Strad Energy Services Ltd.

Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

February 28, 2018

Independent Auditor's Report

To the Shareholders of Strad Energy Services Ltd.

We have audited the accompanying consolidated financial statements of Strad Energy Services Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

Opinion

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Strad Energy Services Ltd.

Consolidated Statement of Financial Position

As at December 31, 2017 and 2016

(in thousands of Canadian dollars)	Note	As at December 31, 2017	As at December 31, 2016
		$	$
Assets			
Current assets			
Cash		1,859	369
Trade receivables	21	26,038	24,460
Inventories	7	1,818	3,890
Prepaids and deposits		707	1,111
Other assets	10	1,289	—
Income taxes receivable	15	188	2,022
		31,899	31,852
Non-current assets			
Property, plant and equipment	8	141,917	150,622
Intangible assets	9	556	665
Other assets	10	—	2,023
Income tax receivable	15	278	—
Deferred income tax assets	15	171	159
		174,821	185,321
Liabilities			
Current liabilities			
Bank indebtedness	11	—	1,478
Accounts payable and accrued liabilities	21	11,937	13,893
Current portion of obligations under finance lease	12	345	845
		12,282	16,216
Non-current liabilities			
Long-term debt	13	10,776	26,501
Obligations under finance lease	12	273	201
Deferred income tax liabilities	15	11,567	10,321
Total liabilities		34,898	53,239
Equity			
Share capital	14	154,763	135,935
Contributed surplus	14	12,736	12,243
Accumulated other comprehensive income		22,635	26,963
Deficit		(50,211)	(43,059)
Total Equity		139,923	132,082
		174,821	185,321

Commitments and contingencies (note 16)

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

Strad Energy Services Ltd.

Consolidated Statement of Loss and Comprehensive Loss

For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars, except per share amounts)

	Note	2017	2016
		$	**$**
Revenue		117,599	72,378
Expenses			
Operating expenses	24	78,658	54,059
Depreciation	8	29,447	21,796
Amortization of intangible assets	9	169	314
Amortization of long term assets	10	616	95
Selling, general and administration	24	13,774	13,644
Share-based payments	14	493	231
Gain on disposal of property, plant and equipment		(218)	(601)
Foreign exchange gain		(66)	(294)
Finance fees		293	181
Interest expense		1,225	1,134
Loss before income tax		(6,792)	(18,181)
Income tax expense (recovery)	15	484	(1,378)
Loss for the period		(7,276)	(16,803)
Other comprehensive loss			
Items that may be reclassified subsequently to net loss			
Cumulative translation adjustment		(4,328)	(3,190)
Total comprehensive loss		(11,604)	(19,993)
Loss per share:			
Basic		($0.12)	($0.41)
Diluted		($0.12)	($0.41)

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

Strad Energy Services Ltd.
Consolidated Statement of Changes in Equity
For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total equity
		$	$	$	$	$
Balance - January 1, 2017		135,935	12,243	26,963	(43,059)	132,082
Net loss for the period		—	—	—	(7,276)	(7,276)
Other comprehensive income (net of tax):						
Cumulative translation adjustment		—	—	(4,328)	—	(4,328)
Shares issued on acquisition	14	4,565	—	—	—	4,565
Shareholder loans (net)	14	304	—	—	—	304
Issuance of common shares	14	15,000	—	—	—	15,000
Share issue costs (net of tax $275)	14	(750)	—	—	—	(750)
Normal course issuer bid	14	(291)	—	—	124	(167)
Employee share options:						
Value of services recognized		—	493	—	—	493
Balance - December 31, 2017		154,763	12,736	22,635	(50,211)	139,923
Balance - January 1, 2016		118,401	12,012	30,153	(26,256)	134,310
Net loss for the period		—	—	—	(16,803)	(16,803)
Other comprehensive income (net of tax):						
Cumulative translation adjustment		—	—	(3,190)	—	(3,190)
Shares issued on acquisition	14	17,536	—	—	—	17,536
Shareholder loans (net)	14	(2)	—	—	—	(2)
Employee share options:						
Value of services recognized		—	231	—	—	231
Balance - December 31, 2016		135,935	12,243	26,963	(43,059)	132,082

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

Strad Energy Services Ltd.
Consolidated Statement of Cash Flow
For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

	Note	2017 $	2016 $
Cash flow provided by (used in)			
Operating activities			
Net loss for the period		(7,276)	(16,803)
Adjustments for items not affecting cash:			
Depreciation and amortization		30,232	22,205
Deferred income tax expense (recovery)	15	161	(172)
Share-based payments	14	493	231
Interest expense and finance fees		1,518	1,315
Unrealized foreign exchange gain		(280)	(418)
Gain on disposal of property, plant and equipment		(218)	(601)
Book value of used fleet sales in operating activities		5,018	2,553
Changes in items of non-cash working capital	17	229	446
Net cash generated from operating activities		29,877	8,756
Investing activities			
Purchase of property, plant and equipment	8	(22,124)	(4,570)
Proceeds from sale of property, plant and equipment		1,011	1,990
Purchase of intangible assets	9	(65)	(185)
Cash paid on business acquisition	5	(2,750)	—
Cash assumed on business acquisition		322	196
Changes in items of non-cash working capital	17	214	195
Net cash used in investing activities		(23,392)	(2,374)
Financing activities			
Proceeds on issuance of long-term debt	18	5,307	21,000
Repayment of long-term debt	18	(21,032)	(9,999)
Repayment of long-term debt assumed in business acquisition		—	(12,995)
Repayment of finance lease obligations (net)	18	(958)	(761)
Settlement of shareholder loan	14	304	(2)
Issuance of common shares	14	15,000	—
Share issue costs		(1,025)	—
Normal course issuer bid		(167)	—
Interest expense and finance fees		(1,518)	(1,315)
Changes in items of non-cash working capital	17	(73)	(68)
Net cash used in financing activities		(4,162)	(4,140)
Effect of exchange rate changes on cash and cash equivalents		645	(477)
Increase in cash and cash equivalents		2,968	1,765
Cash and cash equivalents (including bank indebtedness) - beginning of year		(1,109)	(2,874)
Cash and cash equivalents (including bank indebtedness) - end of period		1,859	(1,109)
Cash paid for income tax		690	—
Cash paid for interest		1,273	977

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

(in thousands of Canadian dollars)

1. General information

Strad Energy Services Ltd. (the “Company”), is a North American energy services company that provides rental equipment and matting solutions to the oil and gas and energy infrastructure sectors. Strad focuses on providing customer solutions in Canada and the United States.

The Company is a publicly listed company incorporated and domiciled in Canada under the legislation of the Province of Alberta. The consolidated financial statements of the Company as at and for the years ended December 31, 2017 and 2016, comprise the Company and its subsidiaries. There are no significant restrictions on the Company's ability to access or use the assets and settle liabilities of the group.

