Strad Energy Services Ltd.

Consolidated Financial Statements
December 31, 2014 and 2013

February 25, 2015

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, 2014 and December 31, 2013 and the consolidated statement of income and comprehensive income, 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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Strad Energy Services Ltd.

Consolidated Statement of Financial Position
As at December 31, 2014 and 2013

(in thousands of Canadian dollars)	As at December 31, 2014 $	As at December 31, 2013 $
Assets		
Current assets		
Trade receivables (note 22)	48,542	35,569
Inventories (note 5)	7,400	5,788
Prepaids and deposits	1,741	1,772
Note receivable (note 6)	—	350
Income taxes receivable	—	40
	57,683	43,519
Assets held for sale (note 7)	260	3,167
Non-current assets		
Property, plant and equipment (note 8)	159,100	142,108
Intangible assets (note 9)	1,210	1,685
Long-term assets (note 10)	1,914	—
Goodwill (note 11)	17,277	17,277
Deferred income tax assets (note 16)	15	164
Total assets	237,459	207,920
Liabilities		
Current liabilities		
Bank indebtedness (note 12)	826	1,879
Accounts payable and accrued liabilities (note 22)	34,705	25,403
Income taxes payable	1,579	—
Deferred revenue	259	785
Current portion of obligations under finance lease (note 13)	882	1,887
Dividend payable	2,609	2,050
	40,860	32,004
Non-current liabilities		
Long-term debt (note 14)	36,000	38,500
Obligations under finance lease (note 13)	969	770
Deferred income tax liabilities (note 16)	14,138	7,797
Total liabilities	91,967	79,071
Equity		
Share capital (note 15)	118,351	117,824
Contributed surplus (note 15)	11,757	11,612
Accumulated other comprehensive income	3,452	603
Retained earnings (deficit)	11,932	(1,190)
Total equity	145,492	128,849
Total liabilities and equity	237,459	207,920

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

Strad Energy Services Ltd.

Consolidated Statement of Income and Comprehensive Income

For the years ended December 31, 2014 and 2013

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

	2014	2013
	$	$
Revenue	219,784	189,574
Expenses		
Operating expenses (note 26)	138,093	126,076
Depreciation (note 8)	23,852	27,805
Amortization of intangible assets (note 9)	716	1,169
Selling, general and administration (note 26)	22,517	22,380
Share-based payments (note 15)	480	590
(Gain) loss on disposal of property, plant and equipment	(350)	1,301
Foreign exchange loss (gain)	35	(207)
Finance fees	259	319
Interest expense	2,172	2,954
Loss on assets held for sale (note 7)	188	812
Impairment loss (note 25)	406	1,901
Restructuring recovery	—	(514)
Income before income tax	31,416	4,988
Income tax expense (recovery) (note 16)	8,419	(384)
Net income for the period	22,997	5,372
Other comprehensive income		
Items that may be reclassified subsequently to net income		
Cumulative translation adjustment	2,849	2,054
Comprehensive income for the period	25,846	7,426
Earnings per share:		
Basic	$0.63	$0.15
Diluted	$0.61	$0.14

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, 2014 and 2013

(in thousands of Canadian dollars)

	Attributable to equity owners of the Company				
	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Retained earnings (deficit) $	Total equity $
Balance - January 1, 2014	117,824	11,612	603	(1,190)	128,849
Net income for the period	—	—	—	22,997	22,997
Other comprehensive income (net of tax):					
Cumulative translation adjustment	—	—	2,849	—	2,849
Comprehensive income for the period	—	—	2,849	22,997	25,846
Exercise of options (note 15)	135	(335)	—	—	(200)
Share-purchase loan repayments	417	—	—	—	417
Share-purchase loan issued	(25)	—	—	—	(25)
Dividends declared	—	—	—	(9,875)	(9,875)
Employee share options:					
Value of services recognized	—	480	—	—	480
Balance - December 31, 2014	118,351	11,757	3,452	11,932	145,492
Balance - January 1, 2013	117,462	11,016	(1,451)	1,632	128,659
Net income for the period	—	—	—	5,372	5,372
Other comprehensive income (net of tax):					
Cumulative translation adjustment	—	—	2,054	—	2,054
Comprehensive income for the period	—	—	2,054	5,372	7,426
Exercise of options (note 15)	—	(48)	—	—	(48)
Share-purchase loan repayments	492	—	—	—	492
Share-purchase loan issued	(130)	—	—	—	(130)
Dividends declared	—	—	—	(8,194)	(8,194)
Employee share options:					
Value of services recognized	—	590	—	—	590
Other	—	54	—	—	54
Balance - December 31, 2013	117,824	11,612	603	(1,190)	128,849

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, 2014 and 2013

(in thousands of Canadian dollars)

