Xtreme Drilling Corp.

Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	6,047	15,450
Accounts receivable *(Note 4)*	15,169	12,081
Other receivables *(Note 5)*	1,803	1,782
Inventory *(Note 6)*	3,361	1,703
Assets held for sale *(Note 8)*	7,901	—
Prepaid expenses and other	1,134	1,140
	35,415	32,156
Assets held for sale *(Note 8)*	1,317	13,172
Tax recoverable	519	789
Property and equipment *(Note 7)*	192,486	205,456
Total Assets	229,737	251,573
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	20,011	12,214
Current tax payable	181	219
Secured borrowings *(Note 4)*	6,265	4,419
Current portion of finance leases *(Note 12)*	128	118
Current portion of long-term debt *(Note 9)*	3,670	1,569
	30,255	18,539
Finance leases *(Note 12)*	472	514
Long-term debt *(Note 9)*	11,757	5,755
Total Liabilities	42,484	24,808
Shareholders’ equity		
Share capital (Note 10)	298,262	298,262
Contributed surplus	30,853	30,156
Accumulated deficit	(229,486)	(180,439)
Foreign currency translation reserve	87,624	78,786
Total Shareholders’ Equity	187,253	226,765
Total Liabilities and Shareholders’ Equity	229,737	251,573

Contingencies and commitments *(Note 12)*

The accompanying notes are an integral part of the interim consolidated financial statements.

Xtreme Drilling Corp.
Interim Consolidated Statements of Loss
For the three and six months ended June 30, 2018 and 2017
(in thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Revenue *(Note 11)*	**23,368**	15,141	**44,689**	27,520
Expenses				
Operating expenses	**17,965**	13,452	**35,435**	23,264
General and administrative expenses	**3,149**	3,319	**5,530**	5,964
Depreciation expense	**7,872**	7,148	**13,097**	16,233
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 loss (gain)	**10**	313	**(160)**	422
(Gain) loss on disposal of property and equipment and assets held for sale	**(20)**	13,007	**(20)**	15,690
Other income	**(3)**	(37)	**(9)**	(59)
Interest expense	**873**	—	**1,255**	—
Loss before income tax	**(43,076)**	(48,271)	**(48,670)**	(60,437)
Tax expense				
Current expense	**45**	95	**377**	97
Total tax expense	**45**	95	**377**	97
Net loss	**(43,121)**	(48,366)	**(49,047)**	(60,534)
Net loss per common share				
– basic	**(0.58)**	(0.61)	**(0.65)**	(0.77)
– diluted	**(0.58)**	(0.61)	**(0.65)**	(0.77)
Weighted average number of common shares *(Note 10)*				
– basic	**74,982,894**	79,067,648	**74,982,894**	79,078,541
– diluted	**74,982,894**	79,067,648	**74,982,894**	79,078,541

The accompanying notes are an integral part of the interim consolidated financial statements.

Xtreme Drilling Corp.
Interim Consolidated Statements of Comprehensive Loss
For the three and six months ended June 2018 and 2017
(in thousands of Canadian dollars)

	For the three months ended		For the 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)
Other comprehensive gain (loss)				
Items that may be subsequently reclassified to profit or loss:				
Unrealized gain (loss) on translating financial statements of foreign operations	**4,207**	(3,980)	**8,838**	(7,329)
Comprehensive loss	**(38,914)**	(52,346)	**(40,209)**	(67,863)

The accompanying notes are an integral part of the interim consolidated financial statements.

Xtreme Drilling Corp.
Interim Consolidated Statements of Changes in Equity
For the six months ended June 30, 2018 and 2017
(in thousands of Canadian dollars)

