# Strad Energy Services Ltd.

Unaudited Condensed Interim Consolidated Financial Statements
**As at and for the three months ended March 31, 2016 and 2015**

**Strad Energy Services Ltd.**

Interim Consolidated Statement of Financial Position
For the three months ended March 31, 2016 and 2015
**(Unaudited)**

| (in thousands of Canadian dollars) | As at March 31, 2016 $ | As at December 31, 2015 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 1,601 | — |
| Trade receivables (note 17) | 11,116 | 16,754 |
| Inventories (note 4) | 4,808 | 5,193 |
| Prepaids and deposits | 1,448 | 1,484 |
| Income taxes receivable | 1,822 | 1,604 |
| | 20,795 | 25,035 |
| **Non-current assets** | | |
| Property, plant and equipment (note 5) | 130,172 | 140,977 |
| Intangible assets (note 6) | 652 | 800 |
| Long term assets (note 7) | 2,024 | 2,184 |
| Deferred income tax assets | 1,317 | 210 |
| **Total assets** | 154,960 | 169,206 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank indebtedness (note 8) | — | 2,874 |
| Accounts payable and accrued liabilities | 6,638 | 8,881 |
| Deferred revenue | — | 94 |
| Current portion of obligations under finance lease (note 9) | 586 | 783 |
| | 7,224 | 12,632 |
| **Non-current liabilities** | | |
| Long-term debt (note 10) | 15,500 | 15,500 |
| Obligations under finance lease (note 9) | 143 | 228 |
| Deferred income tax liabilities | 6,468 | 6,536 |
| **Total liabilities** | 29,335 | 34,896 |
| **Equity** | | |
| Share capital (note 11) | 118,459 | 118,401 |
| Contributed surplus (note 11) | 12,053 | 12,012 |
| Accumulated other comprehensive income | 24,363 | 30,153 |
| Retained earnings (deficit) | (29,250) | (26,256) |
| **Total equity** | 125,625 | 134,310 |
| **Total liabilities and equity** | 154,960 | 169,206 |

Commitments and contingencies (note 13)

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

**Strad Energy Services Ltd.**

Interim Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

For the three months ended March 31, 2016 and 2015

**(Unaudited)**

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

| | **Three months ended March 31,** | |
|---|---|---|
| | **2016** | **2015** |
| | **$** | **$** |
| **Revenue** | 15,258 | 34,370 |
| **Expenses** | | |
| Operating expenses (note 20) | 11,789 | 22,705 |
| Depreciation | 4,944 | 6,876 |
| Amortization of intangible assets | 181 | 147 |
| Amortization of long term assets | 24 | 22 |
| Selling, general and administration (note 20) | 3,030 | 4,519 |
| Share-based payments | 41 | 89 |
| Gain on disposal of property, plant and equipment | (193) | (45) |
| Foreign exchange gain | (437) | (135) |
| Finance fees | 47 | 47 |
| Interest expense | 244 | 496 |
| **Loss before income tax** | (4,412) | (351) |
| Income tax recovery (note 12) | (1,418) | (555) |
| **Net (loss) income for the period** | (2,994) | 204 |
| | | |
| **Other comprehensive income (loss)** | | |
| **Items that may be reclassified subsequently to net income (loss)** | | |
| Cumulative translation adjustment | (5,790) | 8,956 |
| **Total comprehensive income (loss) for the period** | (8,784) | 9,160 |
| | | |
| **Earnings (loss) per share:** | | |
| Basic | ($0.08) | $0.01 |
| Diluted | ($0.08) | $0.01 |

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

**Strad Energy Services Ltd.**
Interim Consolidated Statement of Changes in Equity
For the three months ended March 31, 2016 and 2015
**(Unaudited)**