Cash flow provided by (used in)	**2014** **$**	**2013** **$**
Operating activities		
Net income for the year	22,997	5,372
Adjustments for items not affecting cash:		
Depreciation and amortization	24,568	28,974
Deferred income tax expense (recovery) (note 16)	6,022	(1,787)
Share-based payments	145	542
Interest expense and finance fees	2,431	3,273
(Gain) loss on disposal of property, plant and equipment	(350)	1,301
Loss on assets held for sale	188	812
Impairment loss	406	1,901
Changes in items of non-cash working capital (note 18)	(5,867)	10,994
Net cash generated from operating activities	50,540	51,382
Investing activities		
Purchase of property, plant and equipment	(37,079)	(12,696)
Proceeds from sale of property, plant and equipment	3,662	1,495
Purchase of intangible assets	(312)	(546)
Purchase of assets held for sale	—	(125)
Proceeds from assets held for sale	662	1,895
Changes in items of non-cash working capital (note 18)	1,741	(7,657)
Net cash used in investing activities	(31,326)	(17,634)
Financing activities		
Proceeds on issuance of long-term debt	11,000	4,000
Repayment of long-term debt	(16,000)	(21,000)
Repayment of finance lease obligations (net)	(806)	(2,363)
Proceeds on repayment of share-purchase loan	421	378
Interest expense and finance fees	(2,431)	(3,273)
Payment of dividends	(9,318)	(8,194)
Changes in items of non-cash working capital (note 18)	317	362
Net cash used in financing activities	(16,817)	(30,090)
Effect of exchange rate changes on cash and cash equivalents	(1,344)	(3,049)
Decrease in cash and cash equivalents	1,053	609
Cash and cash equivalents (including bank indebtedness) – beginning of year	(1,879)	(2,488)
Cash and cash equivalents (including bank indebtedness) – end of period	(826)	(1,879)
Cash paid for income tax	1,715	1,637
Cash paid for interest	2,155	2,585

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

(in thousands of Canadian dollars)

1 General information

Strad Energy Services Ltd. and its subsidiaries (the "Company"), is an energy services company that focuses on providing well-site infrastructure solutions to the oil and natural gas industry in Canada and the United States (U.S.).

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 year-ended December 31, 2014 and 2013, comprise the Company and its subsidiaries. There are no significant restrictions on the Company's ability to access or use the assets and settle the 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 25, 2015.

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 preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The policies applied in these consolidated financial statements are based on applicable IFRS issued, effective, and outstanding, as of February 25, 2015, the date the Board approved the statements.

3 Significant accounting policies

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

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except as detailed in the Company's accounting policies disclosed in this note.

Changes in accounting policy and disclosures

(i) *New and amended standards adopted by the Company on January 1, 2014.*

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments: Presentation" ("IAS 32"), to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. The adoption of this standard has not had a material impact on the Company's consolidated financial statements.

(in thousands of Canadian dollars)

IFRIC 21, "Levies" ("IFRIC 21"), sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses diversity in practice around when the liability to pay a levy is recognized. IFRIC 21 addresses the accounting for a liability to pay a levy recognized in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, "Income Taxes". The adoption of this standard has not had a material impact on the Company's consolidated financial statements.

(ii) *New standards, amendments and interpretations issued but not yet effective.*

On July 24, 2014, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9") to replace International Accounting Standard 39, "Financial Instruments: Recognition and Measurement." IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

In May 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 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on its consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Consolidation

(i) *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 acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree 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 and contingent 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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

(in thousands of Canadian dollars)

Inter-company transactions, balances, income and expenses on transactions between the Company and its subsidiaries are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

(ii) *Disposal of subsidiaries*

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's executive management that makes strategic decisions.

Foreign currency translation

(i) *Functional and presentation currency*

The Company's presentation currency is the Canadian dollar ("$"). The functional currencies of Strad Energy Services Ltd. and its U.S. subsidiaries are the Canadian Dollar and U.S. Dollar ("USD"), respectively. These consolidated financial statements have been translated to the Canadian Dollar in accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates. This standard requires that assets and liabilities be translated using the exchange rate at period end. Income, expenses and cash flow items are translated using the rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). All resulting translation differences are recognized in other comprehensive income as "Cumulative translation adjustment".

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions, and from the translation at year-end exchange rates of monetary assets and liabilities, are recognized in the statement of income.

Cash and cash equivalents

In the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash on hand, and bank indebtedness.

Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction and measurement in subsequent periods is dependent on whether the instrument is classified as "fair value through profit and loss", "available-for-sale", "held-to-maturity", "loans and receivables", or "financial liabilities measured at amortized cost".

(in thousands of Canadian dollars)

Financial instruments classified as "fair value through profit and loss" are subsequently re-valued to fair market value with changes in the fair value being recognized into earnings; financial instruments classified as "available-for-sale" are subsequently re-valued to fair market value with changes in the fair value being recognized to other comprehensive income and financial instruments designated as "held-to-maturity", "loans and receivables", and "financial liabilities measured at amortized cost", are measured at amortized cost using the effective interest method of amortization.

Fair values

The Company's financial instruments consist of trade receivables, note receivable, deposits, bank indebtedness, accounts payable and accrued liabilities, finance lease obligations, dividends payable and long-term debt. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account and the loss is recognized in the consolidated statement of income.

(ii) Financial assets classified as available for sale: The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income which is removed from accumulated other comprehensive income and recognized in the consolidated statement of income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Trade receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost 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

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable 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.

(in thousands of Canadian dollars)

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
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

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing the proceeds 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, customer relationships, non-competition covenants and computer software with finite useful lives. These assets are capitalized and amortized on a straight-line basis in the statement of income over the period of their expected useful lives as follows:

Customer relationships	5 - 10 years
Patent	10 years
Technology assets	7 - 10 years
Non-competition covenants	3 - 6 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.