	Share capital	Contributed surplus	Accumulated deficit	Foreign currency translation reserve	Total Shareholders' Equity
Balance at January 1, 2017	**339,448**	**13,387**	**(101,670)**	**94,306**	**345,471**
Net loss	—	—	(60,534)	—	(60,534)
Other comprehensive loss:					
Currency translation differences	—	—	—	(7,329)	(7,329)
Total comprehensive loss	—	—	(60,534)	(7,329)	(67,863)
Employee share option scheme:					
Value of employee services	—	460	—	—	460
Transfer from share option	106	(106)	—	—	—
Repurchase of shares	(41,634)	16,557	—	—	(25,077)
Proceeds from shares issued	28	—	—	—	28
Total transactions with owners	(41,500)	16,911	—	—	(24,589)
Balance at June 30, 2017	**297,948**	**30,298**	**(162,204)**	**86,977**	**253,019**
Balance at January 1, 2018	**298,262**	**30,156**	**(180,439)**	**78,786**	**226,765**
Net loss	**—**	**—**	**(49,047)**	**—**	**(49,047)**
Other comprehensive gain:					
Currency translation differences	**—**	**—**	**—**	**8,838**	**8,838**
Total comprehensive loss	—	—	**(49,047)**	**8,838**	**(40,209)**
Employee share option scheme:					
Value of employee services	**—**	**697**	**—**	**—**	**697**
Total transactions with owners	**—**	**697**	—	—	**697**
Balance at June 30, 2018	**298,262**	**30,853**	**(229,486)**	**87,624**	**187,253**

The accompanying notes are an integral part of the interim consolidated financial statements.

Xtreme Drilling Corp.
Interim Consolidated Statements of Cash Flows
For the six months ended June 2018 and 2017
(in thousands of Canadian dollars)

	2018	2017
Cash flow provided by:		
Operating activities		
Net loss	**(49,047)**	(60,534)
Items not affecting cash:		
Depreciation expense	**13,097**	16,233
Impairment of property and equipment and assets held for sale	**37,534**	25,983
Stock-based compensation	**697**	460
(Gain) loss on disposal of property and equipment and assets held for sale	**(20)**	15,690
Provision for doubtful accounts	**—**	199
Interest expense	**1,190**	—
Interest paid	**(1,118)**	—
Amortization of debt issuance costs	**65**	—
Unrealized foreign exchange (gain) loss	**422**	(104)
Current tax expense	**377**	97
Taxes paid	**(140)**	(2,880)
Operating cash flows from continuing operations	**3,057**	(4,856)
Operating cash flows from discontinued operations	**—**	(446)
Changes in items of non-cash working capital *(See Note 14)*	**3,502**	(5,997)
Net cash provided by (used in) operating activities	**6,559**	(11,299)
Financing activities		
Drawdowns of secured borrowings, net	**1,503**	—
Proceeds from long-term debt	**9,000**	—
Repayment of long-term debt	**(1,374)**	—
Debt issuance cost	**(113)**	—
Payments of financing lease	**(18)**	—
Purchase of common shares (Note 10)	**—**	(25,076)
Proceeds from exercise of stock options	**—**	28
Net cash generated from (used in) financing activities	**8,998**	(25,048)
Investing activities		
Proceeds from sale of equipment and assets held for sale, net	**3,260**	—
Capital expenditures	**(28,350)**	(39,836)
Changes in items of non-cash working capital related to investing items	**(147)**	4,970
Net cash used in investing activities	**(25,237)**	(34,866)
Effect of exchange rate changes on cash and cash equivalents	**277**	(976)
Decrease in cash and cash equivalents	**(9,403)**	(72,189)
Cash and cash equivalents - beginning of period	**15,450**	115,240
Cash and cash equivalents - end of period	**6,047**	43,051

The accompanying notes are an integral part of the interim consolidated financial statements.

Note 1. Structure of the Corporation

Organization

Xtreme Drilling Corp. ("Xtreme" or the "Company"), 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 and the Company also maintains a headquarters in Houston, Texas.

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.

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.

Court 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.

Operations

Xtreme designs, assembles, and operates a fleet of onshore high specification drilling rigs featuring leading-edge proprietary technology including modular transportation systems and continuous integration of in-house advances in methodologies. Xtreme operates the drilling services ("XDR") service line under contracts with oil and natural gas exploration and production companies and integrated oilfield service providers in the United States of America ("United States" or "US"). The Company is listed on the Toronto Stock Exchange under the symbol "XDC".

Note 2. Basis of Preparation

The interim consolidated financial statements are prepared according to International Accounting Standard ("IAS") 34, *Interim Financial Reporting,* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. They do not include all the disclosures required in annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017, prepared in accordance with IFRS.