The head office, principal address and records office of the Company are located at 440 2nd Avenue SW, Suite 1200, Calgary, Alberta, Canada, T2P 5E9.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors (“the Board”) on February 28, 2018.

2. Basis of preparation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared under the historical cost convention, except for other assets and liabilities for cash settled share-based payments arrangements which are measured at fair value in the statement of financial position. The methods used to measure fair value are described in note 4.

The policies applied in these consolidated financial statements are based on applicable IFRS issued, effective, and outstanding, as of February 28, 2018, the date the Board approved the statements.

The presentation of certain comparative amounts have been updated to conform to the current year presentation.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Changes in accounting policy and disclosures

New standards, amendments and interpretations issued but not yet effective.

Only July 24, 2014, the IASB issued the complete IFRS 9, "Financial Instruments" ("**IFRS 9**") to replace International Accounting Standard 39, “Financial Instruments: Recognition and Measurement.” The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company has completed its assessment and evaluation of the impact of the standard on its financial statements and does not expect this standard to have a material effect on its consolidated financial statements.

On May 28, 2014, the IASB published IFRS 15, “Revenue From Contracts With Customers” (“**IFRS 15**”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing

(in thousands of Canadian dollars)

of revenue recognized. On April 12, 2016, the IASB issued Clarifications to IFRS 15. The clarifications provide additional guidance with respect to the five-step analysis and transition to the Standard. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. The Company has completed its assessment and evaluation of the standard and determined that it will not have a material impact on its consolidated financial statements. The Company plans on retrospectively applying this standard. Based on the analysis completed by the Company, rental revenue has been scoped out of IFRS 15.

On January 13, 2016, the IASB issued IFRS 16, "*Leases*" ("**IFRS 16**"). The standard introduces a single lease accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 "*Revenue From Contracts With Customers*" has been adopted. The Company intends to adopt IFRS 16 and the clarifications in its financial statements for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact of adopting IFRS 16 on its consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2 "*Share-based Payment*" ("**IFRS 2**"), clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for (a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, (b) share-based payment transactions with a net settlement feature for withholding tax obligations; and (c) a modification to the terms and conditions of share-based payments that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. Amendments can be applied prospectively. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company has completed its evaluation and has determined that it will not have a material impact on its consolidated financial statements.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the purchase method to account for business combinations. The cost of an acquisition is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recorded immediately in the statement of income.

(in thousands of Canadian dollars)

Intercompany transactions, balances, income and expenses on transactions between the Company and its subsidiaries are eliminated in the preparation of the consolidated financial statements.

Segment reporting

The Company classifies an operating segment as a component of the Company that engages in business activities from which it may earn revenues and incur expenses. Operating results are reviewed by the Executive Management team to make decisions about resources to be allocated to the segment and to assess performance of each of the segments. Segment results that are reported to the Executive Management team are those results that are directly attributable to the segment as well as those that can be allocated on a reasonable basis.

Foreign currency translation

(i) *Functional and presentation currency*

The consolidated financial statements of the Company are presented in Canadian dollars, which is the Company's and its subsidiaries presentation currency.

The functional currency of Strad Energy Services Ltd. and its U.S. subsidiaries are the Canadian and U.S. dollars, respectively. The assets and liabilities of foreign operations are translated to the Canadian dollar, the presentation currency, at each reporting date. Income and expense transactions relating to foreign operations are translated to the Canadian dollar, at the exchange rate in effect at the date of each transaction. Differences resulting from translation of foreign operations are recorded in Other Comprehensive Income as the Cumulative translation adjustment for the period.

(i) *Transactions and balances*

Foreign currency transactions are translated into the functional currency of each entity using the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to each entities functional currency at the period end rate. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Differences in foreign currency and reporting currencies on translation are recorded net in the statement of income.

Cash and cash equivalents

Cash and cash equivalents are all highly liquid in nature and have original maturity dates of three months or less. Cash and cash equivalents include cash on hand and bank indebtedness.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are recognized on the statement of financial position at the time the Company becomes party to the contractual provision. All financial instruments are measured at fair value upon initial recognition, and subsequent measurement is dependent on the classification of the instrument.

The Company has made the following classifications of financial instruments:

> Cash and cash equivalents, deposits and accounts receivable are classified as loans and receivables and are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest rate method.

(in thousands of Canadian dollars)

Bank debt, bank indebtedness, accounts payable and accrued liabilities and finance lease obligations are classified as other financial liabilities and are initially measured at fair value less directly attributable transaction costs. Subsequently, they are recorded at amortized cost using the effective interest rate method.

Transaction costs related to financial instruments, other than financial instruments through profit and loss, are recorded as part of the instrument and are amortized using the effective interest rate method.

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

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Impairment would be considered to exist if there was objective evidence that indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis, and the remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recorded in the statement of loss and can be reversed if the reversal can be related objectively to an event occurring after the date of impairment loss. Any reversals in impairment are recorded in the statement of income.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is determined using the average cost method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, depreciation on property, plant and equipment, amortization of intangible assets, and related production overhead costs.

Net realizable value is the estimated selling price less applicable selling expenses.

Property, plant and equipment

Initial cost
Property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. The initial cost of an item of property, plant and equipment includes all costs directly attributable to the acquisition of the asset, as well as, the costs incurred in preparing the asset for use.

Subsequent costs
Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

Amortization and depreciation
Land is not depreciated.

The major categories of property, plant and equipment are depreciated on a straight-line basis as follows:

Building	20 years
Automotive equipment	5 years
Furniture and fixtures	5 years

(in thousands of Canadian dollars)

Computer hardware	3 years
Tools and equipment	3 - 5 years
Leasehold improvements	Length of current lease
Rental equipment	2 - 15 years with residual values of nil to 50% of original cost

Dispositions
Gains and losses on disposals are determined by comparing the proceeds from disposition with the carrying amount of the asset and are included as part of (gain) loss on disposal of property, plant and equipment in the consolidated statement of income.

Identifiable intangible assets

The Company's intangible assets include patented technology and computer software with finite useful lives.

Intangible assets are initially measured at the cost of acquisition or development and are amortized on a straight-line basis in the statement of income over the period of their expected useful lives as follows:

Patent	10 years
Technology assets	7 - 10 years
Computer software	3 years

Development costs that are directly attributable to the design and testing of identifiable technology assets controlled by the Company are recognized as intangible assets when the following criteria are met:

(i) it is technically feasible to complete the technology asset so that it will be available for use;
(ii) management intends to complete the technology asset and use or sell it;
(iii) there is an ability to use or sell the technology asset;
(iv) it can be demonstrated how the technology asset will generate probable future economic benefits;
(v) adequate technical, financial and other resources to complete the development and to use or sell the technology asset are available; and
(vi) the expenditure attributable to the technology asset during its development can be reliably measured.

Directly attributable costs that are capitalized as part of technology assets include costs of employee wages and benefits, professional fees, direct materials and costs of testing required to bring the asset to its working condition.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Other assets

Other assets include properties owned by the Company that are held to either earn rental income, or for capital appreciation, or both. The Company's other assets include a single tenant property held to earn rental income.