Long-term assets

Long-term assets include properties owned by the Company that are held to either earn rental income, or for capital appreciation, or both. The Company's long-term assets include single tenant properties held to earn rental income.

(in thousands of Canadian dollars)

Long-term assets are recognized at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policies for long-term assets are consistent with the depreciation basis of land and building as described in the accounting policy for fixed assets.

Long-term assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of non-financial assets policy.

Goodwill

Upon acquisition, goodwill is attributed to the applicable cash-generating unit ("CGU") or aggregate CGU's that are expected to benefit from the business combination's synergies. Goodwill is attributed to the CGU's that collectively form the Canadian Operations and U.S. Operations segments. This represents the lowest level that goodwill is monitored for internal management purposes. Subsequent measurement of goodwill is at cost less any accumulated impairments.

Goodwill, which is calculated as the aggregate of the consideration transferred, the amount of any non-controlling interest, and the fair value of any previously held interest less the fair value of the net assets acquired, is not amortized. Rather, goodwill is tested for impairment at least annually and any resulting impairment loss is recognized in income in the year that it is identified. The carrying value of goodwill is compared to the recoverable amount, which is the greater of its fair value less costs of disposal or value in use. Value in use is derived by estimating the discounted pre-tax future net cash flows for the aggregated CGU's. Discounted future net cash flows are based on forecasted revenues and expenses over the expected economic life of the underlying revenue generating assets and discounted using market rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU.

Impairment of non-financial assets

The carrying value of long-term assets, excluding goodwill, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or CGU may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net income.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction.

Reversals of impairments are recognized when the 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 net earnings. 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.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to dispose.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

(in thousands of Canadian dollars)

Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which dividends are approved by the Company's Board.

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 liability method, on 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.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 grants stock options to certain directors, officers and employees. The Company has two option plans. The new plan approved in 2010 includes options which vest over three years and expire after five years. The previous plan includes options which vest over four years and expire after six years. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing contributed surplus.

(in thousands of Canadian dollars)

Provisions

Provisions for restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured based on the discounted expected future cash outflows.

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. Finance leases are capitalized at the commencement of the lease term and measured at the lower of the fair value of the leased property and the present value of the minimum lease payments. Capitalized leased assets are amortized over the estimated useful life of the assets. Each lease payment is allocated between the liability and finance charges. 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.

Revenue

(i) *Services and rental:*

The Company's services and rental equipment are generally sold based upon service orders or contracts 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 billed to the customer is considered probable. Contract terms do not include a provision for significant post-service delivery obligations.

(ii) *Sale of goods:*

Revenue is recognized when it is probable that the economic benefits will flow to the Company and 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.

(iii) *Investment property revenue:*

The Company earns rental income from operating leases of its long-term 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.

(in thousands of Canadian dollars)

Interest expense

Interest expense comprises interest costs on the Company's borrowings and is recognized in profit and loss when incurred. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options granted to directors, officers, and employees.

4 Critical accounting estimates and Management judgments

The timely preparation of the consolidated financial statements requires that Management make estimates and use judgment regarding the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

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 are based on Management's best estimate using knowledge of past transactions and experience, 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. It is possible that changes in these factors may cause changes in the estimated useful lives of the Company's property, plant and equipment in the future.

Compensation costs accrued for long-term share-based compensation plans are subject to their fair value estimation by using pricing models such as the Black-Scholes model which is based on significant assumptions such as volatility, dividend yield and expected term.

Inventory is to be carried at the lower of cost and net realizable value. Management's best estimate of net realizable value is the selling price prevailing in the market.

The Company tests annually whether goodwill has suffered any impairment. Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or CGU may not be recoverable. The recoverable amounts of assets or CGU's are determined using the greater of fair value less costs of disposal and value-in-use. Fair value less costs to sell and value-in-use calculations require the use of estimates, assumptions, and judgments. Value-in-use calculations require management to use assumptions regarding projected future sales, earnings, and capital investment, consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows. Fair value less costs to sell requires management to make judgments of fair value using such estimates as market rental rates for comparable properties, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates, and terminal capitalization rates, as well as estimations of costs to sell.

(in thousands of Canadian dollars)

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty. 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.

Significant Management judgments

The Company's assets are segregated into CGU's based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGU's is subject to Management's judgment.

5 Inventories

	As at December 31, 2014	As at December 31, 2013
Raw materials	$ 3,105	$ 3,103
Work in progress	—	256
Finished goods	4,295	2,429
	7,400	5,788

The cost of inventories recognized as expense and included in 'Operating expenses' for the year-ended December 31, 2014, amounted to $43.6 million (2013 - $52.7 million). During the year-ended December 31, 2014 and 2013, the Company had no write-downs of inventories to net realizable value.

6 Note receivable

	As at December 31, 2014	As at December 31, 2013
Three-year note receivable	$ —	$ 350
Current portion	—	350
Long-term portion	—	—

On December 12, 2011, the Company sold its investment in Strad Controls Ltd. As part of the consideration, the Company received a ninety-day, non-interest bearing note receivable for $1.0 million, which was repaid in full on March 11, 2012, and a second $1.0 million three-year note receivable, which was repaid in full on December 12, 2014.