(in thousands of Canadian dollars)

| | Attributable to equity owners of the Company | | | | |
|---|---|---|---|---|---|
| | **Share capital**<br>**$** | **Contributed surplus**<br>**$** | **Accumulated other comprehensive income**<br>**$** | **Retained earnings (deficit)**<br>**$** | **Total equity**<br>**$** |
| Balance - January 1, 2016 | 118,401 | 12,012 | 30,153 | (26,256) | 134,310 |
| Net loss for the period | — | — | — | (2,994) | (2,994) |
| Other comprehensive loss (net of tax): | | | | | |
| Cumulative translation adjustment | — | — | (5,790) | — | (5,790) |
| Comprehensive loss for the period | — | — | (5,790) | (2,994) | (8,784) |
| Shareholder loans (net) (note 11) | 58 | — | — | — | 58 |
| Employee share options: | | | | | |
| Value of services recognized | — | 41 | — | — | 41 |
| **Balance - March 31, 2016** | 118,459 | 12,053 | 24,363 | (29,250) | 125,625 |
| **Balance - January 1, 2015** | 118,351 | 11,757 | 12,950 | 11,932 | 154,990 |
| Net income for the period | — | — | — | 204 | 204 |
| Other comprehensive loss (net of tax): | | | | | |
| Cumulative translation adjustment | — | — | 8,956 | — | 8,956 |
| Comprehensive income for the period | — | — | 8,956 | 204 | 9,160 |
| Exercise of options | 1 | (1) | — | — | — |
| Shareholder loans (net) (note 11) | 10 | — | — | — | 10 |
| Dividends declared | — | — | — | (2,609) | (2,609) |
| Employee share options: | | | | | |
| Value of services recognized | — | 89 | — | — | 89 |
| **Balance - March 31, 2015** | 118,362 | 11,845 | 21,906 | 9,527 | 161,640 |

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

**Strad Energy Services Ltd.**
Interim Consolidated Statement of Cash Flow
For the three months ended March 31, 2016 and 2015
**(Unaudited)**

| (in thousands of Canadian dollars) | **Three months ended March 31,** | |
|---|---|---|
| | **2016** | **2015** |
| **Cash flow provided by (used in)** | **$** | **$** |
| **Operating activities** | | |
| Net (loss) income for the period | (2,994) | 204 |
| Adjustments for items not affecting cash: | | |
| Depreciation and amortization | 5,149 | 7,045 |
| Deferred income tax recovery (note 12) | (1,201) | (449) |
| Share-based payments | 41 | 89 |
| Interest expense and finance fees | 291 | 543 |
| Unrealized foreign exchange (gains) losses | (455) | 21 |
| Gain on disposal of property, plant and equipment | (193) | (45) |
| Changes in items of non-cash working capital (note 14) | 3,509 | 2,775 |
| **Net cash generated from operating activities** | 4,147 | 10,183 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (379) | (6,959) |
| Proceeds from sale of property, plant and equipment | 1,710 | 791 |
| Purchase of intangible assets | (42) | (75) |
| Changes in items of non-cash working capital (note 14) | (3) | (3,143) |
| **Net cash used in investing activities** | 1,286 | (9,386) |
| **Financing activities** | | |
| Proceeds on issuance of long-term debt | 3,000 | — |
| Repayment of long-term debt | (3,000) | (4,500) |
| Repayment of finance lease obligations (net) | (178) | (334) |
| Issuance of shareholder loan (net of repayments) | 58 | 10 |
| Interest expense and finance fees | (291) | (543) |
| Payment of dividends | — | (2,609) |
| Changes in items of non-cash working capital (note 14) | (2) | (1) |
| **Net cash used in financing activities** | (413) | (7,977) |
| Effect of exchange rate changes on cash and cash equivalents | (545) | 1,778 |
| **Increase (decrease) in cash and cash equivalents** | 4,475 | (5,402) |
| **Cash and cash equivalents (including bank indebtedness) – beginning of year** | (2,874) | (826) |
| **Cash and cash equivalents (including bank indebtedness) – end of period** | 1,601 | (6,228) |
| Cash paid for income tax | — | 1,600 |
| Cash paid for interest | 262 | 435 |

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

(in thousands of Canadian dollars)

## 1 General information

Strad Energy Services Ltd. (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 condensed interim consolidated financial statements of the Company for the period ended March 31, 2016 and 2015, comprise the Company and its subsidiaries.