Other assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policies for other assets are consistent with the depreciation policies of land and building as described in the accounting policy for property, plant and equipment.

Other assets are reviewed at each reporting period to determine whether there is any indication of impairment. Refer to the Impairment of non-financial assets policy.

(in thousands of Canadian dollars)

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting period to determine whether there is any indication of impairment. If indicators of impairment exist then the recoverable amount of the asset(s) and cash generating units are estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash generating unit' or 'CGU'). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction, less any costs of disposal.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds it's estimated recoverable amount. Impairment losses are recognized in the statement of income. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Reversals of impairments, excluding goodwill impairment reversals, are recognized when indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in the statement of income. The recoverable amount is limited to the original carrying amount less depreciation and amortization as if no impairment had been recognized for the asset or CGU for prior periods.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period.

Deferred tax is recognized, using the balance sheet method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they are related to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets are reviewed at each reporting date.

Deferred income tax assets and liabilities are presented as non-current.

(in thousands of Canadian dollars)

Employee benefits

(i) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under the cash bonus plan if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

(ii) *Share-based payments*

The Company uses a fair value method for valuing stock options, performance and directors awards, which are granted to certain directors, officers and employees. Under the fair value method, compensation costs attributable to all stock options granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. At the date of grant, a forfeiture rate is estimated and is adjusted to reflect the actual number of awards that vest. The fair value of each option is estimated using the Black-Scholes option pricing model that takes into account the grant date, exercise price, expected life of the option, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends, if any, on the underlying security. Upon the exercise of the options, the consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital and contributed surplus is reduced.

Performance and director awards which are cash settled, are fair valued based on the trading price of the Company's common shares on the date of grant and revalued at each reporting date using the trading price of the Company's common shares on the date of revaluation. Fair value of awards are recorded in accounts payable and compensation costs are expensed, through selling, general and administrative costs, over the vesting period of the award. Performance awards are also subject to a performance multiplier that is adjusted to reflect the final number of awards granted at the settlement date.

Provisions

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. When a contingent liability is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate required to settle the obligation.

Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases.

Finance leases transfer to the Company substantially all of the risks and rewards incidental to ownership of the leased asset. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to property, plant and equipment. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(in thousands of Canadian dollars)

All other leases are classified as operating leases and the payments are recorded as an expense on a straight-line basis over the period of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Related party transactions

Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue

(i) *Services:*

The Company performs services based upon service orders with customers that include fixed prices based upon job rates. Revenue is recognized when the service has been provided in accordance with the agreed arrangement, the rate is fixed and determinable, and the collection of the amounts owed to the Company is considered probable.

(ii) *Rentals:*

The Company's rentals equipment are sold based upon contracts (operating leases) with customers that include fixed or determinable prices based upon daily, hourly or job rates. Revenue is recognized when the service has been provided in accordance with the agreed arrangement, the rate is fixed and determinable, and the collection of the amounts owed to the Company is considered probable. Contract terms do not include a provision for significant post-service delivery obligations.

(iii) *Sale of goods:*

Revenue for the sale of goods (inventories or rental assets) is recognized when it is probable that the economic benefits will flow to the Company, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. These criteria are generally met at the time the product is shipped and delivered to the customer. Depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained when delivery has occurred.

(iv) *Investment property revenue:*

The Company earns rental income from operating leases of its other assets (see note 10). Rental income is recognized on a straight-line basis over the term of the lease.

Operating expenses

Included in operating expenses are labour costs of direct field personnel, repair and maintenance costs, trucking costs and costs of sales. Cost of sales includes costs related to shipping, direct salaries and wages, repairs & maintenance, and the cost of finished goods inventory.

Interest expense

Interest expense comprises interest costs on the Company's borrowings and is recognized in the statement of income when incurred.

(in thousands of Canadian dollars)

Earnings per share

Basic earnings per share ("EPS") is determined by dividing the net loss for the year attributable to equity owners by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of common shares outstanding for dilutive instruments.

Basic per share amounts are calculated based on the weighted average number of common shares outstanding during the year, without giving affect to shares issued through share purchase loans. The diluted weighted average number of shares is adjusted for the dilutive effect of options and share purchase loans. Under the treasury stock method only 'in the money' dilutive instruments are included in the weighted average diluted number of shares. It is also assumed that any proceeds obtained upon the exercise of options, plus the unamortized portion of share based payments would be used to purchase common shares at the average price during the period. The weighted average number of shares is then reduced by the number of shares acquired.

4. Critical accounting estimates and Management judgments

The preparation of these consolidated financial statements in conformity with IFRS, requires the use of certain critical accounting estimates and judgments that could materially affect the amounts recognized in the financial statements. The following estimates and judgments are those deemed by Management to be material to the Company's consolidated financial statements.

Critical accounting estimates

Amounts recorded for depreciation and amortization are based on the estimated useful lives and residual values of the underlying assets. Useful lives and residual values are based on Management’s best estimate using knowledge of past transactions and experience and industry practice, and as such are subject to measurement uncertainty. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal or other limits to use.

The Company used an option pricing model such as the Black-Scholes model to determine the fair value of certain share-based payments. The inputs to these models are based on various estimates such as volatility, dividend yield, interest rates and the expected term. The Company uses historic informational trends to determine the best estimates to use. Management reviews these estimates for each new award granted.

Inventory is to be carried at the lower of cost and net realizable value. Management regularly reviews the estimates associated with net realizable value, which is the selling price prevailing in the market, less any costs to sell. Significant changes in economic and business conditions could impact the timing and magnitude of impairment charges in inventory.

The Company makes estimates of the fair value of assets and liabilities assumed in a business combination, which includes estimates of the fair value of property, plant and equipment, working capital, debt and obligations under capital leases.

The Company makes estimates when determining the recoverable amount of assets subject to impairment testing. The recoverable amount of assets are determined using the greater of fair value less costs of disposal and value-in-use. Fair value less costs of disposal and value-in-use calculations require the use of estimates, assumptions, and judgments. Value-in-use calculations require management estimates regarding projected future sales, earnings, capital investment and discount rates. Fair value less costs of disposal requires management to make estimates of future sales, earnings and capital investment, discount rates, and capitalization rates, as well as estimations of costs to sell. The estimates are reviewed each time an impairment calculation is required.

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its

(in thousands of Canadian dollars)

subsidiaries operate are subject to change. Deferred income tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Management reviews current and potential changes to tax law and bases estimates on the most relevant information available.

When there is objective evidence that the full collection of accounts receivable is unlikely, Management will estimate the most likely amount to be recovered. Amounts estimated are based on the best available information at the time the estimate is made.

Significant Management judgments

The Company's assets are aggregated into cash generating units ('CGU') for the purpose of impairment testing. Cash generating units are based on the assessment of the assets abilities to generate independent cash inflows. Judgments such as geographic proximity, shared infrastructure, market risk and materiality were used to determine the Company's cash generating units. Judgments are also required to assess when impairment indicators exist and when impairment testing is required.

