CANYON SERVICES GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canyon Services Group Inc.

We have audited the accompanying consolidated financial statements of Canyon Services Group Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canyon Services Group Inc. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 2, 2017
Calgary, Canada

CANYON SERVICES GROUP INC.

Consolidated Balance Sheets

000's of dollars	Note	December 31, 2016	December 31, 2015
Assets			
Current assets:			
Cash		$2,473	$3,059
Trade and other receivables	4	46,843	59,142
Inventories		12,278	16,899
Prepayments		3,354	2,498
Current tax assets		17,359	9,418
Total current assets		82,307	91,016
Non-current assets:			
Property and equipment	10	324,620	362,036
Investment		458	364
Intangible assets	11	29,218	35,241
Goodwill	10, 11	21,431	21,431
Total non-current assets		375,727	419,072
Total assets		$458,034	$510,088
Liabilities and Equity			
Current liabilities:			
Trade and other payables	12	$52,307	$57,491
Finance leases	13	1,733	3,873
Dividend payable	15	-	2,074
Total current liabilities		54,040	63,438
Non-current liabilities:			
Bank indebtedness	13	25,000	60,000
Finance leases	13	3,480	4,779
Deferred tax liabilities	14	31,161	34,934
Total non-current liabilities		59,641	99,713
Equity:			
Share capital	15	366,196	300,616
Contributed surplus		22,854	18,819
Retained earnings (deficit)		(44,697)	27,502
Total equity		344,353	346,937
Total liabilities and equity		$458,034	$510,088

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

Signed: "Raymond P. Antony"
Raymond P. Antony

Signed: "Bradley P.D. Fedora"
Bradley P. D. Fedora

CANYON SERVICES GROUP INC.

Consolidated Statements of Comprehensive Loss

For the year ended December 31,

000's of dollars, except per share amounts	Note	2016	2015
Revenue		$239,566	$403,998
Depreciation - cost of services	6	(49,331)	(52,281)
Other - cost of services	6	(239,617)	(348,170)
Gross (loss) profit		(49,382)	3,547
Depreciation - administrative expenses	7	(2,003)	(2,283)
Share-based payment transactions - administrative expenses	7, 16	(8,668)	(6,507)
Other - administrative expenses	7	(20,392)	(24,498)
Bad debt expense	4	(3,571)	-
Amortization expense	11	(6,023)	(6,023)
Results from operating activities		(90,039)	(35,764)
Finance costs		(1,696)	(2,699)
Foreign exchange loss		(681)	(2,606)
Gain on sale of property and equipment		858	415
Gain on business combination	5	-	543
Write-off of equipment and onerous contracts	10, 18	(1,187)	(1,215)
Goodwill impairment	10, 11	-	(28,400)
Loss before income tax		(92,745)	(69,726)
Income tax (expense) recovery:			
Current	9	17,705	8,321
Deferred	9, 14	2,841	(658)
		20,546	7,663
Loss and comprehensive loss		($72,199)	($62,063)
Loss per share:	15		
Basic		($0.88)	($0.90)
Diluted		($0.88)	($0.90)

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

CANYON SERVICES GROUP INC.

Consolidated Statements of Changes in Equity

000's of dollars and shares	Note	Number of shares	Share Capital	Contributed Surplus	Retained Earnings (deficit)	Total Equity
Balance at December 31, 2014		68,604	$297,761	$13,565	$109,203	$420,529
Loss for the year			-	-	(62,063)	(62,063)
Transactions with owners, recorded directly in equity:						
Issue of shares related to business combination	5	200	1,008	-	-	1,008
Issue on exercise of stock options		219	594	-	-	594
Reclassification on exercise of stock options and incentive-based units		101	1,253	(1,253)	-	-
Share-based payment transactions	16	-	-	6,507	-	6,507
Dividends		-	-	-	(19,638)	(19,638)
Balance at December 31, 2015		69,124	$300,616	$18,819	$27,502	$346,937
Loss for the year			-	-	(72,199)	(72,199)
Transactions with owners, recorded directly in equity:						
Issue on exercise of stock options		52	320	(52)	-	268
Proceeds from common shares issued	15	15,813	63,250	-	-	63,250
Share issuance costs (net of deferred tax)	15	-	(2,571)	-	-	(2,571)
Reclassification on exercise of incentive-based units		1,060	4,581	(4,581)	-	-
Share-based payment transactions	16	-	-	8,668	-	8,668
Balance at December 31, 2016		86,049	$366,196	$22,854	($44,697)	$344,353

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

CANYON SERVICES GROUP INC.

Consolidated Statements of Cash Flows

For the year ended December 31,

000's of Dollars	Note	2016	2015
Cash flows from operating activities:			
Loss for the year		($72,199)	($62,063)
Adjustments for:			
Depreciation and amortization	6,7	57,357	60,587
Share-based payment transactions	7, 16	8,668	6,507
Gain on sale of property and equipment		(858)	(415)
Gain on business combination	5	-	(543)
Equity investment (income)		(94)	(117)
Write-off of equipment and onerous contracts	10, 18	1,187	1,215
Finance costs		1,696	2,699
Goodwill impairment	10, 11	-	28,400
Income tax (recovery)	9, 14	(20,546)	(7,663)
Funds provided by (used in) operations		(24,789)	28,607
Change in inventories		4,621	6,236
Change in trade and other receivables		12,299	64,527
Change in prepayments		(856)	(13)
Change in trade and other payables		(5,074)	(77,276)
Change in non-cash working capital related to operating activities		10,990	(6,526)
Cash generated from (used in) operating activities		(13,799)	22,081
Income taxes recovered (paid)		9,764	(8,979)
Net cash from (used in) operating activities		(4,035)	13,102
Cash flows from investing activities:			
Proceeds from sale of property and equipment		2,641	3,189
Acquisition of property and equipment	10	(15,730)	(28,878)
Business combination, net of cash acquired	5	-	(8,504)
Change in non-cash working capital related to investing activities		(843)	19,316
Net cash (used in) investing activities		(13,932)	(14,877)
Cash flows from financing activities:			
Proceeds from issue of shares	15	59,747	-
Interest paid	13	(1,696)	(2,699)
Advances (repayments) of bank indebtedness	13	(35,000)	18,412
Proceeds from exercise of share options		268	595
Payment of finance lease liabilities		(3,864)	(4,228)
Dividends paid	15	(2,074)	(27,859)
Net cash from (used in) financing activities		17,381	(15,779)
Net (decrease) in cash and cash equivalents		(586)	(17,554)
Cash and cash equivalents as at beginning of year		3,059	20,613
Cash and cash equivalents at December 31		$2,473	$3,059