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 condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors ("the Board") on May 5, 2016.

## 2 Basis of preparation

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, IAS 34, *"Interim Financial Reporting",* and have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements for the year ended December 31, 2015.

The policies applied in these condensed interim consolidated financial statements are based on applicable IFRS issued, effective and outstanding as of May 5, 2016, the date the Board approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2015, could result in restatement of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company's IFRS annual consolidated financial statements at December 31, 2015.

## 3 Future accounting policy and disclosures

On January 13, 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16"), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. 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 standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 16 on its consolidated financial statements.

A description of other standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2015.

(in thousands of Canadian dollars)

## 4 Inventories

| | As at March 31, 2016 | As at December 31, 2015 |
|---|---|---|
| Raw materials | $ 1,097 | $ 1,003 |
| Finished goods | 3,711 | 4,190 |
| | 4,808 | 5,193 |

The cost of inventories recognized as expense and included in 'Operating expenses' for the three months ended March 31, 2016, amounted to $1.7 million (2015 - $2.6 million). During the three months ended March 31, 2016 and 2015, the Company had no write-downs of inventories to net realizable value.

## 5 Property, plant and equipment

**Cost**

| | 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 | 330 | 49 | — | — | — | 379 |
| Divestitures and transfers | (3,308) | (1,472) | (3) | — | — | (4,783) |
| Foreign currency translation | (9,208) | (186) | (110) | (75) | (32) | (9,611) |
| As at March 31, 2016 | 239,110 | 8,867 | 5,371 | 2,791 | 2,080 | 258,219 |

**Accumulated depreciation and impairment**

| | 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 | 4,381 | 348 | 117 | 87 | 11 | 4,944 |
| Divestitures and transfers | (2,207) | (1,077) | (2) | — | — | (3,286) |
| Foreign currency translation | (4,597) | (95) | (84) | (62) | (31) | (4,869) |
| As at March 31, 2016 | 112,612 | 6,684 | 4,464 | 2,237 | 2,050 | 128,047 |

**Net book value**

| | | | | | | |
|---|---|---|---|---|---|---|
| As at December 31, 2015 | 136,261 | 2,969 | 1,051 | 654 | 42 | 140,977 |
| As at March 31, 2016 | 126,498 | 2,183 | 907 | 554 | 30 | 130,172 |

[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 $619 thousand (December 31, 2015 - $212 thousand) and $913 thousand (December 31, 2015 - $1.6 million) respectively.

(in thousands of Canadian dollars)

## 6 Intangible assets

**Cost**

| | Patent and technology asset | Computer software | Total |
|---|---|---|---|
| As at December 31, 2015 | $ 3,293 | $ 2,163 | 5,456 |
| Capital expenditures | — | 42 | 42 |
| Foreign currency translation | (28) | (41) | (69) |
| As at March 31, 2016 | 3,265 | 2,164 | 5,429 |

**Accumulated Amortization**

| | Patent and technology asset | Computer software | Total |
|---|---|---|---|
| As at December 31, 2015 | $ 2,624 | $ 2,032 | $ 4,656 |
| Amortization | 73 | 108 | $ 181 |
| Foreign currency translation | (24) | (36) | $ (60) |
| As at March 31, 2016 | 2,673 | 2,104 | $ 4,777 |

**Net Book Value**

| | Patent and technology asset | Computer software | Total |
|---|---|---|---|
| As at December 31, 2015 | $ 669 | $ 131 | $ 800 |
| As at March 31, 2016 | 592 | 60 | 652 |