7 Assets held for sale

	Land and building	Equipment – Canadian Operations	Equipment – U.S. Operations	Total
As at December 31, 2013	$ 2,127	$ 435	$ 605	$ 3,167
Divestitures	—	(353)	(568)	(921)
Foreign currency translation	193	—	24	217
Transfers	(2,320)	—	117	(2,203)
As at December 31, 2014	—	82	178	260

Assets held for sale are accounted for at the lower of carrying value and fair value less costs to dispose.

Land and building

During the year, the Company transferred purchased land and building into long-term assets as at December 31, 2014, as the assets are no longer held for sale.

Equipment

As at December 31, 2014, the Company classified equipment with a collective carrying value of $0.1 million (2013 - $0.3 million) as assets held for sale. For the year-ended December 31, 2014 and 2013, no impairment loss was recognized on the equipment. The equipment is included in the Canadian Operations and U.S. Operations segments (see note 19).

(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, 2013	$ 188,528	$ 15,830	$ 6,203	$ 2,978	$ 2,197	$ 215,736
Capital expenditures	33,227	2,907	769	136	40	37,079
Divestitures	(3,910)	(5,560)	(2,292)	(541)	(340)	(12,643)
Transfers	(4,043)	(66)	16	—	5	(4,088)
Other	122	(515)	457	—	—	64
Foreign currency translation	9,836	354	61	83	50	10,384
As at December 31, 2014	223,760	12,950	5,214	2,656	1,952	246,532

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2012	$ 188,628	$ 16,398	$ 5,910	$ 2,595	$ 2,020	$ 215,551
Capital expenditures	11,130	1,340	378	295	42	13,185
Divestitures	(6,083)	(1,971)	(503)	(10)	(22)	(8,589)
Transfers	(8,937)	—	—	—	—	(8,937)
Reclassification	(109)	(363)	331	39	102	—
Foreign currency translation	6,880	226	30	59	51	7,246
Asset held for sale	(2,994)	—	—	—	—	(2,994)
Other	13	200	57	—	4	274
As at December 31, 2013	188,528	15,830	6,203	2,978	2,197	215,736

Accumulated Depreciation

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2013	$ 57,914	$ 9,225	$ 3,180	$ 1,585	$ 1,724	$ 73,628
Depreciation	19,941	2,302	833	579	197	23,852
Divestitures	(3,392)	(3,938)	(1,329)	(519)	(127)	(9,305)
Transfers	(4,037)	(42)	12	—	—	(4,067)
Other	23	—	—	—	—	23
Foreign currency translation	3,057	133	27	52	32	3,301
As at December 31, 2014	73,506	7,680	2,723	1,697	1,826	87,432

	Rental equipment	Automotive equipment	Tools & equipment	Office furniture & fixtures	Other (1)	Total
As at December 31, 2012	$ 45,674	$ 7,524	$ 2,891	$ 1,033	$ 1,387	$ 58,509
Depreciation	23,335	2,779	907	493	291	27,805
Divestitures	(3,654)	(1,211)	(375)	(7)	(6)	(5,253)
Transfers	(8,930)	—	—	—	—	(8,930)
Reclassification	(34)	(25)	(14)	39	34	—
Foreign currency translation	2,009	131	(260)	27	18	1,925
Impairment loss	1,462	—	7	—	—	1,469
Asset held for sale	(1,954)	—	—	—	—	(1,954)
Other	6	27	24	—	—	57
As at December 31, 2013	57,914	9,225	3,180	1,585	1,724	73,628

Net book value						
As at December 31, 2012	$ 142,954	$ 8,874	$ 3,019	$ 1,562	$ 633	$ 157,042
As at December 31, 2013	130,614	6,605	3,023	1,393	473	142,108
As at December 31, 2014	150,254	5,270	2,491	959	126	159,100

(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 $286 thousand (2013 - $97 thousand) and $2.4 million (2013 - $2.9 million) respectively.

(in thousands of Canadian dollars)

9 Intangible assets

Cost

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	$ 7,200	$ 3,025	$ 900	$ 1,947	$ 13,072
Capital expenditures	—	277	—	35	312
Other	—	(98)	—	—	(98)
Foreign currency translation	—	35	—	(2)	33
As at December 31, 2014	7,200	3,239	900	1,980	13,319

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	$ 7,200	$ 2,652	$ 900	$ 1,733	$ 12,485
Capital expenditures	—	368	—	178	546
Transfers	—	(5)	—	—	(5)
Foreign currency translation	—	10	—	36	46
As at December 31, 2013	7,200	3,025	900	1,947	13,072

Accumulated Amortization

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2013	$ 7,200	$ 2,029	$ 898	$ 1,260	$ 11,387
Amortization	—	310	2	404	716
Divestitures	—	—	—	(45)	(45)
Foreign currency translation	—	21	—	30	51
As at December 31, 2014	7,200	2,360	900	1,649	12,109

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	$ 6,899	$ 1,242	$ 837	$ 786	$ 9,764
Amortization	301	350	61	457	1,169
Foreign currency translation	—	5	—	17	22
Impairment loss	—	432	—	—	432
As at December 31, 2013	7,200	2,029	898	1,260	11,387

Net Book Value

	Customer relationships	Patent and technology asset	Non-competition covenants	Computer software	Total
As at December 31, 2012	$ 301	$ 1,410	$ 63	$ 947	$ 2,721
As at December 31, 2013	—	996	2	687	1,685
As at December 31, 2014	—	879	—	331	1,210

(in thousands of Canadian dollars)

10 Long-term assets

Cost		
As at December 31, 2013	$	—
Transfer from assets held for sale		2,320
Impairment		(406)
As at December 31, 2014		1,914

Net book Value		
As at December 31, 2013	$	—
As at December 31, 2014		1,914

As at December 31, 2014, the Company transferred land and building into long-term assets from assets held for sale. In the current year, as a result of a leasing arrangement, the Company has reevaluated the classification of the assets and determined that the assets should be reclassified as a long term asset, on the basis that the assets are no longer held for sale.