Note 3. Summary of Significant Accounting Policies

The interim consolidated financial statements are prepared following the same accounting policies used in the Company's most recent annual financial statements, except for income taxes, and the adoption of new accounting standards for Revenue and Financial instruments, which are accounted for as disclosed below.

Certain amounts in the prior year have been reclassified to conform to the current year's presentation.

Use of Estimates and Judgment

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the financial statements are consistent with those described in Note 4 to the Company's consolidated financial statements for the year ended December 31, 2017, except for income tax.

Income tax

Income tax expense for the interim period is based on an estimated annual average effective income tax rate.

Revenue

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.

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 Other Comprehensive Income ("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.

(in thousands of Canadian dollars, except where otherwise stated)

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 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.

Seasonality of Operations

Areas of the US where Xtreme has drilling operations are infrequently subject to weather constraints like hurricanes in the southern states but may experience operational constraints such as blizzards and other extreme winter conditions in the Rocky Mountain region in addition to operational restrictions for a variety of other reasons. Some areas are subject to environmental orders which include specific well leases and can prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protection. These restrictions may also affect activity levels and operating results.

Note 4. Accounts Receivable

Accounts receivable	June 30, 2018	December 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

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 debt (see Note 9). Interest on the advances are at Prime (5.0 percent at June 30, 2018) plus 1.5 percent and amounts outstanding are subject to a monthly management fee of 0.5 percent. The Company paid origination fees of $19 for the line of credit, which is being amortized over the term of the commitment. As of June 30, 2018, $6,265 has been drawn on this commitment ($4,419 at December 31, 2017). The Company recognized interest expense of $268 and $392 for the three and six months ending June 30, 2018, respectively under this arrangement.

(in thousands of Canadian dollars, except where otherwise stated)

Note 5. Other receivables

Other receivables	**June 30, 2018**	**December 31, 2017**
Restricted cash	**1,318**	1,318
Value added tax receivable	**289**	293
Goods and services tax receivable	**196**	171
Total other receivables	**1,803**	1,782

At June 30, 2018, the Company had $1,318 in restricted cash held with a financial institution as security for two outstanding letters of credit related to the importation of the coil servicing units in Saudi Arabia ($1,318 at December 31, 2017). The restrictions are in the process of being removed as the Company has met its obligations under the terms of the XSR sale agreement with Schlumberger.

Note 6. Inventory

Inventory	**June 30, 2018**	**December 31, 2017**
Opening balance	**1,703**	2,810
Purchases	**3,105**	2,280
Consumption	**(1,531)**	(1,202)
Transfer to assets held for sale	**—**	(2,000)
Unrealized gain (loss) on foreign currency translation	**84**	(185)
Closing balance	**3,361**	1,703

(in thousands of Canadian dollars, except where otherwise stated)

Note 7. Property and Equipment

	Drilling and servicing equipment	Land, property and leasehold Improvements	Capital work in progress	Total
At January 1, 2017				
Cost	479,088	6,308	5,736	491,132
Accumulated depreciation	(199,085)	(1,002)	—	(200,087)
Accumulated impairment	(50,389)	—	—	(50,389)
Net book value	229,614	5,306	5,736	240,656
Year Ended December 31, 2017				
Opening net book value	229,614	5,306	5,736	240,656
Additions	641	—	75,647	76,288
Sale of assets and disposal of equipment	(24,194)	—	—	(24,194)
Transfer of assets held for sale	(25,163)	—	—	(25,163)
Transfers	14,617	241	(14,858)	—
Depreciation expense	(26,168)	(1,320)	—	(27,488)
Impairment expense	(23,983)	—	—	(23,983)
Unrealized loss on foreign currency translations	(9,912)	(371)	(377)	(10,660)
Closing net book value	135,452	3,856	66,148	205,456
At December 31, 2017				
Cost	236,263	4,819	66,148	307,230
Accumulated depreciation	(87,920)	(963)	—	(88,883)
Accumulated impairment	(12,891)	—	—	(12,891)
Net book value	135,452	3,856	66,148	205,456
Period Ended June 30, 2018				
Opening net book value	**135,452**	**3,856**	**66,148**	**205,456**
Additions	**544**	**—**	**27,806**	**28,350**
Sale of assets and disposal of equipment	**—**	**(1,421)**	**—**	**(1,421)**
Transfers	**91,429**	**—**	**(91,429)**	**—**
Depreciation expense	**(12,977)**	**(120)**	**—**	**(13,097)**
Impairment expense	**(34,799)**	**—**	**—**	**(34,799)**
Unrealized gain on foreign currency translations	**4,536**	**181**	**3,280**	**7,997**
Closing net book value	**184,185**	**2,496**	**5,805**	**192,486**
At June 30, 2018				
Cost	**342,001**	**2,932**	**5,805**	**350,738**
Accumulated depreciation	**(106,957)**	**(436)**	**—**	**(107,393)**
Accumulated impairment	**(50,859)**	**—**	**—**	**(50,859)**
Net book value	**184,185**	**2,496**	**5,805**	**192,486**