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

1. Reporting entity

Canyon Services Group Inc. (the “Company” or “Canyon”) is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under the symbol ‘FRC’. These consolidated financial statements include the accounts of Canyon Services Group Inc. and its wholly-owned subsidiaries, Canyon Technical Services Ltd., Canyon Technical Services Inc. and Fraction Energy Services Ltd. (“Fraction”). The address of the Company’s registered office is 2900 Bow Valley Square III, 255 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 3G6.

The Company's activities are conducted in the oilfield services industry and are focused on providing pressure pumping services and fluid management services within the Western Canadian Sedimentary Basin (“WCSB”). Pressure pumping services specializes in providing fracturing and chemical stimulation services to companies exploring for and developing petroleum and natural gas resources operating in the WCSB. These services are designed to enhance oil and natural gas production and maximize recovery from conventional and unconventional reservoirs. Fluid management services specializes in providing fluid management, including: water sourcing, transfer, wellsite storage, fluid heating, flowback transfer and produced water storage services.

2. Basis of preparation

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Canadian generally accepted accounting principles (“GAAP”) as contained within Part 1 of the CPA Canada Handbook – Accounting. These consolidated financial statements were approved by the Board of Directors on March 2, 2017.

(b) Future accounting pronouncements

Financial Instruments

IFRS 9 – Financial Instruments (“IFRS 9”) was issued to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, as opposed to multiple rules prescribed by IAS 39. The approach is based on how an entity manages its financial instruments given its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used, which replaces the multiple impairment methods within IAS 39. 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 assessing the impacts of adopting IFRS 9 on its consolidated financial statements.

Revenue Recognition

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") was issued to replace IAS 18 – Revenue. This standard clarifies the principles for recognizing revenue that can be applied consistently across various transactions, industries and capital markets. IFRS 15 is effective for years beginning on or after January 1, 2018 and is to be applied using either a full retrospective approach or a modified retrospective approach. Early adoption is permitted and the Company anticipates minimal effect but continues to assess the impact of adopting IFRS 15 on its consolidated financial statements.

Leases

IFRS 16 - Leases ("IFRS 16") was issued to replace the previous leases standard, IAS 17 - Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. The Company is assessing the impacts of adopting IFRS 16 on its consolidated financial statements.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as detailed in the significant accounting policies.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All financial information presented has been rounded to the nearest thousand, except where indicated.

(e) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Revenue Recognition

The Company recognizes revenue based on the completion of planned programs of services and is adjusted for required changes as agreed to by the customer.

Estimates of Collectability of Trade Receivables

Management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. A provision for doubtful accounts of $759 has been established as at December 31, 2016 (2015: $96) based on management's assessment of the Company's accounts receivable collection history, client credit-worthiness and the age of the accounts receivable. This assessment of collectability involves significant judgment and frequently involves material dollar amounts. As such, the Company's operating results could be affected if bad debts in excess of the allowance are actually experienced.

Income taxes

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

Depreciation of Property and Equipment

Depreciation is calculated using varying methods and is intended to reflect the historical value of the underlying component that is consumed in conducting each period's operations. Estimates affecting management's assessment of the most appropriate depreciation rate and method of calculation for any particular asset component include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change.

Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable; however, there is no certainty that the depreciation expense provided will correctly measure the actual reduction in value of asset components used in operations over time.

Non-Financial Assets

Where impairment indicators exist, the recoverable amount of the asset or cash-generating unit ("CGU") is determined using the greater of fair value less costs of disposal or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs of disposal requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs of disposal taking into account dismantling and transportation costs.

Every reporting period, management assesses the carrying value of non-financial assets for indications of impairment. When an indication of impairment is present, an impairment test is performed and if required, the asset is written down to its estimated recoverable amount. The recoverable amount is sensitive to the discount rate used to discount expected future cash flows, the terminal growth rate and the expected future cash inflows.

The assessment of impairment indicators is subjective and considers the various internal and external factors such as the financial performance of individual CGUs, market capitalization and industry trends. In addition, the impairment assessment is impacted by how management determines the composition of CGUs. Management has grouped assets into CGUs based on several factors with a primary focus on assets whose cash flows are interdependent. This assessment is subject to management estimate and interpretation.

Business Combinations

The measurement of acquired assets and assumed liabilities are based on information available to the Company on the acquisition date. The estimate of fair value of acquired assets and assumed liabilities requires significant judgment which is largely based on projected cash flows, discount rates and other market conditions that are present on the date of acquisition. The acquired assets and assumed liabilities are recognized at fair value on the date the Company obtains control in a business combination.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Non-Financial Assets

The Company's assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on management's judgments and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

Provisions and Contingencies

The Company is required to exercise judgment in assessing whether the criterion for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and can a reliable estimate be formulated.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the accounts of Canyon and its subsidiaries, which are entities over which Canyon has control. Control exists when Canyon is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the investee. The financial results of Canyon's subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of Canyon's subsidiaries have been aligned with the policies adopted by Canyon. All inter-company balances and transactions, and any income and expenses arising from inter-company transactions have been eliminated upon preparation of these consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes trade and other receivables and deposits on the date that they originate. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial Assets at Fair Value Through Profit or Loss

A financial asset is classified at fair value through profit or loss ("FVTPL") if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

The Company did not hold any financial assets designated at fair value through profit or loss as at December 31, 2016 and 2015.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

(ii) Non-derivative financial liabilities

Liabilities (including liabilities designated at FVTPL) are recognized on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following non-derivative financial liabilities: bank indebtedness, finance leases and trade and other payables.