The Company determined the recoverable amount of the land and building by using commercial rental property valuation techniques and Level 3 market-corroborated inputs. Where available, the recoverable amounts are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. A valuation by an independent valuer has not been performed. Long-term assets are included in the U.S. Operations segment (see note 19).

During the year-ended December 31, 2014, the Company recognized no direct operating costs related to its long-term assets and no rental income was earned. Subsequent to the transfer of the land and building from assets held for sale, the property was revalued to its recoverable amount and a loss of $0.4 million (2013 - $0.7 million) has been recognized in the Company's statement of consolidated income in impairment loss.

11 Goodwill

Management reviews the performance of the business based on its operating segments. Goodwill is monitored at the operating segment level. The Company's operating segments are Canadian Operations, U.S. Operations, Product Sales and Corporate, as outlined in note 19. As at December 31, 2014, the aggregate carrying amount of goodwill is $17.3 million, and has been allocated to the Canadian Operations and U.S. Operations segments. There were no additions to goodwill during 2014 or 2013.

		As at December 31, 2014		**As at December 31, 2013**
Canadian Operations	$	7,675	$	7,675
U.S. Operations		9,602		9,602
		17,277		17,277

The recoverable amount of each segment has been determined based on fair value less costs of disposal calculations. As at December 31, 2014, it was concluded that the recoverable amount determined using a discounted after-tax cash flow calculation exceeded the carrying amount in both segments, and therefore no impairment was recorded.

(in thousands of Canadian dollars)

The recoverable amount of the Canadian Operations and U.S. Operations segments were determined by discounting the future cash flows generated from the continuing use of the operating segments. Impairment testing in 2014 was determined similarly as in 2013. Future cash flows were projected over the remaining useful life of the primary assets within each segment, which is greater than 5 years, using the assumptions shown below.

The key assumptions used for impairment calculations in 2014 are as follows:

	As at December 31, 2014	As at December 31, 2013
Gross margin	32% - 48%	14% - 52%
Growth rate	3% - 13%	3% - 12%
Discount rate	15%	15%

Projected gross margins and growth rates are based on historical costs and current and projected market conditions in both Canada and the U.S.

12 Bank indebtedness

On September 30, 2014, the Company amended its syndicated credit facility, by lowering standby rates charged on the undrawn portion of the committed facility and extending the maturity date to September 30, 2017.

The Company's syndicated banking facility consists of an operating facility with a maximum principal amount of $15.0 million CAD, $10.0 million USD and an $85.0 million revolving facility, both of 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, 2014, the Company had access to the entire $110.0 million credit facilities. The syndicated banking facility bears interest at a variable rate, which is dependent on the Company's funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio.

Based on the Company's current funded debt to EBITDA ratio at December 31, 2014, the interest rate on the syndicated credit facility is bank prime plus 0.75% on prime rate advances and at the prevailing rate plus a stamping fee of 1.75% on bankers' acceptances. The syndicated credit facility matures on September 30, 2017. For the year-ended December 31, 2014, the overall effective rate on the operating facility was 4.16% (2013 - 4.01%). At December 31, 2014, $0.8 million (2013 - $1.9 million) was drawn on the operating facility. All bank covenants are in compliance as at December 31, 2014.

13 Obligations under finance lease

	As at December 31, 2014	As at December 31, 2013
Equipment under finance lease	$ 1,851	$ 2,657
Current portion	882	1,887
Long-term portion	969	770

(in thousands of Canadian dollars)

Minimum lease payments for equipment under finance lease for the next five years are as follows:

	December 31, 2014	December 31, 2013
2014	$ —	$ 1,993
2015	965	441
2016	874	363
2017	137	22
2018 and thereafter	—	—
Total minimum lease payments	1,976	2,819
Less: Amounts representing future interest at annual rates between 3% and 7%	(125)	(162)
	1,851	2,657

14 Long-term debt

	As at December 31, 2014	As at December 31, 2013
Revolving facility	$ 36,000	$ 38,500
Current portion	—	—
Long-term portion	36,000	38,500

On September 30, 2014, the Company amended its syndicated credit facility, by lowering standby rates charged on the undrawn portion of the committed facility and extending the maturity date to September 30, 2017.

As at December 31, 2014, the Company had access to the maximum available $85.0 million revolving facility (see note 12) of which $36.0 million was drawn. Required monthly payments are interest only with the principal due September 30, 2017. The overall effective rate on the revolving facility at December 31, 2014, was 3.44% (2013 – 3.51%).