Judgments are made by Management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

The Company makes judgments regarding the determination of its reportable segments, including aggregation criteria for segment reporting.

Judgments are made in assessing whether the criteria for recognition of a provision or contingent liability have been met. The Company considers whether a present obligation exists, the likelihood of an economic outflow occurring and whether or not a reasonable estimate can be made.

5. Acquisition

Effective February 15, 2017, the Company acquired a private company, Got Mats?, located in Manitoba, in exchange for 2,143,375 common shares of Strad Energy Services Ltd. and $1.0 million in cash consideration, representing a total value of approximately $4.5 million. The common shares have been ascribed a fair value of $1.65 per common share, as determined based on the Company's closing share price at the date of closing, which was February 15, 2017. In addition, within 90 days following the closing date of February 15, 2017, Strad prepared a closing working capital calculation based on the closing date financial statements. If the closing date working capital is greater or less than the working capital target of $450 thousand, then the consideration will be adjusted accordingly. The adjustment to closing working capital paid was $0.5 million based on the closing working capital calculation. Transaction costs were minimal and were expensed.

The transaction was accounted for by the purchase method. The allocation of the purchase price, based on management's best estimates of fair values, is as follows:

Fair value of the net assets acquired	
Property, plant and equipment	4,781
Working capital	450
Deferred income tax liability	(694)
Net assets acquired	4,537

Consideration	
Common shares (2,143,375 at $1.65 per share)	3,537
Cash consideration	1,000
Total consideration paid	4,537

(in thousands of Canadian dollars)

Included in the statement of loss and comprehensive loss are the following amounts relating to the Got Mats? acquisition, from February 15, 2017 to December 31, 2017.

Revenue	3,450
Net income and comprehensive income	231

If the Got Mats? acquisition had occurred on January 1, 2017, the Company's pro forma results of revenue and net loss and comprehensive loss for the year ended December 31, 2017 would have been as follows:

	Strad as stated in the statement of loss and comprehensive loss	Got Mats? Acquisition (from January 1, 2017 to closing date)	Pro forma
Revenue	117,599	539	118,138
Net income and comprehensive income	(11,604)	144	(11,460)

Effective February 22, 2017, the Company acquired two private companies based in Fort St. John, British Columbia, in exchange for 561,798 common shares of Strad Energy Services Ltd. and $1.75 million in cash representing a total consideration of approximately $2.8 million. The acquisition was accounted for using the purchase method with $3.4 million allocated to property, plant and equipment and a deferred tax liability of $0.6 million.

6. Impairment

The Company reviews the carrying value of its long-lived assets and cash-generating units at each balance sheet date to determine whether there is any indication of impairment. At December 31, 2017, the Company performed an impairment indicators assessment for all CGUs. It was determined that no indicators of impairment existed for any of the CGU's, and therefore no impairment calculations were required.

7. Inventories

	As at December 31, 2017	**As at December 31, 2016**
Raw materials	167	849
Finished goods	1,651	3,041
	1,818	3,890

The cost of inventories recognized as expense and included in ‘Operating expenses’ for the year-ended December 31, 2017, amounted to $8.3 million (2016 - $9.1 million). During the year-ended December 31, 2017, the Company has included an inventory provision of $638 thousand (2016 - $163 thousand).

(in thousands of Canadian dollars)

8. Property, plant and equipment

Cost

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other [1]	Total
As at December 31, 2016	$ 273,819	$ 9,531	$ 4,157	$ 2,920	$ 2,075	$ 292,502
Capital expenditures	20,239	1,556	24	11	294	22,124
Acquisition	7,361	423	363	—	41	8,188
Divestitures and transfers	(13,691)	(1,804)	(1,776)	(83)	(77)	(17,431)
Reclassification	(148)	40	108	—	—	—
Foreign currency translation	(8,798)	42	(58)	(75)	(28)	(8,917)
As at December 31, 2017	278,782	9,788	2,818	2,773	2,305	296,466

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2015	$ 251,296	$ 10,476	$ 5,484	$ 2,866	$ 2,112	$ 272,234
Capital expenditures	4,120	230	138	65	17	4,570
Acquisition	30,680	2,415	38	96	8	33,237
Divestitures and transfers	(7,901)	(3,415)	(1,495)	(51)	(51)	(12,913)
Reclassification	—	(45)	66	(21)	—	—
Foreign currency translation	(4,376)	(130)	(74)	(35)	(11)	(4,626)
As at December 31, 2016	273,819	9,531	4,157	2,920	2,075	292,502

Accumulated depreciation and impairment

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2016	$ 127,695	$ 6,298	$ 3,410	$ 2,417	$ 2,060	$ 141,880
Depreciation	26,287	2,324	512	236	88	29,447
Divestitures and transfers	(8,616)	(1,414)	(1,414)	(63)	(79)	(11,586)
Reclassification	(22)	14	8	—	—	—
Foreign currency translation	(5,146)	88	(41)	(68)	(25)	(5,192)
As at December 31, 2017	140,198	7,310	2,475	2,522	2,044	154,549

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2015	$ 115,035	$ 7,507	$ 4,433	$ 2,212	$ 2,070	$ 131,257
Depreciation	19,562	1,420	442	316	56	21,796
Divestitures and transfers	(4,865)	(2,560)	(1,429)	(67)	(51)	(8,972)
Reclassification	—	(13)	30	(17)	—	—
Foreign currency translation	(2,037)	(56)	(66)	(27)	(15)	(2,201)
As at December 31, 2016	127,695	6,298	3,410	2,417	2,060	141,880

Net book Value

As at December 31, 2016	$ 146,124	3,233	747	503	15	150,622
As at December 31, 2017	138,584	2,478	343	251	261	141,917

[1] Other includes land, buildings and computer hardware

Included in Rental equipment and Automotive equipment are assets under financial lease with a net carrying amount of $8 thousand (December 31, 2016 - $162 thousand) and $0.9 million (December 31, 2016 - $1.9 million) respectively.

At December 31, 2017, the Company recognized an additional $1.4 million (2016 - $1.3 million) in depreciation expense on certain rental assets within the Canadian Operations segment.

