximately $5,200 as of June 30, 2018. The Company intends to fund its plan of operations from its existing working capital, current drilling operations and obtaining additional financing as needed.

It is possible that the Company, along with other drilling companies, may experience restricted access to capital, credit facilities and equity markets, and may face increased borrowing costs, if the lending capacity of financial institutions continues to fluctuate with the global economy resulting in diminished capacity and higher risk premiums. Any adverse conditions in capital markets could have a material adverse effect on Xtreme’s business, financial condition, results of operations and cash flows and, therefore, on the trading price of the common shares.

The Company will continue to review and explore strategic options for financing as needed. To the extent internal cash resources would be exhausted and external sources of capital become limited or unavailable, or available on unacceptable terms, the Company's ability to make capital investments and to maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and, consequently, results of operations may be materially and adversely affected.

There can be no assurance that additional financing will be available to Xtreme when needed or on acceptable terms. Xtreme’s inability to access financing to support ongoing operations or to fund capital expenditures or acquisitions could limit Xtreme’s growth and may have a material adverse effect. The failure of the Company to meet its ongoing obligations and on a timely basis could result in a failure to execute under current customer contracts and agreements and realization of assets and settlement of liabilities in other than the normal course of business may be at amounts significantly different than those included in the Company’s annual information form for the year ended December 31, 2017.

Credit risk

Credit risk is managed on a consolidated basis, except for credit risk relating to accounts receivable balances. The Company is responsible for managing and analyzing the credit risk for each new customer before standard payment and delivery terms and conditions are offered. Credit risk arises from deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. For deposits, the Company only deals with independently rated institutions that have a minimum rating of ‘A’. Most of the Company’s customers are not independently rated, therefore the quality of the customer is considered by taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored. No credit limits were exceeded during the reporting period. At June 30, 2018, and December 31, 2017, the Company had no provision for doubtful accounts. The maximum exposure to credit risk for deposits approximates the amount recognized on the statement of financial position. The Company does not hold any collateral as security.

The following table summarizes the Xtreme’s accounts receivable amounts as of June 30, 2018, and December 31, 2017.

Accounts receivable	**Jun 30, 2018**	**Dec 31, 2017**
Less than 90 days	**15,093**	11,657
Greater than 90 days and less than 180 days	**76**	414
Greater than 180 days	**—**	10
	15,169	12,081
Provision for doubtful accounts	**—**	—
Total accounts receivable	**15,169**	12,081

Management's Discussion and Analysis

In 2017, the Company signed a commitment with a financial institution that provides a working capital line of credit secured by accounts receivable, inventory, and property and equipment. The commitment provides funding to the Company based on the accounts receivable factored with the financial institution. The financial institution has the right to require the Company to repurchase any factored accounts receivable account that remains unpaid beyond ninety days from the original invoice date. The financial institution also has the right to review the credit rating of the Company's customers and revise its credit rating of the customer. This revised credit rating may have adverse impact on the available invoices to be used as collateral. The Company's management monitors the outstanding invoices and credit worthiness of the customers and believes the risk associated is minimal.

Foreign exchange

Foreign exchange volatility may give rise to gains or losses which have an effect on Xtreme's financial results. Xtreme currently reports all activities in CAD. As a result, fluctuations in the value of the USD relative to the CAD give rise to fluctuations in reported revenue, operating expenses, general and administrative expenses, and other costs. Historically, Xtreme has also been exposed to risk from fluctuations in foreign currency exchange rates in the United States, Saudi Arabia and India. As a result, Xtreme's financial condition, results of operations and cash flows are impacted by changes in exchange rates between Canadian and United States dollars. For the three months ended June 30, 2018, a one percent change in the month-end exchange rate would have changed the net income before tax by approximately $8. Month-end exchange rates used to translate the USD-denominated assets and liabilities to CAD were $1.3168 at June 30, 2018, $1.2545 at December 31, 2017, $1.2480 at September 30, 2017, $1.2977 at June 30, 2017, and $1.3299 at March 31, 2017.

Monetary and non-monetary assets and liabilities denominated in foreign currencies are translated at the current rate as of the balance sheet date and any realized foreign exchange gains or losses are included in income, except for unrealized gains and losses in self-sustaining foreign subsidiaries, which are recorded in other comprehensive income. The Company does not currently utilize derivative instruments to manage its exposure to foreign currency rate fluctuations. Presently, a one percent change in the foreign currency exchange rate would result in a change in other comprehensive income of approximately $2,300.

Accounting Standards and Amendments Issued but Not Yet Adopted

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. These standards have not been adopted which may impact the Company in the future:

IFRS 16, *Leases* ("IFRS 16"), has been issued as a new standard on leases and will supersede International Accounting Standard ("IAS") 17, *Leases.* IFRS 16 is effective for annual periods beginning on or after January 1, 2019. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Additional Information

Information relating to Xtreme is available on SEDAR at www.sedar.com. To obtain copies of published corporate information, contact the Corporate Secretary at Xtreme Drilling Corp., 9811 Katy Freeway, Suite 225, Houston, TX, 77024 (telephone 1-281-994-4600), visit Xtreme's website www.xtremedrillingcorp.com or ir@xdccorp.com.