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost.

(iii) Derivatives

The fair value of costless collars is based on option models that use level 2 inputs, being published information with respect to volatility, prices and interest rates. The derivatives are recorded at estimated fair value each period with changes in fair value included in profit and loss. The Company had no derivatives in place as at December 31, 2016 and 2015.

(iv) Share capital

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

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within gain on sale of property and equipment in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Management estimates the useful life and salvage value of property and equipment on expected utilization, technological change and effectiveness of maintenance programs. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Deprecation is calculated as follows:

Field equipment	1.5 to 20 years	straight line
Automotive	15 to 30%	declining balance
Office, shop and yard	5%	declining balance
Computers and office equipment	20 to 30%	declining balance
Leasehold improvements	over the term of the lease	straight line

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit and loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets include intellectual properties with respect to proprietary light weight proppant, a license to perform a patented stimulation technique in both horizontal and vertical wellbores that was acquired by the Company, and non-competition agreements and customer relationships acquired through business combinations. Intellectual properties with respect to proprietary light weight proppant and the license to perform a patented stimulation technique have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. Non-competition agreements and customer relationships acquired through business combinations have finite lives and are measured at fair value on the acquisition date and subsequently measured at cost, less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Amortization is calculated over the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

Intellectual property with respect to light weight proppant	15 years straight line
License for patented stimulation technique	3 years straight line
Non-competition agreements	3 years straight line
Customer relationships	10 years straight line

Amortization methods, useful lives and residual values are reviewed at each financial period-end and adjusted if appropriate.

(f) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognized in the Company's consolidated balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined using the weighted average cost method, and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment. Evidence of impairment may include changes in well-bore, equipment or treating conditions and the customers' ability to pay for the services provided by the Company.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets and reflects the lowest level at which each CGU is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefits 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 short-term cash bonus or profit-sharing plans if it has a present legal or constructive obligation to pay this amount as a result of past service by the employee and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The Company has a Share Purchase Option Plan under which options may be granted to directors, officers, key employees and consultants of the Company. The Company also has a Stock-Based Compensation Plan under which units may be granted to certain directors, officers, key employees and consultants of the Company.

The grant date fair value of awards granted to directors, officers, key employees and consultants pursuant to the Share Purchase Option Plan and Stock-Based Compensation Plan, is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service is expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. When awards under the Share Purchase Option Plan and Stock-Based Compensation Plan are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(k) Revenue

The Company's services are generally sold based upon orders or contracts with customers that include agreed upon rates for equipment, services, down-hole tools used, supplies consumed and travel time. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed and determinable, and the collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. There are no post-service delivery obligations.

(l) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is based on the weighted average number of common shares issued and outstanding during the year, adjusted by the total of the additional common shares that would have been issued assuming exercise of all awards under the Share Purchase Option Plan and Stock-Based Compensation Plan with exercise prices at or below the average market price for the year, offset by the reduction in common shares that would be purchased with the exercise proceeds.

(o) Business combinations

The Company uses the acquisition method to account for business acquisitions. The Company measures goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. If the fair value of the identifiable assets acquired and liabilities assumed are in excess of the consideration transferred, a gain is recognized immediately in profit or loss.

Goodwill is allocated to the CGU’s expected to benefit from the business combination. Goodwill acquired through business combinations have indefinite lives and are not subject to amortization. Goodwill is subject to impairment tests at least annually. Goodwill is subsequently measured at cost less accumulated impairment losses.

Transaction costs that the Company incurs in connection with a business combination are expensed as incurred and recognized within administrative expenses within the consolidated statements of comprehensive loss.

(p) Segmented reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating results are reviewed regularly on a segmented basis by the Company's chief operating decision makers to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

4. Financial risk management overview

The Company has exposure to the following risks:

a) Credit risk
b) Liquidity risk
c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company did not change its policy for managing and mitigating financial risk during the year ended December 31, 2016.

(a) Credit risk

Trade and Other Receivables

The Company's trade receivables are due from customers that operate in the oil and gas exploration and production industry, and are subject to typical industry credit risks that include oil and natural gas price fluctuations and the customers' ability to secure appropriate financing. For the year ended December 31, 2016, two customers, each accounting for more than 10% of revenue, totaled 21% of the Company's revenue (2015: two customers, 29%) which was primarily allocated to the pressure pumping segment. As at December 31, 2016, five customers accounted for 52% (2015: five customers accounted for 66%) of the Company's accounts receivable while five customers account for 42% (2015: five customers account for 49%) of the revenue.

Standard payment terms for the industry are 30-60 days from the invoice date, however industry practice allows for payment up to 90 days after invoice date. The Company's accounts receivable is aged as follows:

000's of dollars	December 31, 2016	December 31, 2015
Current (0-30 days from invoice date)	$30,168	$32,297
31-60 days past due	9,735	17,978
Over 60 days past due	7,699	8,963
Sub-total	47,602	59,238
Less: Allowance for doubtful accounts	(759)	(96)
Total	$46,843	$59,142

The Company estimates that the carrying value of financial assets within trade and other receivables approximates their fair value. During 2016, the Company incurred bad debt expense of $3,571 primarily due to the negative effect of declining oil and natural gas prices on certain customers.