(in thousands of Canadian dollars)

9. Intangible assets

Cost

	Patent and technology asset	Computer software	Total
As at December 31, 2016	$ 3,280	$ 2,328	$ 5,608
Capital expenditures	—	65	65
Foreign currency translation	(27)	(41)	(68)
As at December 31, 2017	3,253	2,352	5,605

	Patent and technology asset	Computer software	Total
As at December 31, 2015	$ 3,293	$ 2,163	$ 5,456
Capital expenditures	—	185	185
Foreign currency translation	(13)	(20)	(33)
As at December 31, 2016	3,280	2,328	5,608

Accumulated amortization and impairments

	Patent and technology asset	Computer software	Total
As at December 31, 2016	$ 2,739	$ 2,204	$ 4,943
Amortization	68	101	169
Foreign currency translation	(26)	(37)	(63)
As at December 31, 2017	2,781	2,268	5,049

	Patent and technology asset	Computer software	Total
As at December 31, 2015	$ 2,624	$ 2,032	$ 4,656
Amortization	126	188	314
Foreign currency translation	(11)	(16)	(27)
As at December 31, 2016	2,739	2,204	4,943

Net Book Value			
As at December 31, 2016	$ 541	124	665
As at December 31, 2017	472	84	556

The Company did not have any intangibles valued by an independent third party for the year ended December 31, 2017 or 2016, as there is no significant changes in the balance or type of intangible recognized.

(in thousands of Canadian dollars)

10. Other assets

Cost		
As at December 31, 2016	$	2,215
Foreign currency translation		(140)
As at December 31, 2017		2,075
As at December 31, 2015	$	2,285
Foreign currency translation		(70)
As at December 31, 2016		2,215

Accumulated amortization		
As at December 31, 2016	$	192
Amortization		616
Foreign currency translation		(22)
As at December 31, 2017		786
As at December 31, 2015	$	101
Amortization		95
Foreign currency translation		(4)
As at December 31, 2016		192

Net book value		
As at December 31, 2016	$	2,023
As at December 31, 2017		1,289

	As at December 31, 2017	As at December 31, 2016
Long term asset	—	2,023
Short term asset	1,289	—

Other assets consist of land and building that are included in the U.S. Operations segment (see note 19). Other assets are recognized using the cost model and depreciated over the remaining useful lives of the assets. During the year-ended December 31, 2017, the Company recognized $309 thousand (2016 - $223 thousand) of rental income within operating expenses. Subsequent to year-end, management entered into an agreement to dispose of the assets, which resulted in an additional amortization of $523 thousand to adjust the balance to fair value. As a result, during the year-ended December 31, 2017 management reclassified the non-current asset to a current asset. The asset is presented within total assets of the U.S. Operations segment (note 19).

11. Bank indebtedness

The Company's syndicated banking facility consists of an operating facility with a maximum principal amount of $7.0 million CAD, $5.0 million USD and a $36.5 million revolving facility, which are subject to certain limitations on accounts receivable, inventory and net book value of fixed assets and are secured by a general security agreement over the Company's assets. As at December 31, 2017, the Company had access to the maximum credit facilities with no limitations on what can be accessed. The syndicated banking facility bears interest at a variable rate, which is dependent on the Company's funded debt to covenant Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Funded debt

(in thousands of Canadian dollars)

is defined in the credit facility agreement as bank indebtedness plus long-term debt plus current and long-term obligations under finance lease less cash.

Based on the Company's current funded debt to covenant EBITDA ratio at December 31, 2017, the interest rate on the syndicated credit facility is bank prime plus 0.50% on prime rate advances and at the prevailing rate plus a stamping fee of 1.50% on bankers' acceptances. The current debt agreement was extended and amended during the third quarter of 2017 and will mature on September 29, 2020. For the twelve months ended December 31, 2017, the overall effective rate on the operating facility was 5.62% (2016 - 5.25%). At December 31, 2017, $nil (December 31, 2016 - $1.5 million) was drawn on the operating facility. All bank covenants were in compliance as at December 31, 2017.

12. Obligations under finance lease

	As at December 31, 2017	As at December 31, 2016
Equipment under finance lease	$ 618	$ 1,046
Current portion	(345)	(845)
Long-term portion	273	201

The finance leases bear interest ranging from 1% to 7% at December 31, 2017. Minimum lease payments for equipment under finance lease for the next two years are as follow:

	As at December 31, 2017	As at December 31, 2016
2018	370	203
2019	152	—
2020	148	—
Total minimum lease payments	670	203
Less: Amounts representing future interest at annual rates between 1% and 7%	(52)	(28)
	618	175

13. Long-term debt

	As at December 31, 2017	As at December 31, 2016
Revolving facility	10,776	26,501

As at December 31, 2017, the Company has access to all of the $36.5 million revolving facility (see note 11) of which $10.8 million was drawn. Required monthly payments are interest only with the principal due September 29, 2020. The overall effective rate on the revolving facility at December 31, 2017, was 4.12% (2016 – 3.57%).

(in thousands of Canadian dollars)

14. Share capital

a) Authorized

An unlimited number of Classes A, B, C, D, E and F shares without nominal or par value.
As at December 31, 2017, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

	Year ended December 31, 2017		Year ended December 31, 2016	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of year	48,378,995	135,935	37,280,397	118,401
Acquisition	2,705,173	4,565	11,098,598	17,536
Shareholder loan - repayment	—	304	—	157
Shareholder loan - issuance	—	—	—	(159)
Interest on shareholder loans	—	—	—	—
Issuance of common shares	8,928,572	15,000	—	—
Normal course issuer bid	(107,100)	(291)	—	—
Share issue costs (net of tax of $275)	—	(750)	—	—
Total common shares, end of period	59,905,640	154,763	48,378,995	135,935

On September 9, 2017 the Company received approval by the Toronto Stock Exchange to buy back up to a maximum of 3,000,637 common shares of the Corporation under a normal course issuer bid. As of December 31, 2017 the Company purchased and cancelled 107,100 common shares.

c) Stock options

Options to purchase common shares may be granted by the Board of Directors to directors, officers and employees of the Company. Options granted vest one-third on each of the first, second and third anniversary dates of the grant date. Options can be exercised for shares or net shares.

	As at December 31, 2017		As at December 31, 2016	
	Outstanding Options	Weighted average exercise price	Outstanding Options	Weighted average exercise price
Balance, beginning of year	2,439,837	$2.54	2,378,497	$3.62
Granted	15,000	$1.50	1,382,500	$1.60
Exercised	—	$0.00	—	$0.00
Naturally expired - vested	(325,500)	$4.40	(479,334)	$3.33
Expired - vested	(38,333)	$3.53	(683,477)	$3.85
Forfeited - unvested	(36,334)	$1.56	(158,349)	$2.52
Balance, end of period	2,054,670	$2.23	2,439,837	$2.54

(in thousands of Canadian dollars)

Details of the exercise prices and expiry dates of options outstanding and exercisable as at December 31, 2017 and 2016, are as follows:

As at December 31, 2017

Exercise price	Outstanding options	Remaining contractual life (years)	Weighted average exercise price	Vested options	Remaining contractual life (years)	Weighted average exercise price
$1.00 - $1.75	1,294,500	3.64	$1.59	352,681	3.63	$1.61
$1.76 - $3.50	486,670	1.23	$3.03	400,996	1.03	$3.10
$3.51 - $4.25	243,500	1.07	$3.68	243,500	1.07	$3.68
$4.26 - $5.00	30,000	1.87	$4.63	30,000	1.87	$4.63
	2,054,670		$2.23	1,027,177		$2.77