Included in drilling and servicing equipment is $580, net of accumulated depreciation, pledged as security in relation to two finance leases (see Note 12).

Impairment of long-lived assets

Year ended 2017

In June 2017, the Company reclassified $21,149 of drilling and service equipment to assets held for sale on the accompanying interim consolidated statements of financial position. The plan to dispose of the assets was an indicator of impairment under IFRS and, as such, an impairment test was completed prior to transfer of the assets, resulting in an impairment loss of $23,983. Factors considered with respect to the estimated recoverable amount included the ability to actively market the rigs, which entailed an analysis of the Company's market strategy, the age of the rigs and related significant components as well as size and capacity of the rigs and ancillary equipment. Changes in drilling technology were also considered, as drilling requirements have changed to high efficiency, high-capacity units capable of drilling deeper and longer depths. The above adversely impacted the estimated recoverable amounts of the drilling and service equipment and related components.

The recoverable amount of the drilling and service equipment transferred to assets held for sale was determined using fair value less cost of disposal (" FVLCD"). FVLCD was an estimate by management established with reference to comparable transactions in the market. For purposes of the analysis, costs of disposal were taken into consideration, including cost of commissions, advertising and promotion, sale management and showing, and moving, storage and upkeep. The fair value of the assets held for sale was categorized as Level 3 fair value based on the unobservable inputs used.

For the three and six months ended June 30, 2018

At June 30, 2018, management reviewed property and equipment for indicators of impairment. Indicators of impairment were identified for the drilling rigs and equipment as a result of the estimated fair value at June 30, 2018, of the purchase consideration offered by AKITA as part of the Arrangement (see Note 1).

The recoverable amount of the CGU was determined based on the higher of FVLCD or value-in-use ("VIU"). FVLCD was based on the estimated fair 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, resulting in an impairment loss of $34,799 at June 30, 2018. The fair value of the CGU was categorized as Level 3 fair value based on the unobservable inputs used.

Note 8. Assets Held for Sale

During the second quarter of 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 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. At June 30, 2017, the Company transferred the eight rigs, including related ancillary equipment and inventory, from property and equipment and inventory to assets held for sale.

During the third quarter of 2017, the Company reclassified an additional $3,744 of specific components of drilling and servicing equipment from property and equipment to assets held for sale and recorded an additional impairment loss of $4,212 due to current market conditions related to the XDR 300 series rigs. The recoverable amount of the assets was determined in reference of FVLCD, based on comparable market transactions. A one percent change in the estimated FVLCD would impact the assets held for sale by approximately $105.

On September 30, 2017, the Company sold the XDR 200 series rigs for $9,118, resulting in a gain of $1,677, net of expenses.

(in thousands of Canadian dollars, except where otherwise stated)

During the first quarter of 2018, in connection with ongoing negotiations and review of estimated net realizable values of the respective rigs, management recorded an impairment charge of $1,423 during the period. On April 15, 2018, the Company sold one XDR 300 series rig 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 for $7,901, resulting in an impairment charge of $1,312 during the period. The sale of the rigs closed on July 2, 2018, and proceeds were received on that date.