The Company held cash and cash equivalents of $2,473 as at December 31, 2016 (2015: $3,059), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties.

Short term cash equivalents

The Company limits its exposure to credit risk by investing only in liquid debt securities and only major bank and financial institution counterparties. Management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, where possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at December 31, 2016, the Company had a working capital balance of $28.3 million (December 31, 2015: $27.6 million) and, subject to certain conditions (see note 4(d)), also had available on its credit facility approximately $75 million (December 31, 2015: $40 million available). At December 31, 2016, the Company was committed to various commitments (see note 18) which require the Company to have available various sources of capital and/or require the Company to generate future operating cash flow to meet the obligations associated with these commitments.

The Company's availability under its existing credit facilities (see note 4(d)), or availability under alternate similar credit facilities, is dependent on its ability to maintain compliance with certain financial covenants (see note 4(d)). Current credit facility availability and operating cash flows are expected to be greater than anticipated obligations and commitments over the next year. Credit facility availability, including covenant compliance, could be adversely affected by a continued and/or further decline of the oil and gas services business in Canada.

The following table of financial obligations shows the timing of cash outflows relative to trade and other payables, bank indebtedness and finance leases as at December 31, 2016:

000's of dollars	Total	Next 12 months	1-3 years	4-5 years	After 5 years
Trade and other payables	$52,307	$52,307	$-	$-	$-
Bank indebtedness	25,000	-	25,000	-	-
Finance leases	5,213	1,733	3,480	-	-
	$82,520	$54,040	$28,480	$-	$-

The Company monitors cash flow requirements and optimizes its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operating expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

Given the relative near term nature of payables and payments, the Company estimates that the carrying values of these obligations approximate their fair value.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk on purchases that are denominated in United States Dollars (USD). At December 31, 2016 and 2015 the exposure to USD was primarily as a result of USD denominated accounts payable of USD$5.7 million and USD$8.6 million, respectively.

To manage the currency risk on outstanding USD accounts payables balances and on anticipated USD purchases, the Company may enter into derivative contracts. At December 31, 2016 and December 31, 2015, there were no derivative contracts outstanding.

Interest rate risk

The Company is exposed to interest rate risk on its floating rate bank indebtedness. The Company has the ability to enter into economic hedges on its interest bearing loans and borrowings. Management believes that a 1% interest rate change during the next year would be reasonably possible. During 2016, a 1% change in the interest rate on the outstanding $25,000 of bank indebtedness would increase or decrease (loss) before income tax by $250.

(d) Capital management

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes current and non-current portions of bank indebtedness, less cash. Capitalization is calculated as the debt, as described above, plus shareholders' equity. The Company may be required to adjust its capital structure from time to time as a result of expansion activities and/or changes to availability of specific forms of capital.

The debt to capitalization ratios were as follows:

000's of dollars, except ratios	December 31, 2016	December 31, 2015
Bank indebtedness, net of cash	$22,527	$56,941
Shareholders' equity	344,353	346,937
Capitalization	$366,880	$403,878
Debt to Capitalization ratio	6.1%	14.1%

The Company is not bound by any externally imposed capital requirements other than certain financial and non-financial covenants specified in the Company's bank indebtedness agreements. Therefore, the Company also manages its capital structure to ensure compliance with the financial covenants specified in the extendible revolving operating credit facility (the "Facility"; see note 13).

Financial covenants

The Company is required to maintain a debt to tangible capitalization ratio, which shall not exceed 0.30 to 1.00, and a debt service coverage ratio, which shall not be less than 0.75 to 1.00, both measured at the end of each fiscal quarter.

- For purposes of the covenant calculation, the debt to tangible capitalization ratio is calculated as bank indebtedness, plus finance leases, minus cash and cash equivalents ("Total Debt"), to total equity minus goodwill, minus intangible assets plus Total Debt ("Capitalization"). The debt to tangible capitalization ratio as at December 31, 2016 was 0.09 to 1.00.

- The debt service coverage ratio refers to the ratio of earnings before interest, taxes, depreciation, amortization, impairment, severance, provincial sales tax, and share-based payments ("EBITDAS") of the Company for the four quarters ending December 31, 2016 to interest expense plus all scheduled principal repayments of debt including finance leases for the four quarters ending December 31, 2016. The debt service coverage ratio shall not be less than 0.75 to 1.00 from October 1, 2016 to December 31, 2016. From January 1, 2017 to September 30, 2017, the debt service coverage ratio shall not be less than 1.00 to 1.00, returning to a ratio of 1.25 to 1.00 thereafter. Compliance with the debt service coverage ratio is automatically waived for the period from October 1, 2016 to December 31, 2016 and from January 1, 2017 to June 30, 2017 if the Total Debt is less than $50 million and $55 million, respectively. As at December 31, 2016, the Company had Total Debt of $27,740 therefore, the debt service coverage ratio was automatically waived.

- The debt to tangible capitalization ratio will be replaced by a debt to EBITDAS ratio beginning with the fiscal quarter ending December 31, 2017. The debt to EBITDAS ratio refers to the ratio of EBITDAS for the four quarters ending at the end of the fiscal quarter to Total Debt. The debt to EBITDAS ratio shall not exceed 5.00 to 1.00 from July 1, 2017 to September 30, 2017, 4.00 to 1.00 from October 1, 2017 to December 31, 2017, 3.50 to 1.00 from January 1, 2018 to March 31, 2018 and 3.00 to 1.00 thereafter. Compliance with the debt to EBITDAS ratio for the period from July 1, 2017 to September 30, 2017 is automatically waived if the Total Debt is less than $55 million.

5. Business combination

2016 Business Acquisition

The Company did not engage in business combination transactions for the year ended December 31, 2016.