## 7 Long-term assets

| **Cost** | |
|---|---|
| As at December 31, 2015 | $ 2,285 |
| Foreign currency translation | (145) |
| As at March 31, 2016 | 2,140 |

| **Accumulated Amortization** | |
|---|---|
| As at December 31, 2015 | $ 101 |
| Amortization | 24 |
| Foreign currency translation | (9) |
| As at March 31, 2016 | 116 |

| **Net book value** | |
|---|---|
| As at December 31, 2015 | $ 2,184 |
| As at March 31, 2016 | 2,024 |

Long-term assets consist of land and building that are included in the U.S. Operations segment (see note 18).

## 8 Bank indebtedness

The Company's syndicated banking facility consists of an operating facility with a maximum principal amount of $10.0 million CAD, $7.0 million USD and a $53.0 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 March 31, 2016, the Company had access to the maximum 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.

(in thousands of Canadian dollars)

Based on the Company's current funded debt to EBITDA ratio at March 31, 2016, the interest rate on the syndicated credit facility is bank prime plus 1.25% on prime rate advances and at the prevailing rate plus a stamping fee of 2.25% on bankers' acceptances. The syndicated credit facility matures on September 29, 2018. For the three months ended March 31, 2016, the overall effective rate on the operating facility was 3.71% (three months ended March 31, 2015 - 4.22%). At March 31, 2016, $nil (December 31, 2015 - $2.9 million) was drawn on the operating facility. All bank covenants are in compliance as at March 31, 2016.

## 9 Obligations under finance lease

| | As at March 31, 2016 | As at December 31, 2015 |
|---|---|---|
| Equipment under finance lease | $ 729 | $ 1,011 |
| Current portion | 586 | 783 |
| Long-term portion | 143 | 228 |

The finance leases bear interest ranging from 0% to 7% at March 31, 2016.

## 10 Long-term debt

| | As at March 31, 2016 | As at December 31, 2015 |
|---|---|---|
| Revolving facility | $ 15,500 | $ 15,500 |
| Current portion | — | — |
| Long-term portion | 15,500 | 15,500 |

As at March 31, 2016, the Company had access to $53.0 million of its revolving facility (see note 8) of which $15.5 million was drawn (December 31, 2015 - $15.5 million). Required monthly payments are interest only with the principal due September 29, 2018. The overall effective rate on the revolving facility at March 31, 2016, was 2.97% (December 31, 2015 – 3.78%).

## 11 Share capital

### a) Authorized

An unlimited number of Classes A, B, C, D, E and F shares without nominal or par value.
As at March 31, 2016, there are no Class B, C, D, E or F shares outstanding.

(in thousands of Canadian dollars)

**b) Issued and outstanding**

| | Three months ended March 31, 2016 | | Year-ended December 31, 2015 | |
|---|---|---|---|---|
| | Number of shares | Amount $ | Number of shares | Amount $ |
| Balance, beginning of year | 37,280,397 | 118,401 | 37,279,200 | 118,351 |
| Shareholder loan - repayment | — | 58 | — | 95 |
| Shareholder loan - issuance | — | — | — | (50) |
| Interest on shareholder loans | — | — | — | 2 |
| Exercise of options | — | — | 1,197 | 3 |
| Total common shares, end of period | 37,280,397 | 118,459 | 37,280,397 | 118,401 |

**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 March 31, 2016, options can be exercised for shares or net shares.

| | As at March 31, 2016 | | As at December 31, 2015 | |
|---|---|---|---|---|
| | Outstanding options | Weighted average exercise price | Outstanding options | Weighted average exercise price |
| Balance, beginning of year | 2,378,497 | $3.62 | 2,239,174 | $3.79 |
| Granted | 516,500 | $1.69 | 541,500 | $2.83 |
| Exercised | — | — | (8,000) | $2.50 |
| Naturally expired - vested | (463,000) | $3.79 | (5,000) | $4.00 |
| Expired - vested | (68,321) | $3.31 | (143,652) | $3.89 |
| Forfeited - unvested | (21,839) | $3.06 | (245,525) | $3.25 |
| Balance, end of period | 2,341,837 | $3.25 | 2,378,497 | $3.62 |