As at December 31, 2016

Exercise price	Outstanding options	Remaining contractual life (years)	Weighted average exercise price	Vested options	Remaining contractual life (years)	Weighted average exercise price
$1.50 - $2.99	1,573,500	4.39	$1.77	85,980	3.18	$2.70
$3.00 - $3.99	510,837	1.63	$3.55	423,328	1.54	$3.52
$4.00 - $4.99	352,500	0.30	$4.41	342,500	0.23	$4.40
$5.00 - $5.99	3,000	0.41	$5.45	3,000	0.41	$5.54
	2,439,837		$2.54	854,808		$3.80

The Company recognized share-based compensation expense of $493 thousand during the year-ended December 31, 2017 (2016 - $231 thousand). During the year-ended December 31, 2017, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate - 1.92%, expected volatility - 45%, expected term - 5 years and forfeiture rate of 15%.

d) Performance and director awards

The Company has a Retention Award Plan (**"RAP"**) which authorizes the Board of Directors to grant performance awards (**"PAs"**) and director awards (**"DAs"**) to directors, officers, employees, consultants and other service providers of the Company.

Subject to the terms and conditions of the plan, performance awards will vest on the third anniversary of the grant date (the **"Payment Date"**) and director awards vest on the date of grant (immediate vesting). Upon vesting, PAs will entitle the holder to a cash payment calculated at the Payment Date by first adjusting the number of Performance Awards vesting to reflect accrued reinvested dividends and a payout multiplier (the **"Payout Multiplier"**), and multiplying the adjusted number of PAs by the fair market value of the Common Shares on the Payment Date. The fair market value is determined on the Payment Date as the volume weighted average trading price of the Common Shares on the TSX (or such stock exchange on which the Common Shares may be listed) for the five consecutive trading days immediately preceding the Payment Date. The Payout Multiplier can range from 0 to 2x based on the Company's ranking as compared to their peer group. In the case of the DAs, upon vesting, DAs will entitle the holder to a cash payment calculated on the same basis as the PAs except that no Payout Multiplier will be applied to such DAs.

An estimated forfeiture rate of 10% (2016 - 10%) was used to value all performance awards granted for the year ended December 31, 2017. The weighted average fair value of awards granted for the period ended December 31, 2017 was $nil (2016 - $1.63) per PA and $1.36 (2016 - $1.59) per DA. For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares, and revalued at each reporting period based on the closing price of common shares at each reporting date.

(in thousands of Canadian dollars)

The number of performance and director awards outstanding are as follows:

Performance awards

	Year-ended December 31, 2017	Year-ended December 31, 2016
	Number of awards	Number of awards
Balance, beginning of year	714,319	216,291
Granted	—	586,000
Exercised	—	(18,314)
Forfeited	(7,500)	(69,658)
Total awards, end of period	706,819	714,319

Director awards

	Year-ended December 31, 2017	Year-ended December 31, 2016
	Number of awards	Number of awards
Balance, beginning of year	169,126	77,553
Granted	160,671	190,782
Exercised	(61,580)	(99,209)
Total awards, end of period	268,217	169,126

The Company recognized an expense of $813 thousand during the year-ended December 31, 2017 (2016 - $178 thousand) included in selling, general and administration expenses and a liability of $1.1 million at December 31, 2017 (2016 - $374 thousand) included in accounts payable.

e) Contributed surplus

	Year-ended December 31, 2017	Year-ended December 31, 2016
Balance, beginning of year	12,243	12,012
Share-based payments expense	493	231
Exercise of options	—	—
Balance, end of period	12,736	12,243

f) Per share amounts

	Year-ended December 31, 2017	Year-ended December 31, 2016
Basic weighted average shares outstanding	58,664,730	40,626,492
Diluted weighted average shares outstanding	59,047,667	40,626,492

For the year-ended December 31, 2017, there were approximately 383,000 potentially dilutive securities outstanding (nil - December 31, 2016).

(in thousands of Canadian dollars)

15. Income tax

	Year-ended December 31, 2017	Year-ended December 31, 2016
Current income tax expense (recovery)	$ 323	$ (1,206)
Deferred income tax expense (recovery)	161	(172)
	484	(1,378)

The income taxes reported differ from the amounts computed by applying the statutory federal and provincial income tax rates to income before income taxes. The reasons for these differences and the related tax effects are as follows:

	Year-ended December 31, 2017	Year-ended December 31, 2016
Net loss from operations before income taxes	$ (6,792)	$ (18,181)
Income taxes at statutory rate (2017 - 27%, 2016 - 27%)	(1,836)	(4,909)
Permanent differences	(872)	(1,073)
Adjustments related to filed and amended tax returns	431	162
Foreign tax rate differential	(1,217)	(1,970)
Valuation allowance	3,963	6,412
Other	15	—
Income tax expense (recovery)	484	(1,378)

The Company has provided for deferred income taxes on differences between values at which assets and liabilities are recorded in the consolidated financial statements and their values for tax filing purposes. The change in the above valuation allowance includes the impact of a reduction in the U.S. federal corporate income tax rate from 35% to 21%.

The components of deferred income taxes are as follows:

	As at December 31, 2017	As at December 31, 2016
Deferred income tax liabilities		
Property, plant and equipment	$ (23,785)	$ (31,840)
Intangible assets	(18)	(41)
Prepaids and accruals	(39)	(150)
Total deferred income tax liabilities	(23,842)	(32,031)
Deferred income tax assets		
Loss carry-forwards	11,276	20,232
Long term asset	518	558
Share issue costs	282	103
Lease obligations	46	209
Share based payments	152	200
Allowance for doubtful accounts	108	269
Other	64	298
Total deferred income tax assets	12,446	21,869
Net deferred tax liability	(11,396)	(10,162)

(in thousands of Canadian dollars)

	Year-ended December 31, 2017	**Year-ended December 31, 2016**
Deferred tax asset	171	159
Deferred tax liability	(11,567)	(10,321)
	(11,396)	(10,162)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has deferred income tax assets of $11.3 million (2016 - $20.2 million) of which $7.1 million has not been recognized in respect of losses amounting to $67.4 million (2016 - $69.0 million) that can be carried forward against future taxable income and are due to expire between 2028 and 2033.

The Company recognized a long term income tax receivable of $278 thousand (2016 - $nil) that relates to a refund of US Alternative Minimum Tax (AMT). The refund is expected to be received beginning in 2019.

16. Commitments and contingencies

The Company has operating lease commitments for equipment and buildings for the next five years as follows:

	As at December 31, 2017	**As at December 31, 2016**
2018	3,929	3,165
2019	3,431	2,706
2020	2,893	2,442
2021	2,349	1,839
2022	1,422	881
2023 and thereafter	1,678	1,088
	15,702	12,121

The Company is involved in a limited number of other legal claims associated with the normal course of operations. The Company believes it has made adequate provisions for such legal claims.