2015 Business Acquisition

On September 11, 2015, the Company acquired the assets of a privately held fluid transportation company. The total consideration paid was $9,512 which consisted of 200 common shares issued at $5.04 per share and cash consideration of $8,504. The purchase has been accounted for as a business combination using the acquisition method of accounting. Transaction costs of $79 were expensed within administrative expenses on the consolidated statements of comprehensive loss. The acquisition represented a new service line for the Fluid Management division and was part of a long term strategy of developing comprehensive service solutions for water and fracturing fluid management.

The following summarizes the consideration paid:

000's of dollars	
Common shares of Canyon issued	$1,008
Cash consideration	8,504
Total consideration paid	$9,512

The following summarizes the allocation of the consideration paid:

000's of dollars	
Tank trucks & other equipment	$10,218
Inventory	42
Deferred tax liability	(205)
Net identifiable assets	10,055
Gain on business combination	(543)
Total consideration paid	$9,512

The gain on business combination arose due to depressed commodity prices, which allowed the Company to acquire the assets for less than fair value.

For the year ended December 31, 2015, revenue of $1,967 and net loss of $529 has been recognized in the consolidated statements of comprehensive loss. If the business combination had occurred on January 1, 2015, revenue and net loss for the Company for the year ended December 31, 2015 would increase by $7,627 and $1,171, respectively.

These amounts were included within the fluid management services operating segment.

6. Cost of services

000's of dollars	Year Ended December 31, 2016	2015
Employee benefits expense	$66,258	$92,530
Depreciation of equipment	49,331	52,281
Materials and inventory	119,574	133,517
Operating expense	53,785	122,123
	$288,948	$400,451

7. Administrative expenses

000's of dollars	Year Ended December 31, 2016	2015
Employee benefits expense	$12,269	$15,032
Depreciation of equipment	2,003	2,283
Share-based payment transactions	8,668	6,507
Other administration expenses	8,123	9,466
	$31,063	$33,288

8. Related parties

Compensation of key management personnel

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation comprised:

000's of dollars	Year Ended December 31, 2016	2015
Salaries, other benefits and directors' fees	$2,085	$3,080
Share-based payments	3,663	1,999
	$5,748	$5,079

9. Income tax expense

The Company's consolidated effective tax rate for the year ended December 31, 2016 was 22.2% (2015: 18.5%). The change in effective tax rate was caused mainly by the impact of a change in the Alberta provincial corporate tax rate increase from 10.0% to 12.0% effective July 1, 2015 being in effect for the entire year of 2016 as compared to the pro-rated amount in 2015 and an increase in stock based compensation expense.

000's of dollars	2016	2015
Current tax (recovery):		
Current year	($17,705)	($8,321)
	(17,705)	(8,321)
Deferred tax expense (recovery):		
Origination and reversal of temporary differences	(2,841)	658
	(2,841)	658
Total income tax expense (recovery)	($20,546)	($7,663)

Reconciliation of Effective Tax Rate

000's of dollars	2016	2016	2015	2015
Loss for the year		($72,199)		($62,063)
Total income tax expense (recovery)		(20,546)		(7,663)
Loss excluding income tax		(92,745)		(69,726)
Goodwill impairment not subject to tax		-		28,400
Loss subject to tax		(92,745)		(41,326)
Income tax expense (recovery) using the Company's domestic rate	27.0%	(25,041)	26.0%	(10,745)
Non-deductible expenses	(4.4%)	4,120	(4.6%)	1,904
Income tax rate changes	0.8%	(735)	(4.1%)	1,688
Other	(1.2%)	1,110	1.2%	(510)
	22.2%	($20,546)	18.5%	($7,663)

10. Property and equipment

000's of dollars	Land	Office, Shop and Yard	Field Equipment	Automotive	Office Equipment and Leaseholds	Total
Cost:						
Balance at January 1, 2015	$13,200	$25,223	$389,638	$98,967	$8,536	$535,564
Additions:						
Business combination	-	-	53	10,089	76	10,218
Owned	-	152	27,288	558	880	28,878
Finance leases	-	-	-	3,148	778	3,926
Disposals	-	-	(14,389)	(4,112)	(157)	(18,658)
Balance at December 31, 2015	**$13,200**	**$25,375**	**$402,590**	**$108,650**	**$10,113**	**$559,928**
Additions:						
Owned	-	-	15,225	86	419	15,730
Finance leases	-	-	-	543	-	543
Disposals	-	-	(7,897)	(3,930)	(34)	(11,861)
Balance at December 31, 2016	**$13,200**	**$25,375**	**$409,918**	**$105,349**	**$10,498**	**$564,340**
Accumulated depreciation:						
Balance at January 1, 2015	$-	$5,097	$108,545	$39,760	$4,591	$157,993
Depreciation for the year	-	1,122	41,311	10,736	1,397	54,566
Asset write off	-	-	1,215	-	-	1,215
Disposals	-	-	(13,298)	(2,474)	(110)	(15,882)
Balance at December 31, 2015	**$-**	**$6,219**	**$137,773**	**$48,022**	**$5,878**	**$197,892**
Depreciation for the year	-	1,061	38,656	10,431	1,186	51,334
Asset write off	-	-	222	-	232	454
Disposals	-	-	(7,777)	(2,160)	(23)	(9,960)
Balance at December 31, 2016	**$-**	**$7,280**	**$168,874**	**$56,293**	**$7,273**	**$239,720**
Carrying amounts:						
At December 31, 2015	$13,200	$19,156	$264,817	$60,628	$4,235	$362,036
At December 31, 2016	**$13,200**	**$18,095**	**$241,044**	**$49,056**	**$3,225**	**$324,620**

Property and equipment under construction

As at December 31, 2016, costs incurred on field and automotive equipment and facilities under construction totaled $7,895 (2015: $4,532). These items are not yet in service therefore, are not being depreciated.