The Company recognized compensation expense of $41 thousand during the three months ended March 31, 2016 (2015 - $89 thousand). During the three months ended March 31, 2016, the fair value of options granted were calculated based on the Black-Scholes option pricing model with the following assumptions: risk free interest rate - 0.53%, expected volatility - 43%, a forfeiture rate of 21%, no expected quarterly dividend per share and an expected life of 5 years.

(in thousands of Canadian dollars)

### c) Contributed surplus

| | Three months ended March 31, 2016 | Year-ended December 31, 2015 |
|---|---|---|
| Balance, beginning of year | $ 12,012 | $ 11,757 |
| Share-based payments expense | 41 | 258 |
| Exercise of options | — | (3) |
| Balance, end of period | 12,053 | 12,012 |

**Per share amounts**

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Basic weighted average shares outstanding | 36,943,812 | 36,908,450 |
| Dilutive effect of stock options | — | 55,562 |
| Dilutive effect of shareholder loans | — | 370,874 |
| Diluted weighted average shares outstanding | 36,943,812 | 37,334,886 |

## 12 Income tax

| | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Current income tax recovery | $ (217) | $ (106) |
| Deferred income tax recovery | (1,201) | (449) |
| Income tax (recovery) expense | (1,418) | (555) |

## 13 Commitments and contingencies

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

| | As at March 31, 2016 | As at December 31, 2015 |
|---|---|---|
| 2016 | 3,349 | 4,508 |
| 2017 | 3,489 | 3,492 |
| 2018 | 2,605 | 2,616 |
| 2019 | 2,196 | 2,236 |
| 2020 | 1,974 | 2,020 |
| 2021 and thereafter | 3,341 | 3,520 |
| | 16,954 | 18,392 |

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)

## 14 Changes in non-cash working capital

| | For the three months ended | |
|---|---|---|
| | **March 31, 2016** | **March 31, 2015** |
| Trade receivables | $ 5,638 | $ 10,338 |
| Inventories | 385 | 1,072 |
| Prepaids and deposits | 36 | (873) |
| Income taxes receivable | (217) | (382) |
| Notes receivable | | 0 |
| Accounts payable and accrued liabilities | (2,244) | (8,803) |
| Deferred revenue | (94) | (142) |
| Income taxes payable | — | (1,579) |
| Changes in items of non-cash working capital | 3,504 | (369) |
| | | |
| Changes in items of non-cash working capital - investing | (3) | (3,143) |
| Changes in items of non-cash working capital - financing | (2) | (1) |
| Changes in items of non-cash working capital - operating | 3,509 | 2,775 |
| Changes in items of non-cash working capital | 3,504 | (369) |

## 15 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 and Product Sales 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, which include Surface Equipment, Environmental & Access Matting, Solids Control and Waste Management, Drill Pipe, EcoPond® (frac-water storage) and Matting Manufacturing to exploration and production companies in the oil and natural gas industry. Surface Equipment offerings provide support to drilling and completions projects for the oil and natural gas industry from start to finish. Environmental & Access Matting is used for a variety of applications from roads to rig site platforms and is proven to increase access to remote locations, protect sensitive terrain from damage and reduce reclamation costs. Solids Control and Waste Management is a closed-loop, zero discharge solids control and waste management system solution that is designed to maximize separation efficiency, lower drilling costs, reduce dilution volumes, and meet stricter environmental practices and standards. Drill Pipe is a comprehensive range of drilling-related subsurface equipment for purchase, lease or rent including drill pipe, heavy weight drill pipe, drill collars, and other handling equipment. EcoPond® is a frac-water storage solution that is designed to work safely, reduce environmental impact and lower completion costs. 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.