15 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, 2014, there are no Class B, C, D, E or F shares outstanding.

b) Issued and outstanding

	Year-ended December 31, 2014		Year-ended December 31, 2013	
	Number of shares	Amount $	Number of shares	Amount $
Balance, beginning of period	37,251,301	117,824	37,251,301	117,462
Share-purchase loans - repayment	—	439	—	516
Share-purchase loan - issuance	—	(25)	—	(130)
Interest on share-purchase loans	—	(22)	—	(24)
Exercise of options	27,899	135	—	—
Total common shares, end of period	37,279,200	118,351	37,251,301	117,824

(in thousands of Canadian dollars)

c) Share-based payments

Options to purchase common shares may be granted by the Board of Directors to directors, officers, and employees of the Company. The Company has two option plans. In November 2010, the Board of Directors approved a new stock option plan with options with a term of five years and each stock option provides the employee with the right to purchase one common share. Options vest one-third on each of the first, second and third anniversary dates of the grant date.

Options granted under the previous plan have a term of six years and either vest one-third on each of the second, third and fourth anniversary dates of the grant date or one-half on each of the first and second anniversary dates of the grant date.

	As at December 31, 2014		As at December 31, 2013	
	Outstanding options	Weighted average exercise price	Outstanding options	Weighted average exercise price
Balance, beginning of period	2,326,834	$3.80	2,145,334	$3.99
Granted	656,000	$3.71	660,000	$3.42
Exercised	(356,978)	$3.70	(78,499)	$2.50
Expired - vested	(145,000)	$4.00	(42,000)	$6.50
Forfeited - vested	(28,994)	$4.32	(252,825)	$4.21
Forfeited - unvested	(212,688)	$3.73	(105,176)	$1.08
Balance, end of period	2,239,174	$3.78	2,326,834	$3.80

For the year-ended December 31, 2014, the weighted average share price on exercises was $4.63 (2013 - $3.15).

Details of the exercise prices and expiry dates of options outstanding and exercisable as at December 31, 2014, are as follows:

	As at December 31, 2014					
Exercise price	Outstanding options	Weighted average exercise price	Remaining contractual life (years)	Vested options	Remaining contractual life (years)	Weighted average exercise price
$2.50 - $3.99	1,295,672	$ 3.35	3.15	405,965	1.88	$ 2.87
$4.00 - $4.99	860,502	$ 4.30	1.8	652,652	1.63	$ 4.26
$5.00 - $5.99	83,000	$ 5.09	2.44	55,333	2.44	$ 5.09
	2,239,174	$ 3.78		1,113,950		$ 3.79

	As at December 31, 2013					
Exercise price	Outstanding options	Weighted average exercise price	Remaining contractual life (years)	Vested options	Remaining contractual life (years)	Weighted average exercise price
$2.50 - $3.99	936,833	$ 3.11	3.45	216,329	2.01	$ 2.50
$4.00 - $4.99	1,304,001	$ 4.22	2.25	742,631	1.75	$ 4.14
$5.00 - $5.99	86,000	$ 5.1	3.44	28,664	3.44	$ 5.10
	2,326,834	$ 3.80		987,624		$ 3.81

The Company recognized compensation expense of $480 thousand during the year-ended December 31, 2014, (2013 - $590 thousand). During the year-ended December 31, 2014, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate - 1.61%, expected volatility - 41%, forfeiture rate - 14% and an expected quarterly dividend of 5.5 - 7.0 cents per share.

d) Contributed surplus

	Year-ended December 31, 2014	Year-ended December 31, 2013
Balance, beginning of year	$ 11,612	$ 11,016
Share-based payments expense	480	590
Exercise of options	(335)	(48)
Other	—	54
Balance, end of period	11,757	11,612

e) Per share amounts

	Year-ended December 31, 2014	Year-ended December 31, 2013
Basic weighted average shares outstanding	36,788,819	36,611,597
Dilutive effect of stock options	330,657	109,571
Dilutive effect of share-purchase loans	472,409	639,704
Diluted weighted average shares outstanding	37,591,885	37,360,872

f) Dividend payable

On January 10, 2014, and April 11, 2014, the Company paid a dividend of 5.5 cents per share. On July 11, 2014, and October 10, 2014, the Company paid a dividend of 7.0 cents per share. On November 4, 2014, the Company's Board of Directors declared a dividend payable on January 9, 2015, to shareholders of record at the close of business on December 31, 2014.

16 Income tax

	Year-ended December 31, 2014	Year-ended December 31, 2013
Current income tax expense	$ 2,397	$ 1,403
Deferred income tax expense (recovery)	6,022	(1,787)
Income tax expense (recovery)	8,419	(384)

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:

(in thousands of Canadian dollars)

		Year-ended December 31, 2014		Year-ended December 31, 2013
Net income from operations before income taxes	$	31,416	$	4,988
Income taxes at statutory rate (2014 - 25%, 2013 - 25%)		7,853		1,247
Permanent differences		(672)		(870)
Adjustments related to filed and amended tax returns		(146)		(21)
Foreign tax rate differential		1,258		(588)
Change in income tax rates		21		(178)
Other		105		26
Income tax expense (recovery)		8,419		(384)

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 components of deferred income taxes are as follows:

		As at December 31, 2014		As at December 31, 2013
Property, plant and equipment	$	(31,745)	$	(30,477)
Long-term assets		432		—
Intangible assets		(82)		(433)
Allowance for doubtful accounts		415		250
Prepaids and accruals		(319)		(234)
Share-based payments		163		135
Share issue costs		74		262
Lease obligations		159		386
Loss carry-forwards		16,260		22,181
Other		520		297
Deferred tax liability -net		(14,123)		(7,633)

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 recognized deferred income tax assets of $16.3 million (2013 - $22.2 million) in respect of losses amounting to $36.3 million (2013 - $57.7 million) that can be carried forward against future taxable income and are due to expire between 2028 and 2033.