As at December 31, 2016, costs incurred on field and automotive equipment and facilities that are available for use, but not yet in service, therefore not being depreciated, totaled $329 (2015: $3,915).

Leased equipment

Property and equipment includes leased assets as the Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 17). As at December 31, 2016, the net carrying amount of the leased equipment was $4,958 (2015: $7,876).

Impairment

At the end of each reporting period, the Company conducts a review of its carrying value for each of its cash generating units (“CGU”) for indicators of impairment. The Company performed its annual impairment test on goodwill for the Fluid Management Services CGU at December 31, 2016 in addition to the Pressure Pumping Services CGU as indicators of impairment were identified based on the impact that low commodity prices have had on the Company’s financial results. Based on the results of the tests, no impairment was recognized.

a) Pressure Pumping Services

The impairment test for the Pressure Pumping Services CGU used an expected cash flow approach based on internal cash flow estimates at December 31, 2016 at a risk-adjusted pre-tax discount rate of 14.1% and a terminal growth rate of 2%. The discount rate was estimated based on the Company’s weighted average cost of capital, adjusted for CGU specific risks. The estimated cash flows were based on 2017, 2018, 2019 and 2020 forecasts with future revenues increasing in correlation with forecasted oil and gas industry activity for the following year. Costs were based on historical contribution margins adjusted for anticipated revenue growth. A terminal value thereafter was applied. Based on the analysis, no provision for impairment for the Company’s long term assets was required for the year ended December 31, 2016 (2015: $1,215 impairment loss on specific equipment).

The estimated value in use for the CGU was particularly sensitive to an increase in the pre-tax discount rate and the terminal growth rate. An increase to the pre-tax discount rate by 1% or a decrease to the terminal growth rate by 1% would continue to support no impairment.

b) Fluid Management Services

The impairment test for the Fluid Management Services CGU used an expected cash flow approach based on internal cash flow estimates at December 31, 2016 at a risk adjusted pre-tax discount rate of 15.5% and a terminal growth rate of 3%. The discount rate was estimated based on the Company’s weighted average cost of capital, adjusted for CGU specific risks. The estimated cash flows were based on 2017 and 2018 budgets with future revenues increasing in correlation with forecasted oil and gas industry activity over the following three years. Costs were based on historical contribution margins adjusted for anticipated revenue growth. A terminal value thereafter was applied.

The estimated value in use for the CGU was particularly sensitive to an increase in the pre-tax discount rate and the terminal growth rate. An increase to the pre-tax discount rate by 1% or a decrease to the terminal growth rate by 1% would continue to support no impairment.

Although no impairment was recognized in the Fluid Management CGU for the year ended December 31, 2016 (2015: goodwill impairment loss of $28,400) as a result of the above analysis, the CGU recognized an impairment loss of $454 on specific equipment in the Consolidated Statement of Comprehensive Loss for the year ended December 31, 2016 as a write off of equipment and onerous contract (see note 18 for a description of the $733 onerous contact expense also recognize during the year).

11. Intangible assets and goodwill

(a) Intangible assets

000's of dollars	Intellectual properties	Licenses	Non-competition agreements	Customer relationships	Total
Cost:					
Balance at January 1, 2015	$286	$303	$6,820	$37,308	$44,717
Balance at December 31, 2015	**$286**	**$303**	**$6,820**	**$37,308**	**$44,717**
Additions	-	-	-	-	-
Balance at December 31, 2016	**$286**	**$303**	**$6,820**	**$37,308**	**$44,717**
Amortization:					
Balance at January 1, 2015	$147	$303	$1,137	$1,866	$3,453
Amortization for the year	19	-	2,273	3,731	6,023
Balance at December 31, 2015	**$166**	**$303**	**$3,410**	**$5,597**	**$9,476**
Amortization for the year	19	-	2,273	3,731	6,023
Balance at December 31, 2016	**$185**	**$303**	**$5,683**	**$9,328**	**$15,499**
Carrying amounts:					
At December 31, 2015	$120	$-	$3,410	$31,711	$35,241
At December 31, 2016	**$101**	**$-**	**$1,137**	**$27,980**	**$29,218**

(b) Goodwill

000's of dollars	Year Ended December 31, 2016	2015
Opening balance, January 1	$21,431	$49,831
Impairment	-	(28,400)
Carrying amount, December 31	$21,431	$21,431

For the purposes of impairment testing, goodwill is allocated entirely to the Fluid Management Services CGU. As result of the impairment test performed, the recoverable amount of the Fluid Management Services CGU is in excess of the carrying value. No impairment amount has been recorded for the year ended December 31, 2016 (2015: $28,400). Refer to note 10 for details regarding impairment.

12. Trade and other payables

000's of dollars	Year Ended December 31, 2016	2015
Trade payables	$26,287	$33,503
Accrued expenses	26,020	23,988
	$52,307	$57,491

The Company estimates that the carrying value of the trade and other payables approximate their fair value.

13. Bank indebtedness and finance leases

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

000's of dollars	Nominal Interest Rate	Year of Maturity	December 31, 2016	December 31, 2015
Current liabilities:				
Finance lease liabilities	0.0-7.6%	2017	1,733	3,873
			$1,733	$3,873
Non-current liabilities:				
Drawing on credit facility	3.2-6.2%	2018	$25,000	$60,000
Finance lease liabilities	0.0-7.6%	2018-2020	3,480	4,779
			$28,480	$64,779

As at December 31, 2016, the Company had $25,000 outstanding under its credit facility (2015: $60,000).

The amount of the credit facility (the "Facility") totals $100,000 with an accordion feature that allows for the expansion of the Facility by up to $50,000. The accordion feature is available upon request by the Company, subject to approval by the lenders. The Facility has a term of three years, extendible annually, and bears interest, payable monthly, at the bank's prime lending rate plus 50 basis points to 350 basis points, dependent on certain financial ratios of the Company. Security for the Facility is provided by a general security over all of the Company's assets.