Corporate 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)

| Three months ended March 31, 2016 | Canadian Operations | U.S. Operations | Product Sales | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 8,575 | $ 4,786 | $ 1,897 | $ — | $ 15,258 |
| Operating expenses | 5,814 | 4,130 | 1,845 | — | $ 11,789 |
| Selling, general and administrative | 1,076 | 1,092 | — | 903 | $ 3,071 |
| Depreciation and amortization | 2,090 | 2,912 | 73 | 74 | 5,149 |
| Net interest expense | 14 | 37 | — | 193 | 244 |
| Finance fees | — | — | — | 47 | 47 |
| Earnings loss before income tax | 229 | (3,041) | (369) | (1,231) | (4,412) |
| Income tax (recovery) expense | (211) | (1,131) | (75) | (1) | (1,418) |
| | | | | | |
| Capital expenditures [1] | 83 | 296 | — | — | 379 |
| Total assets | 74,779 | 82,491 | 67 | (2,129) | 155,208 |

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

| Three months ended March 31, 2015 | Canadian Operations | U.S. Operations | Product Sales | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 17,898 | $ 14,087 | $ 2,385 | $ — | $ 34,370 |
| Operating expenses | 12,150 | 8,050 | 2,504 | — | 22,704 |
| Selling, general and administrative | 2,068 | 1,880 | 43 | 528 | 4,519 |
| Depreciation and amortization | 2,243 | 4,592 | 111 | 99 | 7,045 |
| Net interest expense | 22 | 86 | 7 | 381 | 496 |
| Finance fees | — | — | — | 47 | 47 |
| Earnings (loss) before income tax | 840 | (1,618) | 9 | 418 | (351) |
| Income tax (recovery) expense | 29 | (614) | (25) | 55 | (555) |
| | | | | | |
| Capital expenditures [1] | 5,252 | 1,629 | — | 78 | 6,959 |
| Total assets | 114,220 | 118,565 | 290 | 1,447 | 234,522 |

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

| Revenue by geography | Three months ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Canada | $ 10,472 | $ 19,859 |
| U.S. | 4,786 | 14,511 |
| Total | 15,258 | 34,370 |

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

(in thousands of Canadian dollars)

| | As at March 31, 2016 | | | As at March 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Capital assets and intangible assets** | **Other assets** | **Total assets** | **Capital assets, intangible assets & goodwill** | **Other assets** | **Total assets** |
| Canada | $ 60,529 | $ 12,189 | $ 72,718 | $ 86,063 | $ 29,894 | $ 115,957 |
| U.S. | 70,295 | 12,195 | 82,490 | 98,585 | 19,980 | 118,565 |
| Total | 130,824 | 24,384 | 155,208 | 184,648 | 49,874 | 234,522 |

During the three months ended March 31, 2016, the Product Sales segment had intercompany sales of $nil (2015 - $0.4 million) to the Canadian Operations segment and $nil (2015 - $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.

## 16 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 March 31, 2016** | **As at December 31, 2015** |
|---|---|---|
| Bank indebtedness | — | 2,874 |
| Long-term debt | 15,500 | 15,500 |
| Finance leases | 729 | 1,011 |
| Total debt | 16,229 | 19,385 |
| Total equity | 125,625 | 134,310 |
| Less: cash and cash equivalents | (1,601) | — |
| Total capitalization | 140,253 | 153,695 |

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 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 March 31, 2016, the Company is in compliance with respect to its covenants.

(in thousands of Canadian dollars)

## 17 Financial instruments

The Company's financial instruments consist of trade receivables, prepaids and 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 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.

| | As at March 31, 2016 | As at December 31, 2015 |
|---|---|---|
| Under 30 days | $ 7,577 | $ 10,999 |
| 31-60 days | 2,221 | 3,499 |
| 61-90 days | 349 | 1,340 |
| Over 90 days | 969 | 916 |
| Trade receivables | 11,116 | 16,754 |

As at March 31, 2016, the Company had an allowance for doubtful accounts of $1.5 million (December 31, 2015 - $1.6 million) with respect to potentially uncollectible accounts. The Company has significant exposure to one customer that accounted for 20% (March 31, 2015 - one customer at 14%) of revenue from operations for the three months ended March 31, 2016.