17 Commitments and contingencies

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

	December 31, 2014	December 31, 2013
2015	4,619	3,791
2016	3,627	3,171
2017	2,714	2,333
2018	1,859	1,601
2019 and thereafter	4,497	4,349
	17,316	15,245

The Company is involved in a limited number of legal claims associated with the normal course of operations. The Company believes it has made adequate provisions for such legal claims. There are no individually or collectively significant claims.

(in thousands of Canadian dollars)

18 Changes in non-cash working capital

	December 31, 2014	December 31, 2013
Trade receivables	$ (12,973)	$ (2,151)
Inventories	(1,612)	6,234
Prepaids and deposits	31	607
Income taxes receivable	40	1,486
Notes receivable	350	1,044
Accounts payable and accrued liabilities	9,302	1,159
Deferred revenue	(526)	625
Notes payable	—	(1,492)
Income taxes payable	1,579	—
Restructuring provision	—	(3,813)
Changes in items of non-cash working capital	(3,809)	3,699
Changes in items of non-cash working capital - investing	1,741	(7,657)
Changes in items of non-cash working capital - financing	317	362
Changes in items of non-cash working capital - operating	(5,867)	10,994
Changes in items of non-cash working capital	(3,809)	3,699

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 Executive Management Team views the business as two separate sources of revenue. The primary source of revenue is generated from the Company's core business of providing well-site infrastructure solutions to exploration and production companies in the oil and natural gas industry. The Company's core business is split geographically between Canada and the U.S. The Company's second source of revenue, Product Sales, is derived from manufactured Product Sales to external customers, third party equipment sales to existing customers plus sales of equipment from the Company's existing fleet to customers.

The Corporate segment consists of costs incurred to operate a public company, including a portion of the Executive Management Team, corporate accounting, 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)

Year-ended December 31, 2014	Canadian Operations	U.S. Operations	Product Sales	Corporate	Total
Revenue	$ 97,853	$ 73,840	$ 48,091	$ —	$ 219,784
Depreciation and amortization	9,256	14,287	616	409	24,568
Net interest expense	78	167	40	1,887	2,172
Finance fees	—	—	—	259	259
Earnings (loss) before income tax	19,251	9,707	5,208	(2,750)	31,416
Income tax expense	3,510	3,673	954	282	8,419
Capital expenditures (1)	22,707	14,330	26	16	37,079
Long-term assets	—	1,914	—	—	1,914
Goodwill	7,675	9,602	—	—	17,277
Total assets	114,646	120,917	505	1,391	237,459

Year-ended December 31, 2013	Canadian Operations	U.S. Operations	Product Sales	Corporate	Total
Revenue	$ 70,452	$ 54,225	$ 64,897	$ —	$ 189,574
Depreciation and amortization	15,187	12,434	798	555	28,974
Net interest expense	178	603	67	2,106	2,954
Finance fees	—	—	—	319	319
Earnings (loss) before income tax	1,607	229	8,910	(5,758)	4,988
Income tax (recovery) expense	490	(1,751)	729	148	(384)
Capital expenditures (1)	5,895	6,643	137	21	12,696
Goodwill	7,675	9,602	—	—	17,277
Total assets	100,108	104,927	672	2,213	207,920

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

Revenue by geography	Year-ended December 31, 2014	Year-ended December 31, 2013
Canada	$ 144,712	$ 131,398
U.S.	75,072	58,176
Total	219,784	189,574

	As at December 31, 2014			As at December 31, 2013		
	Capital assets & goodwill	Other assets	Total assets	Capital assets & goodwill	Other assets	Total assets
Canada	$ 83,594	$ 32,947	$ 116,541	$ 75,325	$ 27,666	$ 102,991
U.S.	93,993	26,925	120,918	85,745	19,184	104,929
Total	177,587	59,872	237,459	161,070	46,850	207,920

(in thousands of Canadian dollars)

During the year-ended December 31, 2014, the Product Sales segment had intercompany sales of $0.4 million (2013 - $2.0 million) to the Canadian Operations segment, and $6.4 million (2013 - $2.5 million) 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, 2014	As at December 31, 2013
Bank indebtedness	$ 826	$ 1,879
Long-term debt	36,000	38,500
Finance leases	1,851	2,657
Total debt	38,677	43,036
Total equity	145,492	128,849
Total capitalization	184,169	171,885

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, 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, 2014, the Company is in compliance with respect to these covenants.

21 Financial instruments

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

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 industry, and the ultimate collection of trade receivables is dependent on both industry related factors and 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.

Counterparty credit risk is managed through established credit management techniques, including conducting financial and other assessments to establish and monitor a counterparty's creditworthiness, setting credit limits and monitoring exposures against these limits. The Company monitors and manages its concentration of counterparty credit risk on an ongoing basis. The Company believes these measures minimize its counterparty credit risk but there is no certainty that they will protect it against all material losses. As at December 31, 2014, the Company assessed the collectability of the accounts receivable over 90 days outstanding and determined the accounts to be collectible.