Assets held for sale	**June 30, 2018**	**December 31, 2017**
Opening net book value	**13,172**	—
Transfers from property and equipment and inventory	**—**	27,163
Assets sold	**(1,803)**	(7,191)
Impairment	**(2,735)**	(6,212)
Unrealized gain (loss) on foreign currency translation	**584**	(588)
Ending net book value	**9,218**	13,172

The ending net book value shown in the table above is made up of a short-term portion in the amount of $7,901 for the rigs sold on July 2, 2018, and a long-term portion in the amount of $1,317.

The Company continues to actively market the remaining XDR 300 series rig. In connection with the ongoing negotiations and review of estimated net realizable value, management did not identify any indicators of impairment for that asset, and as such, did not perform impairment testing at June 30, 2018.

Note 9. Debt

Long-term debt	**June 30, 2018**	**December 31, 2017**
Opening balance	**7,324**	—
New debt	**9,000**	7,641
Repayment of debt	**(1,370)**	—
Debt issuance costs	**(113)**	(218)
Amortization of debt issuance cost	**65**	14
Unrealized gain (loss) on foreign currency translation	**521**	(113)
Closing balance	**15,427**	7,324
Current portion	**3,670**	1,569
Non-current portion	**11,757**	5,755
Closing balance	**15,427**	7,324

(in thousands of Canadian dollars, except where otherwise stated)

Collateralized debt

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.

Following are the scheduled principal and interest payments for the next 4 years:

	Total	1 year	1-3 years
Principal payment schedule	15,427	3,670	11,757
Interest payment schedule	4,071	1,843	2,228

Note 10. Share Capital

Share capital

Xtreme is authorized to issue an unlimited number of common voting and preferred shares without nominal or par value. Xtreme has no preferred shares outstanding.

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 $25,000 excluding fees and expenses related to the offer. Share capital has been reduced by $41,558, which represents the carrying value of the repurchased shares. The difference between the purchase price paid and the carrying value of $16,558 has been recorded in contributed surplus. The repurchased shares have been canceled.

Following is a summary of issued and outstanding common shares.

	June 30, 2018		December 31, 2017	
	Number	Amount	Number	Amount
Balance, beginning of period	74,982,894	298,262	85,091,367	339,448
Employee options exercised	—	—	100,000	112
Restricted stock units vested	—	—	208,193	—
Transferred from share option reserve	—	—	—	505
Purchase of common shares	—	—	(10,416,666)	(41,803)

(in thousands of Canadian dollars, except where otherwise stated)

	—	**—**	(10,108,473)	(41,186)
Balance, end of period	**74,982,894**	**298,262**	74,982,894	298,262

Earnings per share

Common shares potentially issuable in exchange for options, purchase warrants and performance warrants are not included in the computation of diluted earnings per share when to do so would be anti-dilutive. Diluted weighted average common shares outstanding is calculated using the treasury stock method, which assumes any proceeds obtained on the exercise of options is used to purchase common shares at the average price for the period. Stock options and restricted stock units were considered anti-dilutive for the three and six months ended June 30, 2018 and 2017. When the Company incurs a net loss, the effect of the Company's outstanding options and restricted stock units are not included in the calculation of diluted earnings (loss) per share as the effect would be anti-dilutive.

	For the three months ended		**For the six months ended**	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Weighted average common shares outstanding - basic	**74,982,894**	79,067,648	**74,982,894**	79,078,541
Effect of options	—	—	—	—
Weighted average common shares outstanding – diluted	**74,982,894**	79,067,648	**74,982,894**	79,078,541

In connection with the Arrangement (see Note 1), 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.

Note 11. Segment Reporting

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.

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**

(in thousands of Canadian dollars, except where otherwise stated)

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 tables 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 contracts are less than 12 months. Mobilization revenue represents revenue resulting from the mobilization of rigs to location.

	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Long-term contracts	7,400	550	9,786	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

Customer concentration

For three months ended June 30, 2018, four customers accounted for revenue of $19,349, or 83 percent. Customer A accounted for $6,796, or 29 percent, Customer B accounted for $5,492, or 24 percent, Customer C accounted for $4,962, or 21 percent, and Customer D accounted for $2,099 or 9 percent.