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 $1.5 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:

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| | Less than 1 year | 1 – 2 years | 2 - 3 years |
| Accounts payable and accrued liabilities | $ 6,638 | $ — | $ — |
| Long-term debt (1) | 345 | 460 | 15,960 |
| Obligations under finance lease (1) | 539 | 215 | — |
| Total | 7,522 | 675 | 15,960 |

(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 (loss) 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 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 period ended March 31, 2016, if the exchange rate had weakened by 1% against the Canadian dollar with all other variables constant, after tax net loss would have increased by $37 thousand (March 31, 2015 net earnings $16 thousand decrease). An equal and opposite impact would have occurred to after tax net loss 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 March 31, 2016, if interest rates had been 1% lower with all other variables constant, after tax loss earnings for the period would have been approximately $89 thousand lower (March 31, 2015 net earnings $78 thousand higher), due to lower interest expense. An equal and opposite impact would have occurred to net loss 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 March 31, 2016.

## 18 Fair value measurement

Fair values of financial assets and liabilities

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

(in thousands of Canadian dollars)

| | | As at March 31, 2016 | | As at December 31, 2015 |
|---|---|---|---|---|
| | Fair value amount | Carrying amount | Fair value amount | Carrying amount |
| **Loans and receivables:** | | | | |
| Cash | $ 1,601 | $ 1,601 | $ — | $ — |
| Trade receivables | 11,116 | 11,116 | 16,754 | 16,754 |
| Deposits | 852 | 852 | 411 | 411 |
| **Financial liabilities:** | | | | |
| Bank indebtedness | — | — | 2,874 | 2,874 |
| Accounts payable and accrued liabilities | 6,638 | 6,638 | 8,881 | 8,881 |
| Long-term debt | 15,500 | 15,500 | 15,500 | 15,500 |
| Obligations under finance lease | 729 | 729 | 1,011 | 1,011 |

## 19 Related party transactions

Loans to key management

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

| | | For the period ended |
|---|---|---|
| | March 31, 2016 | December 31, 2015 |
| Opening balance | $ 993 | $ 1,050 |
| Repayment of share purchase loan | (58) | (53) |
| Interest charged | — | 3 |
| Interest paid | — | (7) |
| | 935 | 993 |

Certain key management personnel and directors have loans outstanding totaling $0.9 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 period ended March 31, 2016, there were no loan advances made to key management (year-ended December 31, 2015 - $nil) and loan principal repayments of $58 thousand were received (year-ended December 31, 2015 - $53 thousand).

For the period ended March 31, 2016, no interest was charged by the Company on loans to key management (year-ended December 31, 2015 - $3 thousand) and no interest repayments were received (year-ended December 31, 2015 – $7 thousand).

(in thousands of Canadian dollars)

## 20 Expenses by Nature

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Operating Expenses** | | |
| Direct expenses: | | |
| Rental expenses | $ 640 | $ 2,381 |
| Service and trucking | 5,575 | 11,264 |
| Cost of sales and consumables | 1,874 | 3,062 |
| Total direct expenses | 8,089 | 16,707 |
| Indirect expenses: | | |
| Personnel costs | 1,281 | 3,720 |
| Occupancy and other | 2,419 | 2,277 |
| Total indirect expenses | 3,700 | 5,997 |
| **Total Operating Expenses** | 11,789 | 22,704 |

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Selling, general and administrative expenses** | | |
| Personnel costs | $ 1,430 | $ 2,625 |
| Occupancy and other | 1,600 | 1,894 |
| **Total selling, general and administrative expenses** | 3,030 | 4,519 |