	As at December 31, 2014	As at December 31, 2013
Under 30 days	$ 35,010	$ 25,857
31-60 days	8,783	5,531
61-90 days	2,339	3,168
Over 90 days	2,410	1,013
Trade receivables	48,542	35,569

As at December 31, 2014, the Company had an allowance for doubtful accounts of $1.0 million (2013 - $0.7 million) with respect to potentially uncollectible accounts. The Company has significant exposure to one customer that accounted for 11% (2013 -10%) of revenue from operations for the period ended December 31, 2014. No other customers accounted for more than 10% of revenue from operations.

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 $1.0 million of trade receivables above for which a reserve balance 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:

	2015	2016	2017	2018	2019
	Less than 1 year	1 – 2 years	2 - 3 years	3 – 4 years	4 – 5 years
Accounts payable and accrued liabilities	$ 34,705	$ —	$ —	$ —	$ —
Bank indebtedness [1]	861	—	—	—	—
Long-term debt [1]	1,237	1,237	37,237	—	—
Obligations under finance lease [1]	965	874	137	—	—
Dividends payable	2,609	—	—	—	—
Total	40,377	2,111	37,374	—	—

[1] Includes principal and interest

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.

(in thousands of Canadian dollars)

i) *Foreign exchange risk*

Foreign currency exchange rate risk is the risk that the fair value of 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 year-ended December 31, 2014, 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 $49 thousand (2013 - $27 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 year-ended December 31, 2014, if interest rates had been 1% lower with all other variables constant, after tax net earnings for the period would have been approximately $355 thousand higher (2013 - $400 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 year-ended December 31, 2014.

22 Fair value measurement

Fair values of financial assets and liabilities

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

		As at December 31, 2014		As at December 31, 2013
	Fair value amount	Carrying amount	Fair value amount	Carrying amount
Loans and receivables:				
Trade receivables	$ 48,542	$ 48,542	$ 35,569	$ 35,569
Deposits	721	721	557	557
Note receivable	—	—	350	350
Financial liabilities:				
Bank indebtedness	826	826	1,879	1,879
Accounts payable and accrued liabilities	34,705	34,705	25,403	25,403
Long-term debt	36,000	36,000	38,500	38,500
Obligations under finance lease	1,851	1,851	2,657	2,657
Dividends payable	2,609	2,609	2,050	2,050

(in thousands of Canadian dollars)

Fair value measurements recognized in the balance sheet 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).

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:

		For the year-ended		
		December 31, 2014		**December 31, 2013**
Salaries and short-term employee benefits	$	2,826	$	2,454
Share-based payments		263		269
Termination payments		264		114
		3,353		2,837

ii) *Loans to key management*

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

		For the year-ended		
		December 31, 2014		**December 31, 2013**
Opening balance	$	1,467	$	1,845
Share purchase loans issued		—		99
Repayment of share purchase loan		(421)		(459)
Interest charged		22		25
Interest paid		(18)		(43)
		1,050		1,467

Certain key management personnel have loans outstanding totaling $1.1 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. After three years, 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, 2014, there were no loan advances made to key management (year-ended December 31, 2013 - $99 thousand) and loan principal repayments of $421 thousand were received (year-ended December 31, 2013 - $459 thousand).

For the year-ended December 31, 2014, interest of $22 thousand was charged by the Company on loans to key management (year-ended December 31, 2013 - $25 thousand) and interest repayments of $18 thousand were received (year-ended December 31, 2013 – $43 thousand).

(in thousands of Canadian dollars)

24 Employee benefits expense

Included in Operating expenses and Selling, general and administration are the following employee benefits expense:

		Year-ended December 31, 2014		Year-ended December 31, 2013
Salaries and short-term employee benefits	$	37,345	$	36,517

The Company does not have a pension plan. For the year-ended December 31, 2014, terminations payments of $601 thousand (2013 - $156 thousand) were included in 'Selling, general and administration'.

25 Impairment loss

		Year-ended December 31, 2014		Year-ended December 31, 2013
Intangible assets - Corporate segment	$	—	$	432
Equipment - Canadian Operations segment		—		846
Equipment - U.S. Operations segment		406		623
Impairment loss		406		1,901

Intangible assets

During the year-ended December 31, 2013, it was determined that no future economic benefits would be generated by certain technology assets and the Company recorded an impairment loss of $0.4 million (see note 9).

Equipment

During the year-ended December 31, 2013, it was determined that the carrying amount of certain equipment was not recoverable as identical assets were sold during the year-ended December 31, 2013, at a loss. Based on the observable fair value less costs of disposal, the Company recorded an impairment loss upon initial classification of equipment held for sale of $1.5 million (see note 8). The fair value measurement is categorized as a Level 3 input.

Land and building

During the year-ended December 31, 2014, the land and building transferred from assets held for sale was revalued to its recoverable amount and a loss on revaluation has been recognized in the Company's consolidated statement of income in impairment loss (see note 10).

(in thousands of Canadian dollars)

26 Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

During the first quarter of 2014, Management completed a comprehensive review of the Company's definition of selling, general and administration expenses. The review gave consideration to employees who were previously classified in selling, general and administration and the job functions those individuals were performing for the Company. As a result of this review, management determined that a portion of these employees perform functions which are more closely related to the operations of the business and reclassified the respective costs to operating expenses in the current year. Management has reclassified $2.0 million and $7.0 million of selling, general and administration costs to operating expenses for the three and twelve months ended December 31, 2013, respectively.