17. Changes in non-cash working capital

	December 31, 2017	**December 31, 2016**
Trade receivables	(1,578)	(7,706)
Inventories	2,072	1,303
Prepaids and deposits	404	373
Income taxes receivable	1,556	(418)
Accounts payable and accrued liabilities	(1,992)	4,950
Deferred revenue	36	(32)
Working capital assumed on acquisition	(128)	2,103
Changes in items of non-cash working capital	370	573
Changes in items of non-cash working capital - investing	214	195
Changes in items of non-cash working capital - financing	(73)	(68)
Changes in items of non-cash working capital - operating	229	446
Changes in items of non-cash working capital	370	573

(in thousands of Canadian dollars)

18. Changes in net debt

	Cash and cash equivalents	Long term debt	Finance lease liabilities	Changes in net debt
Balance - January 1, 2017	(1,109)	(26,501)	(1,046)	(28,656)
Cash flows	3,484	—	—	3,484
Repayments of Debt	—	21,112	—	21,112
Borrowings on debt	—	(5,307)	—	(5,307)
Accrued interest	—	961	—	961
Amortization of bankers acceptance interest	—	(1,041)	—	(1,041)
Repayments of Finance Lease	—	—	958	958
Finance Lease Additions	—	—	(602)	(602)
Effect of exchange rates	(516)	—	72	(444)
Balance - December 31, 2017	1,859	(10,776)	(618)	(9,535)

19. Segment information

The Executive Management Team is the Company's chief operating decision-maker. Management has determined the operating segments to be Canadian Operations, U.S. Operations, Product Sales and Corporate based on the information reviewed by the Executive Management Team for the purposes of allocating resources and assessing performance.

The Canadian Operations and U.S. Operations operating segments consist of revenue and expenses generated from the Company's core business of providing equipment and matting solutions to exploration and production, as well as energy infrastructure, companies in the energy industry. The Company's core business is split geographically between Canada and the U.S., which are monitored as separate reportable segments by the Company's Executive Management Team. Product Sales segment generates revenue through manufactured Product Sales to external customers, third party equipment sales to existing customers plus sale of equipment from the Company's existing fleet to customers. Corporate consists of costs incurred to operate a public company, including a portion of the Executive Management Team, rent and utilities and external professional services. A portion of corporate costs directly related to the Company's core business are allocated to Canadian Operations, U.S. Operations and Product Sales.

(in thousands of Canadian dollars)

Information regarding the Company's reportable operating segments is as follows:

Year-ended December 31, 2017	Canadian Operations	U.S. Operations	Product Sales	Corporate	Total
Revenue	$ 80,973	$ 27,031	$ 9,595	$ —	$ 117,599
Operating expenses	52,030	18,964	7,664	—	78,658
Selling, general and administrative	6,261	3,525	261	3,727	13,774
Depreciation and amortization	19,905	9,951	184	192	30,232
Interest expense	72	220	—	933	1,225
Finance fees	—	—	—	293	293
Income (loss) before income tax	5,406	(10,126)	(1,185)	(887)	(6,792)
Income tax (recovery) expense	611	(295)	124	44	484
Net income (loss)	4,795	(9,831)	(1,309)	(931)	(7,276)
Capital expenditures [(1)]	18,686	3,208	25	205	22,124
Other assets	—	1,289	—	—	1,289
Total assets	110,786	63,825	976	(766)	174,821

[(1)] Capital expenditures do not include purchases of intangible assets.

Year-ended December 31, 2016	Canadian Operations	U.S. Operations	Product Sales	Corporate	Total
Revenue	$ 44,275	$ 14,955	$ 13,148	$ —	$ 72,378
Operating expenses	32,084	12,422	9,553	—	54,059
Selling, general and administrative	4,953	4,346	59	4,286	13,644
Depreciation and amortization	11,432	10,270	249	254	22,205
Interest expense	49	50	—	1,035	1,134
Finance fees	—	—	—	181	181
Income (loss) before income tax	307	(16,387)	(1,233)	(868)	(18,181)
Income tax (recovery) expense	(1,225)	16	(185)	16	(1,378)
Net income (loss)	1,532	(16,403)	(1,048)	(884)	(16,803)
Capital expenditures [(1)]	3,188	1,382	—	—	4,570
Other assets	—	2,023	—	—	2,023
Total assets	111,260	70,848	2,332	881	185,321

[(1)] Capital expenditures do not include purchases of intangible assets.

Revenue by Geography

	Year-ended December 31, 2017	Year-ended December 31, 2016
Canada	$ 90,568	$ 57,423
U.S.	27,031	14,955
Total	117,599	72,378

Revenue is allocated to each geographic location based on the country in which the revenue is generated.

(in thousands of Canadian dollars)

	As at December 31, 2017			As at December 31, 2016		
	Capital assets and intangible assets	**Other assets**	**Total assets**	**Capital assets and intangible assets**	**Other assets**	**Total assets**
Canada	$ 91,379	$ 19,617	$ 110,996	$ 85,711	$ 28,762	$ 114,473
U.S.	51,095	12,730	63,825	63,337	7,511	70,848
Total	142,474	32,347	174,821	149,048	36,273	185,321

During the year-ended December 31, 2017, the Product Sales segment had intercompany sales of $1.0 million (2016 - $0.1 million) to the Canadian Operations segment and $0.1 million (2016 - $nil) to the U.S. Operations segment, not included in the revenue figures above. Intercompany sales consist of in-house manufactured capital assets and inventory which are sold to the Canadian Operations and U.S. Operations segments. These transactions are eliminated upon consolidation.

20. Capital structure

The Company's objectives when managing capital are to provide flexibility so as to maximize opportunities and to finance the growth of the Company, and to mitigate downside risk in changing economic environments. The Company's capital structure consists of shareholders' equity, bank indebtedness, long-term debt and finance leases.

	As at December 31, 2017	**As at December 31, 2016**
Bank indebtedness	$ —	$ 1,478
Long-term debt	10,776	26,501
Finance leases	618	1,046
Total debt	11,394	29,025
Total equity	139,923	132,082
Total capitalization	151,317	161,107

The Company manages capital and makes adjustments taking into consideration changing market conditions and other opportunities, while remaining cognizant of the cyclical nature of the energy services sector. In order to maintain or adjust capital structure, the Company may modify its capital spending, issue shares, repurchase and cancel shares, and add or repay debt. The Company may also revise the terms of its debt facilities as a result of expansion and growth activities.

The Company also manages capital to ensure compliance with the margin requirements and financial covenants on its credit facilities. The Company monitors compliance with these requirements on an ongoing basis and forecasts regularly to assess how certain activities may impact compliance in future periods. As at December 31, 2017, the Company is in compliance with respect to these covenants (see note 11).

21. Financial instruments

The Company's financial instruments consist of cash, trade receivables, deposits, bank indebtedness, accounts payable and accrued liabilities, long-term debt and obligations under finance lease.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables.