The Company is bound by certain financial and non-financial covenants as disclosed in note 4. The Company was in compliance with the terms of the lending agreements as at December 31, 2016 and December 31, 2015.

14. Deferred tax assets and liabilities

Recognized Deferred Tax Assets and Liabilities

000's of dollars	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property and equipment	$-	$-	$30,196	$28,253	$30,196	$28,253
Intangible assets	(47)	(48)	3,097	8,972	3,050	8,924
Finance leases	(1,315)	(2,243)	-	-	(1,315)	(2,243)
Share issue costs	(770)	-	-	-	(770)	-
	($2,132)	($2,291)	$33,293	$37,225	$31,161	$34,934

Movement in Deferred Tax Balances During the Year

000's of dollars	Balance January 1, 2015	Recognized in loss	Recognized on business combination	Balance at December 31, 2015	Recognized in equity	Recognized in loss	Balance at December 31, 2016
Property and equipment	$25,985	$2,062	$206	$28,253	$-	$1,943	$30,196
Intangible assets	10,279	(1,355)	-	8,924	-	(5,874)	3,050
Finance leases	(2,194)	(49)	-	(2,243)	-	928	(1,315)
Share issue costs	-	-	-	-	(932)	162	(770)
	$34,070	$658	$206	$34,934	($932)	($2,841)	$31,161

15. Capital and reserves

The Company is authorized to issue an unlimited number of no par value common shares.

Share capital

The Company issued 15,813 common shares at $4.00 per common share for gross proceeds of $63,250 during the year ended December 31, 2016. Share issuance costs related to the issuance were $3,503.

Loss per share

The following summarizes the weighted average common shares used in calculating loss per share:

000's of dollars and shares	Year ended December 31, 2016	2015
(Loss) for the year	($72,199)	($62,063)
Weighted average shares:		
Basic	82,004	68,882
Dilution effect of share options and incentive based units	-	-
Diluted	82,004	68,882

Basic (loss) per share	($0.88)	($0.90)
Diluted (loss) per share	($0.88)	($0.90)

Dividends

The Company suspended its quarterly dividend effective March 3, 2016.

16. Share-based payments

Description of the share-based payment arrangements

As at December 31, 2016 the Company has the following share-based payment arrangements:

(a) Share purchase option plan (the "Option Plan")

The Company's Option Plan is available to directors, officers and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% of the then issued and outstanding Common Shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's stock on the date of the grant. Issued share purchase options generally vest equally over a three year period or, as determined by the Board of Directors, and expire on the fifth anniversary date of their issuance.

The per share weighted average fair value of stock options granted during the year ended December 31, 2016 was $1.60 (2015: $1.03) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $1,494 has been recorded for the year ended December 31, 2016 (2015: $1,722).

A summary of the status of the Company's stock option plan as at December 31, 2016 and December 31, 2015 and changes during the periods then ended is presented below:

000's of options	Options Outstanding	Range of Exercise Price			Weighted Average Exercise Price
Outstanding at January 1, 2015	3,671	$2.43	-	$18.42	$11.00
Granted	1,925	$4.79	-	$7.75	$6.30
Exercised	(219)	$2.43	-	$5.16	$2.95
Forfeited	(341)	$5.31		$18.42	$11.37
Exchanged	(1,774)	$5.16		$18.42	$11.64
Expired	(59)	$4.20	-	$4.97	$4.93
Outstanding as at December 31, 2015	3,203	$4.79	-	$16.27	$8.57
Granted	744	$3.20	-	$5.41	$5.30
Exercised	(52)	$5.31	-	$5.31	$5.31
Cancelled	(1,347)	$7.24	-	$14.34	$10.73
Forfeited	(320)	$5.31	-	$16.27	$8.64
Expired	(138)	$11.64	-	$11.79	$11.64
Outstanding as at December 31, 2016	2,090	$3.20	-	$14.97	$5.89
Exercisable as at December 31, 2016	667				$5.93

The weighted average share price on the exercise of options for the year ended December 31, 2016 was $6.47 (2015: $6.61).

Stock options are granted at a price equal to the fair market value of the shares at the time of grant. The fair value estimate associated with the options is expensed in the income statement over the vesting period. The fair value of the options was estimated using the Black-Scholes model with the following inputs:

	December 31, 2016	December 31, 2015
Weighted average fair value	$1.60	$1.03
Forfeiture rate (%)	13.9%	6.4%
Volatility (%)	50.1%	39.2%
Risk free interest rate (%)	0.5%	0.5%
Dividend yield (%)	0.14%	5.8%
Option life - weighted average (years)	2.5	2.5

For the stock options outstanding, as at December 31, 2016, the following additional information is provided:

000's of options

Grant Date	Expiry Date	Range of Exercise Price			Stock Options
2014	2019	$7.81	-	$14.97	8
2015	2020	$4.79	-	$7.75	1,338
2016	2021	$3.20	-	$5.41	744
		$3.20	-	$14.97	2,090

(b) Stock-based compensation plan (the "SBCU Plan")

The Company's SBCU Plan is available to directors, officers, certain employees and consultants of the Company and provides an opportunity to acquire common shares in lieu of cash bonuses. Under the SBCU Plan, the Board of Directors from time to time may grant incentive based units to participants as compensation in respect of services rendered by the participant for a fiscal year. Each incentive based unit will give the participant the right to receive, on or after the vesting date for such incentive based unit upon exercise, one common share for no further consideration or payment by such participant. Issued incentive based units generally vest equally over a three year period or, as determined by the Board of Directors, and expire on the fifth anniversary date of their issuance. The aggregate number of common shares that may be issued pursuant to the exercise of incentive based units awarded under the Plan is 5% of the issued and outstanding common shares of the Company.