For the six months ended June 30, 2018, four customers accounted for revenue of $36,941, or 83 percent. Customer A accounted for $13,606, or 30 percent, Customer B accounted for $11,329, or 25 percent, Customer C accounted for $6,606, or 15 percent and Customer D accounted for $5,400 or 12 percent.

For the three months ended June 30, 2017, four customers accounted for revenue of $12,258 or 81 percent. Customer A accounted for $4,247, or 28 percent, Customer B accounted for $4,190, or 28 percent, Customer C accounted for $2,121, or 14 percent, and Customer D accounted $1,700, or 11 percent.

For the six months ended June 30, 2017, three customers accounted for revenue of $20,544, or 75 percent. Customer A accounted for $8,318, or 30 percent, Customer B accounted for $7,926, or 29 percent, and Customer C accounted for $4,299, or 16 percent.

Note 12. Contingencies and Commitments

Contingencies

The Company is involved in claims and actions arising in the course of the Company's operations and is subject to various legal actions and exposures, including tax positions taken by the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or results of operations. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims. 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.

(in thousands of Canadian dollars, except where otherwise stated)

Leases

The Company is committed to operating leases for office and field facilities and finance leases for right-to-use assets. The table below details approximate annual base rental and finance lease payments. Lease terms also require Xtreme to remit a proportionate share of realty taxes, operating costs and utilities.

	June 30, 2018	December 31, 2017
Less than 1 year	1,030	1,053
Between 1 and 5 years	2,587	2,754
	3,617	3,807

In December 2017, the Company entered into two leases for 48-months. These leases are classified as finance leases. The leases have stated interest rates of 5.55 percent and 5.71 percent and include bargain purchase options of $74 and $65 at the end of the lease periods in December 2021. The Company has recognized interest expense of $8 and $17 for the three and six months ended June 30, 2018, respectively.

Included in the interim consolidated statement of loss is rent expense for operations of $261 and $503 for three and six months ended June 30, 2018, respectively ($313 and $605 for the three and six months ended June 30, 2017, respectively).

Purchase commitments

The Company has commitments for planned rig modifications and upgrades, maintenance, drill pipe, and spare equipment totaling $1,809 at June 30, 2018, (December 31, 2017 – $10,597), which are not reflected in these interim consolidated financial statements. The Company expects to pay such items within the next twelve months.

Note 13. Financial Instruments and Fair Value

Measurement categories

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the consolidated statement of loss or consolidated statement of comprehensive income. Those categories are: loans and receivables and for liabilities, amortized cost.

(in thousands of Canadian dollars, except where otherwise stated)

Fair values

The Company's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and other current liabilities, secured borrowings, finance leases and long-term debt instruments. At June 30, 2018, the Company classified these financial instruments as Level 1 of the fair value hierarchy. Cash and cash equivalents are carried at fair value. The carrying amounts of trade and other receivables, trade payables, other current liabilities and secured borrowings approximate their fair values due to their short-term nature.

The following table summarizes the carrying values of assets and liabilities for each of these categories at June 30, 2018, and December 31, 2017.

	June 30, 2018	December 31, 2017
Assets		
Loans and receivables		
Cash and cash equivalents	6,047	15,450
Trade receivables	15,169	12,081
Other receivables	1,803	1,782
Liabilities		
Accounts payable and accrued liabilities	20,011	12,214
Secured borrowings	6,265	4,419
Finance leases	600	632
Debt	15,427	7,324

Note 14. Supplemental Disclosure of Cash Flow Information

The following table summarizes the changes in items of non-cash working capital disclosed in the interim consolidated statements of cash flows.

	June 30, 2018	June 30, 2017
Accounts receivable and other receivables	(3,088)	(2,835)
Prepaid expenses and other	6	204
Inventory	(1,658)	1,873
Accounts payable and accrued liabilities	7,797	1,825
Other Receivables	(21)	0
	3,036	1,067
Non-cash items impacting working capital	319	(2,094)
	3,355	(1,027)
Relating to:		
Operating activities	3,502	(5,997)
Investing activities	(147)	4,970
	3,355	(1,027)