The vast majority of the Company's trade receivables are customers involved in the oil and natural gas and energy infrastructure industry, and the ultimate collection of trade receivables is dependent on both industry related factors and

(in thousands of Canadian dollars)

customer specific factors. Industry related factors that may affect collection include commodity prices and access to capital. Customer specific factors that may affect collection include commodity prices, the success of drilling programs, well reservoir decline rates and access to capital.

The Companies total accounts receivable, net of the allowance for doubtful accounts, to be aged as follows:

	As at December 31, 2017	As at December 31, 2016
Under 30 days	$ 15,220	$ 14,368
31-60 days	6,081	8,943
61-90 days	3,283	770
Over 90 days	1,454	379
Trade Receivables	26,038	24,460

As at December 31, 2017, the Company had an allowance for doubtful accounts of $661 thousand (December 31, 2016 - $1.2 million) with respect to potentially uncollectible accounts. The Company does not have significant exposure to any one customer that accounted for more than 10% (December 31, 2016 - 11%) of revenue for the period ended December 31, 2017.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties. The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables. None of these financial assets, other than the $661 thousand of trade receivables above for which an allowance has been taken, are impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity position on an ongoing basis and manages liquidity risk by regularly evaluating capital and operating budgets, forecasting cash flows and maintaining sufficient credit facilities to meet financing requirements.

The timing of cash flows relating to financial liabilities is outlined in the table below:

			As at December 31, 2017
	Less than 1 year	1 - 2 years	2 - 3 years
Accounts payable and accrued liabilities	$ 11,937	$ —	$ —
Bank indebtedness [(1)]	—	—	—
Long-term debt [(1)]	444	444	11,109
Obligations under finance lease [(1)]	345	273	—
Total	12,726	717	11,109

[(1)] Includes principal and interest

			As at December 31, 2016
	Less than 1 year	1 - 2 years	2 - 3 years
Accounts payable and accrued liabilities	$ 13,893	$ —	$ —
Bank indebtedness [(1)]	1,478	—	—
Long-term debt [(1)]	241	28,928	—
Obligations under finance lease [(1)]	871	203	—
Total	16,483	29,131	—

[(1)] Includes principal and interest

(in thousands of Canadian dollars)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

i) *Foreign exchange risk*

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company is exposed to foreign exchange risk associated with its U.S. Operations where revenues, costs, and purchases of capital assets are denominated in USD. The Company is also exposed to foreign exchange risk as certain balances within working capital may fluctuate due to changing Canada/U.S. exchange rates. For the period ended December 31, 2017, if the exchange rate had weakened by 1% against the Canadian dollar with all other variables constant, after tax net earnings would have decreased by $101 thousand (2016 - $170 thousand). An equal and opposite impact would have occurred to after tax net earnings if the exchange rate had strengthened by 1% against the Canadian dollar.

ii) *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its borrowings which are at floating rates. For the period ended December 31, 2017, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately $166 thousand higher (2016 - $166 thousand), due to lower interest expense. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher.

The Company had no interest rate swap or financial contracts in place as at or during the period ended December 31, 2017.

22. Fair value measurement

Fair values of financial assets and liabilities

The Company's financial instruments consist of cash, trade receivables, deposits, bank indebtedness, accounts payable and accrued liabilities, long-term debt and obligations under finance lease. The fair value of cash, trade receivables, deposits, bank indebtedness, accounts payable and accrued liabilities and obligations under finance lease approximate their carrying amounts due to their short terms to maturity. The Company's long-term debt carries interest based on specified benchmark interest rates plus a spread. The fair values of the Company's debt obligations approximate their carrying amounts due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk.

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining fair values. The three fair value hierarchy levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

(in thousands of Canadian dollars)

23. Related party transactions

i) *Compensation of key management*

Key management includes the Company's directors and members of the Executive Management Team. The compensation paid or payable to key management for services is shown below:

	Year-ended December 31,	
	2017	**2016**
Salaries and short-term employee benefits	$ 2,061	$ 1,666
Share-based payments	168	127
Performance award and Director award expense	603	152
Termination payments	—	562
	2,832	2,507

ii) *Loans to key management*

The share purchase loans outstanding with key management are shown below:

	Year-ended December 31,	
	2017	**2016**
Opening balance	$ 995	$ 993
Share purchase loans issued	—	159
Repayment of share purchase loan	(304)	(157)
	691	995

Certain key management personnel and directors have loans outstanding totaling $0.7 million from the Company. Proceeds of the loans were used to purchase common shares in the Company. The loan balances are non-interest bearing for the first three years the loan balances are outstanding unless further extensions are approved by the board. After the interest waived period, the notes bear interest at the prime lending rate per annum established by the Company's bank, plus 1% interest. The loans are required to be repaid in full on the maturity date, being 10 years from the date of issuance. For the year-ended December 31, 2017, the Company recognized share-based compensation expense of $265 thousand (2016 - $nil).

For the year ended December 31, 2017, there were loan advances of $nil made to key management (year-ended December 31, 2016 - $159 thousand) and $304 thousand of shareholder loans were settled (year-ended December 31, 2016 - $157 thousand).

(in thousands of Canadian dollars)

For the year ended December 31, 2017, interest of $nil was charged by the Company on loans to key management (year-ended December 31, 2016 - $nil) and interest repayments of $nil were received (year-ended December 31, 2016 – $nil).

During the year ended December 31, 2017, the Company obtained consulting services from entities that are 100% owned by a member of key management personnel. The total amount paid for these services was $281 thousand (2016 - $231 thousand) with $nil outstanding at December 31, 2017 (2016 - $nil).

During the year ended December 31, 2017, the Company paid rent expense to an entity that is 100% owned by a member of key management personnel, in the amount of $408 thousand (2016 - $136 thousand). The total amount outstanding, and recorded in accounts payable, at December 31, 2017 was $nil (2016 - $nil).

During the year ended December 31, 2017, the Company recognized expense related to the director and performance awards in the amount of $603 thousand (2016 - $152 thousand). The total amount recorded in the director and performance award liability, at December 31, 2017 was $904 thousand (2016 - $301 thousand).

24. Expenses by Nature

	Year-ended December 31,	
	2017	**2016**
Operating Expenses		
Direct Expenses:		
Rental expenses	7,354	10,861
Service and trucking	44,913	20,631
Cost of sales and consumables	8,809	9,379
Total direct expenses	61,076	40,871
Indirect expenses:		
Personnel costs	6,252	4,594
Occupancy and other	11,330	8,594
Total indirect expenses	17,582	13,188
Total operating expenses	78,658	54,059

	Year-ended December 31,	
	2017	**2016**
Selling. general and administrative expenses		
Personnel costs	8,170	7,102
Occupancy and other	5,604	6,542
Total selling, general and administrative expenses	13,774	13,644

Included in operating expenses and selling, general and administrative expenses above are severance and transaction costs of $nil (2016 - $1.3 million) and advisory costs of $nil (2016 - $0.9 million).