The following table summarizes the Share-Based Compensation Units ("SBCU") as at December 31, 2016 and December 31, 2015 and the changes during the years ended:

000's of dollars	December 31, 2016	December 31, 2015
SBCUs issued at January 1	1,240	497
Granted	2,158	896
Exercised	(1,060)	(101)
Forfeited	(126)	(52)
SBCU's outstanding as at December 31	2,212	1,240

SBCUs are granted at a price equal to the fair market value of the shares at the time of grant. The fair value estimate associated with the SBCUs is expensed in the income statement over the vesting period. The fair value of the SBCUs was estimated using the Black-Scholes model with the following inputs:

	December 31, 2016	December 31, 2015
Weighted average fair value	$3.51	$5.85
Forfeiture rate (%)	6.1%	6.4%
Volatility (%)	53.6%	39.2%
Risk free interest rate (%)	0.4%	0.5%
Dividend yield (%)	2.8%	8.5%
Option life - weighted average (years)	1.8	2.4

The compensation cost to the Company for the year ended December 31, 2016 was $8,668 (2015: $4,785).

Subsequent to December 31, 2016, the Company issued 1,124 SBCUs (subsequent to 2015: 2,132) with various vesting and expiry dates.

17. Leases

Non-cancellable operating lease rentals are payable as follows:

000's of dollars	December 31, 2016	December 31, 2015
Less than one year	$2,267	$1,511
Between one and five years	2,819	1,894
	$5,086	$3,405

The Company leases a number of offices and warehouse facilities under operating leases. The leases typically run for a period of one to five years, with an option to renew the lease after that date.

Finance lease liabilities are payable as follows:

000's of dollars	December 31, 2016			December 31, 2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
One year	$1,733	$224	$1,957	$3,873	$542	$4,415
Two to five years	3,480	111	$3,591	4,779	365	5,144
	$5,213	$335	$5,548	$8,652	$907	$9,559

18. Capital commitments and contingencies

As at December 31, 2016 the Company has commitments to purchase property and equipment of approximately $9,712 (2015: $755).

The Company is subject to income and commodity taxes. Judgment is required in determining provisions for taxation. There are many transactions and calculations for determination of the various tax assets and liabilities. The Company maintains provisions for tax assets and liabilities. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, the Company is subject to ongoing audits, and it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will be recognized in the consolidated financial statements in the period in which such determination is made.

The Company is committed to operating leases for various premises. Included in operating and office space leases are lease obligations with an entity controlled by a member of key management personnel. The total obligation at December 31, 2016 is $2,021 payable over the next 5 years. As at December 31, 2016, the total costs incurred under the lease obligations was $498 (2015: $421).

During the year ended December 31, 2016, management identified that one of the premises was not going to be utilized and therefore, $733 has been recognized in the statement of comprehensive loss within write-off of equipment and onerous contracts.

19. Operating segments

The Company's segments are determined by services provided which are its core business of pressure pumping services and fluid management services. Pressure pumping services include hydraulic fracturing, nitrogen fracturing, coiled tubing, chemical stimulation and cementing, which combined, are part of the Pressure Pumping Services Segment. The Fluid Management Services Segment includes fluid management services, water sourcing, water transfer, wellsite storage, fluid heating, flowback transfer, water storage services and fluid transportation services. The Corporate Segment does not represent an operating segment and is included for informational purposes only. Corporate segment administrative expenses consist of salary expenses, share-based payment expenses, and other general costs related to corporate employees, as well as public company costs.

Year ended December 31, 2016	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	$218,838	$20,728	$-	$239,566
Depreciation - cost of services	(39,844)	(9,487)	-	(49,331)
Other - cost of services	(224,679)	(14,938)	-	(239,617)
Cost of services	(264,523)	(24,425)	-	(288,948)
Gross (loss) profit	($45,685)	($3,697)	$-	($49,382)
Depreciation - administrative expenses	(2,003)	-	-	(2,003)
Share-based payment transactions - administrative expenses	-	-	(8,668)	(8,668)
Other - administrative expenses	(12,378)	(5,098)	(2,916)	(20,392)
Administrative expenses	(14,381)	(5,098)	(11,584)	(31,063)
Bad debt expense	(3,025)	(546)	-	(3,571)
Amortization expense	(19)	(6,004)	-	(6,023)
Results from operating activities	($63,110)	($15,345)	($11,584)	($90,039)
Impairment	$-	($1,187)	$-	($1,187)
Income tax (recovery) expense	($14,675)	($5,871)	$-	($20,546)
Segment assets as at December 31, 2016	$369,586	$88,448	$-	$458,034
Segment liabilities as at December 31, 2016	$103,572	$10,109	$-	$113,681

Year ended December 31, 2015	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	$360,153	$43,845	$-	$403,998
Depreciation - cost of services	(44,247)	(8,034)	-	(52,281)
Other - cost of services	(321,997)	(26,173)	-	(348,170)
Cost of services	(366,244)	(34,207)	-	(400,451)
Gross (loss) profit	($6,091)	$9,638	$-	$3,547
Depreciation - administrative expenses	(2,283)	-	-	(2,283)
Share-based payment transactions - administrative expenses	-	-	(6,507)	(6,507)
Other - administrative expenses	(15,296)	(6,028)	(3,174)	(24,498)
Administrative expenses	(17,579)	(6,028)	(9,681)	(33,288)
Amortization expense	(19)	(6,004)	-	(6,023)
Results from operating activities	($23,689)	($2,394)	($9,681)	($35,764)
Impairment	($1,215)	($28,400)	-	($29,615)
Income tax (recovery) expense	($7,216)	($447)	$-	($7,663)
Segment assets as at December 31, 2015	$422,030	$88,058	$-	$510,088
Segment liabilities as at December 31, 2015	$149,625	$13,526	$-	$163,151